ANNUAL REPORT 2003

Everpride Biopharmaceutical Company Limited

(Incorporated in the Cayman Islands with limited liability)

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This annual 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: (i) the information contained in this annual report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this annual report misleading; and (iii) all opinions expressed in this annual 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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DIRECTORS

Executive Directors
Chung Chi Mang *(Chairman)*
Zhong Zhi Gang
Xie Xiaodong
Mu Yong

Independent Non-Executive Directors
Chau On Ta Yuen
Ho Leong Leong, Lawrence

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lau Lai Chi, AHKSA, ACCA

ASSISTANT COMPANY SECRETARY

Codan Trust Company (Cayman) Limited

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 268IGT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3105, Sino Plaza
255–257 Gloucester Road
Causeway Bay
Hong Kong

AUDITORS

Charles Chan, Ip & Fung CPA Ltd
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

COMPLIANCE OFFICER

Chung Chi Mang

AUTHORISED REPRESENTATIVES

Chung Chi Mang
Lau Lai Chi

SOLICITORS

Stephenson Harwood & Lo
18th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 268IGT
George Town
Grand Cayman
British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

in Hong Kong
Standard Chartered Bank

in Mainland China
Hua Xia Bank
Bank of China

Mr. Chung Chi Mang
Chairman

For and on behalf of the board of Directors (the "Board") of Everpride Biopharmaceutical Company Limited (the "Company") together with its subsidiary (the "Group"), I am pleased to present to all shareholders the annual report of the Group for the year ended 31 December 2003.

The year of 2003 was a depressing year in terms of the unsatisfactory operating results recorded by the Group. Turnover for the year was approximately RMB26,645,000, which represented a substantial decrease of approximately 64 per cent. as compared with that of 2002. Together with the substantial increase in advertising expenses, provision for bad and doubtful debts and provision for obsolete inventories, the Group recorded a loss for the year of approximately RMB117,114,000. During the second quarter of 2003, the outbreak and the widespread of severe acute respiratory syndrome ("SARS") in Mainland China, especially in Shanxi Province where the base of the Group is located, seriously affected the business of the Group. Besides, the strict control and restrictions on the medicine advertising campaigns and channels imposed by the government authorities in Mainland China strongly limited the Group's sales and promotion activities, thus inhibited the market penetration of the Group's products.

However, two remarkable events have occurred during the year. Firstly, the Group had successfully made an application for changing "Puli Capsule" from a prescription medicine to an over-the-counter ("OTC") medicine and the approval was obtained on 24 January 2003. Such change has enhanced the public awareness of "Puli Capsule", thus favourable to the promotion and sales of this new medicine. Secondly, the application for the Good Manufacturing Practices ("GMP") certificate for the production complex of the Group in Taigu County, Shanxi Province was approved on 28 February 2003. This means that the Group's products are produced under a high quality of control environment and in compliance with the standards specified by the government authorities in Mainland China. As a result, the image of the Group and its products has been raised.

In order to improve the operation results, the Group will continue to engage in research work so as to develop new products and to improve the quality of existing products, such as the Staphylokinese Project and "Plasmin Tablet", both are expected to be introduced into the market in the second half of year 2004. With the increase in the variety of products, the advertising and promotion activities will be more cost effective and the market share of the Group's products will be improved. In addition, the Group will continue to look for other new investment and cooperation opportunities so as to broaden the income base and to strengthen the profitability, as well as minimising the performance risk of the Group.

Chairman's Statement

On behalf of the Board, I would like to extend my appreciation to shareholders of the Company for their continued support and to our staff for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers, lawyers, auditors and sponsors for their trust and support to the Group.

Chung Chi Mang
Chairman

Hong Kong, 26 March 2004

BUSINESS REVIEW

The Group is principally engaged in the production and sales of the medicines known as "Plasmin Capsule" and "Puli Capsule" in Mainland China.

