

• THIRD QUARTER REPORT 2002



**EVERPRIDE BIOPHARMACEUTICAL COMPANY LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability.

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 at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

*This report, for which the directors (the “Directors”) of Everpride Biopharmaceutical Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading; there are no other matters the omission of which would make any statement in this report misleading; and all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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## HIGHLIGHTS

- Consolidated turnover of the Group for the nine months ended 30 September 2002 was approximately RMB55,398,000, representing a decrease of approximately 43 per cent. as compared with that of the corresponding period in 2001.
- Profit from operations of the Group for the nine months ended 30 September 2002 was approximately RMB4,369,000, representing a decrease of approximately 83 per cent. as compared with the corresponding period in 2001.
- Earnings per share was approximately RMB0.23 cents.
- The Directors do not recommend payment of a dividend for the nine months ended 30 September 2002.

## RESULTS

The board (the "Board") of Directors announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three and nine months ended 30 September 2002 (the "period") together with the unaudited figures for the corresponding periods in 2001, as follows:

	Note	Unaudited three months ended 30 September		Unaudited nine months ended 30 September	
		2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	2	32,416	23,930	55,398	97,113
Cost of sales		(10,662)	(5,248)	(18,546)	(32,793)
Gross profit		21,754	18,682	36,852	64,320
Selling and distribution expenses		(627)	(7,594)	(10,074)	(22,066)
General and administrative expenses		(7,434)	(7,521)	(22,409)	(17,037)
Profit from operations		13,693	3,567	4,369	25,217
Finance cost, net		(124)	17	(303)	(92)
Profit before taxation		13,569	3,584	4,066	25,125
Taxation	3	(2,665)	(1,145)	(2,665)	(5,585)
Profit attributable to shareholders		10,904	2,439	1,401	19,540
Earnings per share					
— Basic	4	1.82 cents	0.43 cents	0.23 cents	3.93 cents

## NOTES

### 1. Group reorganisation, basis of preparation and principal accounting policies

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 Chinese medicines.

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 and nine months ended 30 September 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 material intra-group transactions and balances have been eliminated on combination and consolidation.

The principal accounting policies adopted in preparing the unaudited consolidated results conform to the International Accounting Standards issued by the International Accounting Standards Board.

### 2. Turnover

The Group's turnover represents the net invoiced value (excluding value-added tax) of Chinese medicines 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 periods.

Shanxi Everpride Pharmaceutical Co., Ltd. ("Everpride Pharmaceutical"), a wholly-owned subsidiary established and operating in Shanxi Province, Mainland China, is subject to Mainland China enterprise income tax at a rate of 33 per cent. (state income tax — 30 per cent. and local income tax — 3 per cent.). 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 per cent. reduction on the state enterprise income tax for the next three years. The tax exemption period for Everpride Pharmaceutical expired on 31 December 2000 and it is subject to enterprise income tax in Mainland China at a rate of 18 per cent. from 1 January 2001 to 31 December 2003.

### 4. Earnings per share

The calculation of basic earnings per share for the three months and nine months ended 30 September 2002 is based on the unaudited consolidated profit attributable to shareholders of approximately RMB10,904,000 and RMB1,401,000 (2001: RMB2,439,000 and RMB19,540,000), respectively, and on the weighted average number of 600,000,000 shares (2001: 571,000,000 and 497,000,000 shares in issue throughout the relevant accounting periods respectively, after taking into consideration of the capitalisation issue in July 2001 as described in the Company's prospectus dated 16 July 2001 (the "Prospectus")).

Diluted earnings per share for the three months and nine months ended 30 September 2002 and 2001 were not presented because there were no dilutive potential ordinary shares in existence during periods.

## 5. Reserves

Movements in the reserves of the Group were as follows:

	Statutory surplus reserve <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve# <i>RMB'000</i>	Cumulative Translation Adjustments <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
Balance as at 1 July 2002	9,025	—	7,195	(96)	31,062	47,186
Profit attributable to shareholders	—	—	—	—	10,904	10,904
Balance as at 30 September 2002	9,025	—	7,195	(96)	41,966	58,090

# The capital reserve of the Group represented the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

## 6. Dividend

The Directors do not recommend payment of a dividend for the nine months ended 30 September 2002. (2001: Nil)



## MANAGEMENT DISCUSSIONS AND ANALYSIS

### Business Review

The Group is principally engaged in the production and sales of Chinese medicines in the PRC. As at 30 June 2002, "Plasmin Capsule" remained the only product for the Group.

The third quarter of 2002 is a critical period for the Group. The commencement of contribution from the sale of "Puli Capsule" ("葡立膠囊") to the Group's turnover in this quarter is a milestone for the development history of the Group. During the period, the Group successfully introduced the new medicine into the PRC market and has broken away from the adverse effect arising from all the revenue being from the single product of "Plasmin Capsule".

Pursuant to the announcement made by the Company on 8 February 2002 in respect of the exclusive right of the Group to produce and sell Glucosamine, a new medicine for the treatment of osteoarthritis, Everpride Pharmaceutical on 23 July 2002 obtained the Certificate of New Medicine 《新藥證書》(國藥證字 H20020209) and its related production approval (《新藥證書及生產批件》)(國藥準字 H20020306) for the new product known as "Puli Capsule" ("葡立膠囊") issued by the State Drug Administration Bureau (the "SDA"). "Puli Capsule" ("葡立膠囊") is classified as a State Class 4 Protected Product of Chemical Medicine (國家四級化學藥保護品種) and is therefore entitled to an administrative protection period of six years commencing from 23 July 2002 and expiring on 22 July 2008. During such an administrative protection period, the prescription and production technology used by the Group in producing "Puli Capsule" ("葡立膠囊") are protected and no other manufacturers in the PRC may produce or imitate the product in the PRC.

