



EVERPRIDE BIOPHARMACEUTICAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTER REPORT

2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website with the domain name of www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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HIGHLIGHTS

- Turnover of the Group for the three months ended 31 March 2002 was approximately RMB8,054,000, representing a decrease of approximately 81 per cent. as compared with the corresponding period.
- Operating loss of the Group for the three months ended 31 March 2002 was approximately RMB6,674,000, while the Group recorded operating profit of RMB12,344,000 in the corresponding period.
- Loss per share of the Company was approximately RMB1.11 cents.
- The Directors do not recommend payment of an interim dividend for the three months ended 31 March 2002.

RESULTS

The board of Directors (“Board”) announce the unaudited consolidated first quarterly results of the Company and its subsidiaries (together the “Group”) for the three months ended 31 March 2002 (the “period”), together with the unaudited comparative figures for the corresponding period in 2001, as follows:—

	<i>Note</i>	For the three months ended 31 March	
		2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Turnover	2	8,054	43,504
Cost of sales		(1,710)	(15,921)
Gross profit		6,344	27,583
Selling and distribution expenses		(6,455)	(10,734)
General and administrative expenses		(6,563)	(4,505)
(Loss)/Profit from operations		(6,674)	12,344
Finance costs, net		(9)	—
(Loss)/Profit before taxation		(6,683)	12,344
Taxation	3	—	(2,355)
(Loss)/Profit attributable to shareholders		(6,683)	9,989
(Loss)/Earnings per share — Basic	4	RMB(1.11) cents	RMB2.17 cents

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Its shares have been listed on GEM since 20 July 2001. The Company is an investment holding company. Its subsidiaries are principally engaged in the production and sales of “Plasmin Capsule”, a chinese medicine.

On 5 July 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (the “Reorganisation”), which involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group, and accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the comparative figures for the three months ended 31 March 2001 have been prepared as if the Company had been the holding company of the other companies comprising the Group, rather than from the date on which the Reorganisation was completed.

The accompanying unaudited results are prepared in accordance with International Financial Reporting Standards (“IAS”) published by the International Accounting Standards Board, and are supplemented by the Rules Governing the Listing of Securities on the GEM.

2. Turnover

The Group’s turnover represents the net invoiced value (excluding value-added tax) of “Plasmin Capsule” sold after allowances for returns and discounts.

3. Taxation

The Company is exempted from taxation in the Cayman Islands until 2020. Its subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of the British Virgin Islands income taxes.

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong during the period.

Shanxi Everpride Pharmaceutical Co., Ltd. ("Everpride Pharmaceutical"), a wholly-owned subsidiary established and which operates in Shanxi Province, Mainland China, is subject to Mainland China enterprise income tax at a rate of 33% (state income tax — 30% and local income tax — 3%). However, it is exempted from state enterprise income tax and local income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction on the state enterprise income tax for the next three years. The tax exemption period of Everpride Pharmaceutical expired on 31 December 2000 and it is subject to enterprise income tax in Mainland China at a rate of 18% from 1 January 2001 to 31 December 2003. No provision for Mainland China enterprise income tax has been made as Everpride Pharmaceutical had no assessable profit in China during the period.

4. (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders for the period of approximately RMB6,683,000 (2001: profit attributable to shareholders of approximately RMB9,989,000), and on the weighted average number of approximately 600,000,000 (2001: 460,000,000) ordinary shares in issue during the period.

Diluted loss per share was not presented because there were no dilutive potential ordinary shares in existence during the period (2001: Nil).

5. Reserves

Movements in the reserves of the Group were as follows:—

	For the three months ended 31 March 2002					For the three months ended 31 March 2001	
	Statutory surplus reserve	Share premium	Capital reserve	Retained earnings	Cumulative Translation Adjustments	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1							
January 2002	9,205	—	7,195	40,565	(96)	56,869	40,744
(Loss)/Profit attributable to shareholders	—	—	—	(6,683)	—	(6,683)	9,989
Balance as at 31							
March 2002	9,205	—	7,195	33,882	(96)	50,186	50,733

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the production and sales of a Chinese medicine known as “Plasmin Capsule” in the PRC. As at the date of this report, the “Plasmin Capsule” is still the only product of the Group. As stated under the heading “Risk relating to the business of the Group” of the prospectus (the “Prospectus”) dated 16 July 2001, all revenue depended solely on the market acceptance of the product.