"Plasmin Capsule" is classified as a "State Class 2 Protected Product of Chinese Medicine" and is entitled to an administrative protection period of seven years commencing from 28 September 1999 and expiring on 27 September 2006. "Puli Capsule" is classified as a "State Class 4 Protected Product of Chemical Medicine" and is entitled to an administrative protection period of six years commencing from 23 July 2002 and expiring on 22 July 2008. During the corresponding administrative protection periods, the prescription and the production technology used by the Group in producing "Plasmin Capsule" and "Puli Capsule" are protected and no other manufacturers in Mainland China may produce or imitate these two products in Mainland China.

According to the clinical studies conducted by medical institutions in Mainland China, "Plasmin Capsule" has the principal effect of resolving blood clots and may be used for treatment of cardiovascular and cerebrovascular diseases, while "Puli Capsule" has the principal effect of treating osteoarthritis. Both products are manufactured in the Group's production complex in Taigu County, Shanxi Province, which has already obtained the GMP certificate on 28 February 2003.

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB26,645,000 (2002: RMB73,062,000), which represented a substantial decrease of approximately 64 per cent. as compared with that of 2002. The Group's audited consolidated loss attributable to shareholders for the year was approximately RMB117,114,000 (2002: profit attributable to shareholders of approximately RMB2,403,000). This is due to a substantial increase in advertising expenses, provision for bad and doubtful debts and provision for obsolete inventories.

During the year, the Group incurred advertising expenses amounting to approximately RMB12,338,000 (2002: RMB6,769,000). But unfortunately, the outbreak and the widespread of "SARS" in Mainland China, especially in Shanxi Province where its factory and sales head office of the Group are located, led to the Group's prepaid advertising activities such as exhibitions, academic seminars and other promotion activities being cancelled or reduced in scale by local governments. These temporary policies substantially and adversely affected the results from the media advertising activities.

As the competition intensified and the outbreak of "SARS" in Mainland China, especially in Beijing and Shanxi Province, where the most active customers of the Group are located, the financial position of some major sales agents in these region were difficult and have deteriorated. These unfavourable situations led to substantial increase in the provision for bad and doubtful debts to approximately RMB58,088,000 (2002: RMB4,622,000) for the year. Besides, the associate of the Group, Shanxi Everpride Medical and Healthy Apparatus and Instruments Co., Ltd., which is located in Shanxi Province, also suffered and recorded a loss for the year. The recoverability of the balance due from the associate became questionable and accordingly, a provision for bad and doubtful debts of approximately RMB12,946,000 was made.

In addition, as the sales of "Plasmin Capsule" has dropped to a very low amount during the year, the Group has piled up a significant amount of "Plasmin Capsule" and its raw materials on hand. The Directors expect that the introduction of "Plasmin Tablet", which is now under development and in the process of application for production, will utilise part of the raw materials, but the outcome is still uncertain. As a result, a provision for obsolete inventories of approximately RMB22,715,000 was made.

During the year, the Group has only two medicines under production and sales: one is "Plasmin Capsule" which is classified as a prescription medicine and its sales are limited to hospitals which is a relatively weak market for the Group; the other is "Puli Capsule" which is originally a prescription medicine and has changed into an OTC medicine on 24 January 2003. Besides the reasons mentioned above, the substantial decrease in turnover during the year was also due to the strict control over the medicine advertising campaigns in the mass media in Mainland China implemented by the State Drug Administration of the People's Republic of China ("SDA") and the State Administration of Industry and Commerce of the People's Republic of China which imposed additional restrictions on promotional channels available, thus adversely affected the Group's sales through the OTC market which has been the major market for the Group in Mainland China.

SALES AND MARKETING

Due to the successful introduction of "Puli Capsule" into Mainland China market in 2002, it has made contributions to the Group during the year. The sales of "Puli Capsule" was approximately

RMB23,823,000 (2002: RMB20,748,000), representing approximately 89 per cent. of the consolidated turnover of the Group during the year. Facing strict competition and adverse market conditions in the pharmaceutical industry in Mainland China, the Group recorded a turnover from the sales of "Plasmin Capsule" of approximately RMB2,822,000 (2002: RMB47,814,000), representing approximately 11 per cent. of the consolidated turnover of the Group during the year.