## Sales and Marketing

During the period under review, the Group recorded an unaudited consolidated turnover of approximately RMB55,398,000, representing a decrease of approximately 43 per cent. as compared with that of the corresponding period in the previous year. Due to the successful introduction of the new medicine of "Puli Capsule" ("葡立膠囊") into the PRC market in August this year, the downward trend in turnover since the first and second quarter of this year has significantly reversed and the Group started recording an operating profit of approximately RMB13,693,000 in the third quarter. The sale of "Puli Capsule" ("葡立膠囊") was approximately RMB9,219,000, which represented 28 per cent. and 17 per cent. of the total turnover for the three and nine months ended 30 September 2002. During the period under review, despite facing strict competition and adverse market conditions in the PRC medicine industry, the Group still recorded a turnover from the sale of "Plasmin Capsule" and its component, earthworm powder, of approximately RMB23,197,000 and RMB46,179,000 for the three and nine months ended 30 September 2002.

During the period, the Group continued to sell the earthworm powder, the major component of "Plasmin Capsule", in the PRC market and overseas market. The sale of earthworm powder was another source of revenue for the Group. With the anticipated expansion of the earthworm powder markets in the PRC and abroad in the foreseeable future and further to the strict control on the medicine advertising campaigns in the mass media in the PRC implemented by the SDA, the Group will lay more emphasis on the promotion of earthworm powder.

## Research and Development

### *Staphylokines (葡激酶) Project*

Staphylokines (葡激酶) is a genetically-engineered medicine, which is the third generation of thrombotic medicine. The clinical application sample and its other related materials were submitted to the SDA in January 2002 for approval. The application for the clinical trial approval certificate for Staphylokines (葡激酶) is still in progress. Once the clinical trial approval certificate is obtained, the Group will start the clinical trials. The Group will make an application for a Certificate of New Medicine 《新藥證書》 in respect of Staphylokines (葡激酶) once the clinical trials are completed and duly approved by the SDA.

### **Application for GMP certificate for production complex**

The production complex in Taigu County, Shanxi Province commenced trial production in late June 2002 and formal production began in October 2002. The application for the GMP certificate is still in progress. During the application period, there is no adverse effect on the normal production of the Group. The Directors expect that the Group will obtain the GMP certificate by 31 December 2002.

### **Outlook**

Looking ahead, the Group continues to face competition with a large number of competitors in the PRC. Despite this, the Directors are confident that both the turnover and operating results will be improved if the newly introduced medicine, "Puli Capsule" ("葡立膠囊"), continues to maintain satisfactory acceptance by the market in the foreseeable future.

The commencement of the sale of the “Puli Capsule” (“葡立膠囊”) is definitely a very successful big step for the Group in the future. With a good start of the sale of “Puli Capsule” (“葡立膠囊”), the Group will continue to enhance its current domestic market position by leveraging on its well-maintained relationship with regional distributors. The Group will also explore the overseas market through Everpride Pharmaceutical (H.K) Co., Limited to export “Puli Capsule” (“葡立膠囊”) and “Plasmin Capsule” and its major component — earthworm powder to Hong Kong, the Philippines, Malaysia and other sales regions.

Looking ahead, the Board will make every effort to improve the operation results of the Group and further enhance the investment return for shareholders and continue to look for other pharmaceutical manufacturers for the possible cooperation, such as merger and acquisition, so as to strengthen the profitability and minimize the performance risk of the Group.

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

Hong Kong, 8 November 2002

## OTHER INFORMATION

### Directors' and chief executives' interests in securities

As at 30 September 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	Approximate percentage of issued Shares
Chung Chi Mang ("Mr. Chung")	366,670,000	—	366,670,000	61.1

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 approximately 61.1 per cent. of the issued share capital of the Company.

Save as disclosed above, none of the Directors, chief executives or their associates had, as at 30 September 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 30 September 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 30 September 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 30 September 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:

Name	Number of Shares	Approximate percentage of holding
Montgomery Properties Holding Limited ( <i>Note</i> )	366,670,000	61.1

*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

As announced on 20 September 2002, the Company changed its retained sponsor from DBS Asia Capital Limited ("DBS Asia") to Asia Investment Capital Limited ("Asia Investment Capital") with effect from 21 September 2002.

Pursuant to a sponsor's agreement entered into between the Company and Asia Investment Capital on 20 September 2002, Asia Investment Capital has been appointed to act as the Company's retained sponsor for the period from 21 September 2002 to 31 December 2003 in return for an advisory fee.

Save as disclosed herein, none of DBS Asia, Asia Investment Capital, their respective 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 30 September 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 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 of 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 (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, Messrs. Charles Chan, Ip & Fung CPA Ltd., have also reviewed the reports submitted by the audit committee on the internal reporting and monitoring system of the Group and were of the opinion 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.

#### **Board Practices and procedures**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the period under review.