During the period, the Group recorded a consolidated turnover of approximately RMB8,054,000, which represented a decrease of approximately 81% per cent as compared with the corresponding period, which in return caused the Group recorded operating loss of approximately RMB6,674,000 from the operating profit RMB12,344,000 in the corresponding period. During the period, the Group experienced increasingly fierce competition in the PRC Chinese medicine industry due to the following reasons: (i) the single product risk which is still the major risk factor for the Group's performance. During the period, the Group faced much greater performance risk than any other competitors with diversified business. Therefore, all revenues and profits of the Group depended solely on the market acceptances of the only one product — “Plasmin Capsule” until new products are introduced into market; (ii) the strict control on the medicine advertising campaigns in mass media in the PRC implemented by the State Drug Administration Bureau (the “SDA”) and the State Administration of Industry and Commerce of the PRC starting from the fourth quarter in 2001, strongly affected the sales channels available and distribution in the over-the counter (the “OTC”) market which was usually the major markets for the Group in the PRC; (iii) the continuous global economic downturn and the “911” terrorist attack in the United States further adversely affected the sales and distribution in overseas markets; and (iv) as the market competition intensified, the financial position of some of our sales agents were difficult and have deteriorated. Such unfavourable situations led to an increase in the provision for doubtful debts which were included in general & administrative expenses.

Sales and Marketing

In order to maintain the market share and maintain its competitive edge, during the period under review, the Group enhanced marketing efforts and the sales and distribution to the United States of America through Everpride Pharmaceutical (H.K.) Co. Ltd. The turnover derived from these markets amounted to approximately RMB284,000 (2001: Nil), representing approximately 3.5 per cent. of the total turnover of the Group over the period.

During the period, the Group started to export the earthworm powder, the major component of the Plasmin Capsule with the amount of RMB350,000 (2001: Nil), to one pharmaceutical manufacturing company in Malaysia for their local production and sales. The sale of earthworm powder will provide another source of revenue for the Group. With the sales expansion of the earthworm powder, the Group will enhance its market share and its production capability.

Research and Development

The clinical trials conducted by the Clinical Trials Centre of the Faculty of Medicine of the University of Hong Kong (the "CTC") were completed in February 2002 and demonstrated that "Plasmin Capsule" was overall a safe and well-tolerated Chinese medicine. In order to further prove the efficacy of the "Plasmin Capsule", the Group intends to engage the CTC or other institutions to conduct other series of clinical trials based on the proposals from the CTC.

Staphylokines Project

Staphylokines is a genetically-engineered medicine, which is a third generation thrombotic medicine. The clinical application sample and its other related materials have been submitted to the SDA in January 2002. The Group will start clinical trials once the sample and the related materials have been approved by the SDA.

Construction of “GMP” compliance production complex

The construction of the main production complex in Taigu County, Shanxi Province was basically completed, with the other auxiliary facilities still in progress. The installation of machinery and equipment and the preparation works for Good Manufacturing Practice (the “GMP”) certificate are also in progress. The Directors are confident that the Group will obtain the “GMP” certification by 30 June 2002. Until normal operation of the production complex commences, the Group will continue to maintain its current production arrangements by engaging subcontractors as its principal means of production which is expected to have no adverse effect on the normal operation of the Group.

OUTLOOK

Looking ahead, the Directors anticipate that the Group will continue to face keen competition.

In order to expand the product range of the Group and lower the single product risk, on 8 February 2002, Everpride Pharmaceutical entered into a conditional co-operative agreement with 北京佳虹雨醫藥技術開發有限公司 (Beijing Jiahongyu Pharmaceutical Technology Development Co., Ltd.) in respect of the acquisition of exclusive sale and production rights of Glucosamine (鹽酸氨基葡萄糖) in the PRC and overseas markets. The new medicine certificate and production approval documents for the Glucosamine are expected to be obtained in August 2002. With this new product, the Directors hope that the Group will be able to enhance the income base and restore the profitability of the Group. For the details of the co-operative agreement, please refer to the Company’s announcement dated 8 February 2002 in the website of GEM.