In response to the regulatory changes introduced by the SDA as mentioned above, the Group will, on one hand, continue to focus more on developing the prescription medicine market through doctors in hospitals. On the other hand, the Group had made an application to the SDA for changing the new medicine of "Puli Capsule" from a prescription medicine to an OTC medicine in order to maintain its market share in the OTC medicine market which was the major market for the Group in previous years. The approval for such change was obtained from the SDA on 24 January 2003. The Group will put more efforts in mass media advertising to promote "Puli Capsule" as in the previous years.

The Directors expect that the above-mentioned measures will improve the market share of the Group's products and add more contributions to the shareholders' return.

RESEARCH AND DEVELOPMENT AND THE STAPHYLOKINESE PROJECT

During the year under review, the Group continued to engage Fujian Normal University Everpride Biopharmaceutical Research and Development Centre for its research work, especially the Staphylokinese Project. Staphylokinese 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 2002 for clinical trial approval. Up to the date of this annual report, such approval has not been obtained and the application is still in progress. Once the clinical trials are completed and approved, the Group will make an application for a Certificate of New Medicine in respect of Staphylokinese. Such delay was due to the continuous requests for additional information by the SDA.

APPLICATION FOR GMP CERTIFICATE FOR THE GROUP'S PRODUCTION COMPLEX

The application for the GMP certificate for the production complex of the Group in Taigu County, Shanxi Province was approved by the SDA on 28 February 2003 (certificate numbers: E2309—2310). The GMP certificate was delayed mainly due to additional information being requested by the SDA.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations through internally-generated cash flows and banking facilities provided by its principal bankers. As at 31 December 2003, the Group had cash and bank deposits amounting to approximately RMB11,142,000 (2002: RMB11,269,000). With the limited available resources and due to the unsatisfactory operating results during the year, the Directors expected that the Group might depend on further financing from its shareholders and bankers to finance its business operations and to achieve its business objectives.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the year.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs cost in Renminbi and its borrowings are denominated in Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

SIGNIFICANT INVESTMENTS

The Group had no significant investments during the year.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions or disposals during the year under review. It has no plans for material investments or capital assets other than those set out in the Prospectus.

EMPLOYEE INFORMATION

Currently, the Group has about 120 employees working in Hong Kong and in Mainland China. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The staff costs, including directors' emoluments, were approximately RMB12,493,000 for the year under review (2002: RMB14,207,000).

GEARING RATIO

As at 31 December 2003, the Group's gearing ratio, being the ratio of total liabilities to total assets, was 95 per cent. (2002: 43 per cent.).

CONTINGENT LIABILITIES

As at 31 December 2003, the Group had no contingent liabilities (2002: Nil).

OUTLOOK

The Directors anticipate that fierce competition in the pharmaceutical industry in Mainland China will continue to strongly affect adversely the future earnings and prospects of the Group.

In order to improve the market share of the Group's products, the Group will continue to engage in research work so as to develop new products and to improve the quality of existing products. At present, other than the Staphylokinese Project, the Group is now developing an alternative to "Plasmin Capsule" known as "Plasmin Tablet". The prescription and the principal effect of "Plasmin Tablet" are the same as those of "Plamsin Capsule" but with the advantages of avoiding breakage and being humidified, thus with a higher stability. The waiver for clinical research of "Plasmin Tablet" was obtained from the SDA on 14 January 2004 and the application for production is expected to be completed in Mid-2004.

The Directors believe that the introduction of "Plasmin Tablet" will help the Group in developing the prescription medicine market which in turns enhancing the recognition of the Group and its products. Together with Staphylokinese Project if once approved and introduced into the market, the income base of the Group will be broadened and the turnover and operating results will be improved.

Going forward, the Board will make every effort to improve the operation results of the Group and continue to look for other pharmaceutical manufacturers for possible cooperation, such as merger and acquisition, so as to strengthen the profitability and minimize the performance risk of the Group.