The Directors hope that the downward trend in turnover and loss from operating may be reversed with the expected successful introduction of the newly acquired product of Glucosamine (鹽酸氨基葡萄糖) in August 2002.

The Directors expect that the Group will be well positioned to compete against its competitors in the Chinese medicine market and will struggle for better performance as the “Plasmin Capsule” is a “State Class 2 Protected Product of Chinese Medicine” which is entitled to an administration protection for a period ending 28 September 2006. The Group will mainly focus on the prescription medicine market through doctors into hospitals, while maintaining the market share of the over-the-counter medicine market which was the major market of the “Plasmin Capsule” in the previous years. If the above-mentioned new product is introduced successfully into the market as scheduled, this will create additional source of income to the Group.

By order of the Board
Everpride Biopharmaceutical Company Limited
Chung Chi Mang
Chairman

Hong Kong, 10 May 2002

OTHER INFORMATION

Directors' and chief executives' interests in securities

As at 31 March 2002, according to the register required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the Directors, the chief executives of the Company and their respective associates were as follows:—

(a) *Shares in the Company:*

Name of Director	Corporate Interests	Personal/ Family/Other Interest	Total	Percentage of issued Shares
Chung Chi Mang (“Mr. Chung”)	450,000,000	—	450,000,000	75

Mr. Chung is the sole shareholder and the sole director of Montgomery Properties Holding Limited (formerly known as Montgomery Property Limited) which is the holder of 75 per cent. of the issued share capital of the Company.

Save as disclosed above, none of the Directors or their associates had, as at 31 March 2002, any interests in shares of the Company or its subsidiaries as recorded in the register required to be kept under section 29 at the SDI Ordinance.

(b) *Options to subscribe for shares in the Company*

Pursuant to a share option scheme adopted by the Company on 5 July 2001, the Directors may, at their discretion, offer to full-time employees and executive Directors of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. As at 31 March 2002, none of the Directors and employees of the Company or its subsidiaries were granted options to subscribe for shares in the Company.

Directors' and chief executives' rights to acquire shares or debt securities

As at 31 March 2002, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

Substantial Shareholders

As at 31 March 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10 per cent. or more of the Company's issued share capital.

<u>Name</u>	<u>Number of Shares</u>	<u>Percentage of holding</u>
Montgomery Properties Holding Limited (<i>Note</i>)	450,000,000	75

Note: Montgomery Properties Holding Limited (formerly known as Montgomery Property Limited) is a company established in the British Virgin Islands with limited liability and wholly owned by Mr. Chung, the Chairman and an executive Director of the Company.

Competing interest

Save as disclosed in the Prospectus, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group in the PRC.

Sponsor's interests

The sponsor of the Company is DBS Asia Capital Limited ("DBS Asia").

Pursuant to a sponsor's agreement dated 13 July 2001 entered into between the Company and DBS Asia, DBS Asia has been retained to act as the Company's sponsor for the period from 20 July 2001 to 31 December 2003 in return for an advisory fee.

Save as disclosed herein, none of DBS Asia, its directors, employees or associates (as referred to in Rules 6.35 and 18.63 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31 March 2002.

Audit Committee

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control system of the Group. The audit committee has two members comprising Mr. Kwok Wai Fung (who is acting as the chairman of the audit committee) and Ms. Zhang Zuxun, the two independent non-executive Directors. The Group's unaudited results for the period have been reviewed by the audit committee, and it was in the opinion that (i) the preparation of such results complied with the applicable standards and statutory requirements and the requirements of the Stock Exchange and that (ii) the internal reporting and control system of the Group had been properly implemented and there were no material adverse affairs in the operation of the Group. During the period, no material matters were identified and reported by the Board to the audit committee of the Board and the supervisory committee of the Board. The auditors of the Group, Arthur Andersen & Co, have also considered the contents of the reports submitted by the audit committee on the internal reporting and monitoring system of the Group and noted the report indicated that the internal reporting and monitoring system had been properly implemented and that there were no material adverse affairs in the operation of the Group that came to their attention.

Purchase, sale or redemption of shares

None of the members of the Group had purchased, sold or redeemed any of the Company's shares during the period.