Comparison of Business Objectives with Actual Business Progress

Business objectives up to 31 December 2003 as stated in the Prospectus	Actual business progress up to 31 December 2003
1. Research and development	
— Fujian Normal University Everpride Biopharmaceutical Research and Development Centre to continue its research work.	— Continuing its research of a new medicine known as Staphylokinese, a kind of genetic engineered medicine, which is a blood clots solvent.
— To complete clinical trials of the Staphylokinese Project and obtain the Certificate of New Medicine and trial production permit.	— The delivery and submission of samples of Staphylokinese for the preparation of pre-clinical trials were completed and were submitted to the SDA in 2002 for approval. The clinical trials will start once such approval is obtained. Up to the date of this annual report, such approval has not been obtained and is still in progress. Once the clinical trails are completed and approved, the Group will make an application for a Certificate of New Medicine in respect of Staphylokinese. Such delay was due to the continuous requests for additional information by the SDA.
2. Sales and marketing	
— To introduce Staphylokinese products into the market.	— Due to the delay in obtaining the Certificate of New Medicine and trial production permit as mentioned above, Staphylokinese products are not available for the time being.
— To continue developing domestic distribution networks by establishing four additional sales representative offices.	— Being postponed until the introduction of Staphylokinese products into the market so that the establishment of additional sales representative offices will be more cost effective.

Business objectives up to 31 December 2003 as stated in the Prospectus	Actual business progress up to 31 December 2003
3. Production	
— To complete the construction of Staphylokinese production lines in its production complex in Taigu County, Shanxi Province, attain GMP certification and commence trial production. — To commence the commercial production of Staphylokinese.	— Due to the delay in both the clinical trials and the application for the Certificate of New Medicine, the construction of Staphylokinese production lines has been put on hold until the Certificate of New Medicine is duly approved by the SDA. But the main equipments have been ordered in order to shorten the delivery time if it is available to do so. Once the application is approved, the construction of Staphylokinese production lines will begin as soon as possible and commercial production will commence thereafter.
— To increase annual production capacity of production base in Taigu County, Shanxi Province.	— No significant increase in the production capacity as the construction of Staphylokinese production lines has been put on hold.

4. Use of net proceeds from the initial placement

The net proceeds from the initial placement had been applied in the following areas:—

	Amount to be used up to 31 December 2003 as disclosed in the Prospectus HK$'Million	**Actual amount used up to 31 December 2003** HK$'Million
For the development of new medicine projects	4.71	4.15
For the construction of the Group's production complex	27.32	25.26
For the development of research and development centre	1.88	1.82
For the expansion of distribution networks in the Mainland China and overseas markets	7.44	8.30
	41.35	39.53

The reasons for the minor difference between the actual and forecast usage of net proceeds is due to the application for a Certificate of New Medicine has been delayed. The development of the new medicine project and its construction of production lines are both postponed simultaneously. The Board has changed the uses of the non-used proceeds of net proceeds into general working capital of the Company in Hong Kong. Save as mentioned above, as at 31 December 2003, the Group has used up all net proceeds into business objectives. The Group will use other internal financial resources to complete remaining business objectives as disclosed in the Prospectus.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chung Chi Mang, age 42, is the founder and the Chairman of the Group. Mr. Chung is responsible for formulating the overall business development and corporate strategies. In early 1990's, Mr. Chung became involved in the marketing and distribution of medical and healthcare products. In May 1995, Mr. Chung established and became the chairman and general manager of Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride") which has since been fully devoted to the development of "Plasmin Capsule". Mr. Chung has been engaged in the business development and corporate management for over 10 years, during which he gained wide experience in product development and marketing in the pharmaceutical industry. Mr. Chung is currently a deputy chairman of the Old Aged Dietary Association of China and a director of the Old Aged Foundation of China.

Mr. Zhong Zhi Gang, age 41, is an executive Director and a deputy general manager of Shanxi Everpride. Mr. Zhong is responsible for the production and marketing activities of the Group. Mr. Zhong joined the Group in March 1996 as a deputy general manager of Shanxi Everpride in charge of the sales of medicines. In November 1999, Mr. Zhong became a director of Shanxi Everpride. Mr. Zhong is experienced in the sales, distribution and promotion of medical and healthcare products in Mainland China. Mr. Zhong is the brother of Mr. Chung Chi Mang.

Mr. Xie Xiaodong, age 54, is an executive Director and a deputy general manager of Shanxi Everpride. Mr. Xie has been engaged in the sales of medical and healthcare products outside Mainland China for over ten years. Mr. Xie graduated from Fuzhou University, majoring in electrical engineering. Mr. Xie joined the Group in October 1995 when he was appointed as a director of Shanxi Everpride.

Mr. Mu Yong, age 45, is an executive Director of the Company and assists in the formulation of the overall business strategies and development. Mr. Mu graduated from Tianjin City Nankai District Staff Leisure University, majoring in Chinese language and literature. Prior to joining the Group in March 2004, Mr. Mu held management positions with enterprises in Mainland China and has gained extensive experience in investment, business development and corporate management.

Independent Non-executive Directors

Mr. Chau On Ta Yuen, age 56, was appointed as an independent non-executive Director of the Company on 5 June 2003. Mr. Chau graduated from Xiamen University, majoring in Chinese language and literature. Mr. Chau is the vice chairman and an executive director of Everbest Century Holdings Limited which is listed on the Main Board of the Stock Exchange of Hong Kong Limited. He is also a member of the Chinese People's Political Consultative Conference of the People's Republic of China.

Mr. Ho Leong Leong, Lawrence, age 53, was appointed as an independent non-executive Director of the Company on 8 November 2002. Mr. Ho is a famous commentator on current affairs and the deputy director of editorial department of Phoenix Satellite Television Holdings Limited.

Senior Management

Mr. Shan Bingwei, age 49, is a deputy general manager of Shanxi Everpride. He was previously the deputy head of the technical intelligence section of Taiyuan Iron and Steel Factory. In November 1995, Mr. Shan became a deputy general manager of Shanxi Everpride.

Ms. Wang Shulan, age 64, is a deputy general manager and the chief engineer of Shanxi Everpride. She graduated from the pharmacy department of Shenyang School of Pharmacy, majoring in antibiotics. Ms. Wang joined Taiyuan Pharmaceutical Factory and later became the chief engineer. In October 1995, Ms. Wang joined Shanxi Everpride as the chief engineer in charge of the research, manufacture, development and production technology of "Plasmin Capsule". Ms. Wang is experienced in the research and development and production technology of Chinese and chemical medicines. Ms. Wang was an editor of the Chinese Pharmaceutical Journal, a director of the Shanxi Institute of Pharmacy and a director of the Taiyuan Institute of Pharmacy.

Mr. Hou Naigong, age 53, is a deputy general manager of Shanxi Everpride. Mr. Hou worked for Anhui Maanshan Biochemical Pharmaceutical Factory and later held the position as a deputy head of the Factory. In July 1998, Mr. Hou joined Shanxi Everpride as a deputy general manager in charge of the production of "Plasmin Capsule".

Mr. Qiu Shou Peng, age 62, is a deputy general manager of Shanxi Everpride and is responsible for the overall operation and management of the production complex in Taigu County, Shanxi Province. Mr. Qiu graduated from the chemistry department of Beijing University. Prior to joining the Group, Mr. Qiu worked for Shanxi Taiyuan Chemical Factory as the head of the Factory and Shanxi Taiyuan Chemical Group Company as the vice-chairman. Mr. Qiu has extensive experience in corporate management.

Mr. Wang Hong Yong, age 34, is the financial controller of Shanxi Everpride and is in charge of the overall accounting and finance matters. Mr. Wang graduated from the accounting and statistics department of Shanxi Economics Management College and is a certified public accountant and a certified tax accountant in Mainland China. Prior to joining the Group in July 2003, Mr. Wang engaged in auditing in certified public accounting firms in Mainland China for several years and has gained extensive experience in finance and auditing.

Mr. Lau Lai Chi, age 31, is the company secretary and financial controller of the Group. Mr. Lau is the associate members of the Association of Chartered Certified Accountants and Hong Kong Society of Accountants. Mr. Lau joined the Group in October 2003 and has extensive experience in accounting and financial management.

The Directors are pleased to present their annual report together with the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2003.

BASIS OF PRESENTATION

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 the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 July 2001.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), published by the International Accounting Standards Board, and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The basis of preparation of the financial statements is set out in Note 2 to the accompanying consolidated financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of subsidiaries and associate are detailed in Notes 15 and 16 to the accompanying consolidated financial statements, respectively.

An analysis of the principal activities and geographical locations of operations of the Group for the year ended 31 December 2003 is set out in Note 4 to the accompanying consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, the five largest customers accounted for approximately 46 per cent. of the Group's total turnover. The five largest suppliers accounted for approximately 96 per cent. of the Group's total purchases. In addition, the largest customer accounted for approximately 14 per cent. of the Group's total turnover while the largest supplier accounted for approximately 29 per cent. of the Group's total purchases.

None of the Directors, their associates or any shareholders (which, to the knowledge of the Directors, own more than 5 per cent. of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2003 are set out in the consolidated income statement on page 23 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2003.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 25 to the accompanying consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 27 to the accompanying consolidated financial statements.

As at 31 December 2003, the Company has no reserves available for distribution to its shareholders.

As at 31 December 2002, the Company's reserve available for distribution to shareholders amounted to approximately RMB35,014,000 computed in accordance with the Companies Law (2000 Revision) of the Cayman Islands and the Company's Articles of Association. This includes the Company's contributed surplus of approximately RMB56,774,000, less accumulated losses of approximately RMB21,760,000, which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the laws in the Cayman Islands in relation to the issue of new shares by the Company.

PENSION SCHEMES

Details of the Group's pension schemes are set out in Note 28 to the accompanying consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 15 to the accompanying consolidated financial statements.

LEASEHOLD PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Movements in leasehold properties and property, plant and equipment of the Group during the year are set out in Notes 12 and 13 to the accompanying consolidated financial statements, respectively.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2003 are set out in Notes 21 and 22 to the accompanying consolidated financial statements.

CONNECTED TRANSACTIONS

There were no significant connected party transactions entered into by the Group for the year ended 31 December 2003.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company who held office during the year and up to the date of this report were:

Executive Directors

Mr. Chung Chi Mang	
Mr. Zhang Xue Min	(Resigned on 1 November 2003)
Mr. Zhong Zhi Gang	
Mr. Xie Xiaodong	
Mr. Zhang Yuanfu	(Resigned on 25 November 2003)
Mr. Mu Yong	(Appointed on 26 March 2004)

Independent Non-executive Directors

Mr. Chau On Ta Yuen	(Appointed on 5 June 2003)
Mr. Kwok Wai Fung	(Resigned on 5 June 2003)
Mr. Ho Leong Leong, Lawrence	

In accordance with the Company's Articles of Association, Messrs. Xie Xiaodong, Mu Yong and Chau On Ta Yuen will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

Mr. Chung Chi Mang has entered into a service contract for an initial term of three years commencing from 1 November 2000. Each of Mr. Zhong Zhi Gang and Mr. Xie Xiaodong has entered into a service contract for an initial term of three years commencing from 5 July 2001. Mr. Mu Yong has not been appointed for any fixed term. After the initial term, all the service contracts may be terminated by either party thereto giving to the other party three months' prior notice in writing.

The independent non-executive Directors have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the Articles of Association of the Company.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity/Nature of interest	No. of shares *(Note 1)*	Approximate percentage of interest
Mr. Chung Chi Mang ("Mr. Chung")	Interest of a controlled corporation	340,000,000 (L) *(Note 2)*	56.67%

Notes:

1. The letter "L" denotes a long position in shares.

2. These shares are beneficially owned by Montgomery Properties Holding Limited (formerly known as Montgomery Property Limited). By virtue of his 100% shareholding in Montgomery Properties Holding Limited, Mr. Chung is deemed or taken to be interested in the 340,000,000 shares owned by Montgomery Properties Holding Limited.

Save as disclosed above, as at 31 December 2003, none of the Directors or chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS OF OTHER MEMBERS OF THE GROUP

So far as known to any Director or chief executive of the Company, as at 31 December 2003, persons who have interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity/Nature of interest	No. of shares	Approximate percentage of interest
Mr. Chung *(Note 1)*	Interest of a controlled corporation	340,000,000 (L)	56.67%
Ms. Ma Wai *(Note 2)*	Interest of spouse	340,000,000 (L)	56.67%
Montgomery Properties Holding Limited	Beneficial owner	340,000,000 (L)	56.67%

Notes:

1. Mr. Chung is deemed or taken to be interested in these shares which are beneficially owned by his wholly owned company, namely Montgomery Properties Holding Limited for the purpose of the SFO.

2. Ms. Ma Wai is the wife of Mr. Chung and is deemed to be interested in the 340,000,000 shares in which Mr. Chung is deemed or taken to be interested for the purpose of the SFO.

Save as disclosed above, as at 31 December 2003, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 December 2003, 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 December 2003, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company 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, chief executives 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.

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 Mainland China.

SPONSOR'S INTERESTS

Pursuant to a sponsor's agreement entered into between the Company and Goldbond Capital (Asia) Limited (formerly known as Asia Investment Capital Limited) on 20 September 2002, Goldbond Capital (Asia) Limited has been appointed as the Company's retained sponsor for the period from 21 September 2002 to 31 December 2003 in return for an advisory fee. Upon the expiry of the above agreement on 31 December 2003, the Company has not appointed any retained sponsor thereafter.

Save as disclosed herein, none of Goldbond Capital (Asia) Limited, their respective directors, employees and associates (as referred to in Note 3 of Rule 6.35 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 December 2003.

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 monitoring system of the Group. The audit committee has two members comprising Mr. Chau On Ta Yuen (who is acting as the chairman of the audit committee) and Mr. Ho Leong Leong, Lawrence, the two independent non-executive Directors. The audit committee met four times during the year. The Group's audited consolidated results for the year have been reviewed by the audit committee, and it was in its 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 monitoring system of the Group had been properly implemented and was adequate to keep the Board informed of the business and the management affairs of the Group and there were no material adverse affairs in the operation of the Group. During the year, no material matters were identified and reported by the Board to the audit committee 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 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.

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 year under review.

AUDITORS

Messrs. Charles Chan, Ip & Fung CPA Ltd. were appointed as auditors of the Company in 2002 upon the resignation of Messrs. Arthur Andersen & Co.

The accompanying consolidated financial statements were audited by Messrs. Charles Chan, Ip & Fung CPA Ltd.. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chung Chi Mang
Chairman

Hong Kong, 26 March 2004

Auditors' Report

Charles Chan, Ip & Fung CPA Ltd
37th Floor Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

Report of the Auditors to the Shareholders of
EVERPRIDE BIOPHARMACEUTICAL COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the balance sheet of Everpride Biopharmaceutical Company Limited (the "Company") and the consolidated balance sheet of the Company and its subsidiaries (collectively referred as the "Group") as at 31 December 2003 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements, set out on page 23 to 64, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Without qualifying our opinion, we draw attention to Note 2(b) in the financial statements which indicates that the Group incurred a net loss of approximately RMB117,114,000 during the year ended 31 December 2003 and, as of that date, the Company's and the Group's current liabilities exceeded its current assets by approximately RMB1,702,000 and RMB77,418,000 respectively. These conditions, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

In our opinion, the financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2003, and of the results of the Group's operations, its changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd
Certified Public Accountants
Hong Kong, 26 March 2004.

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 December 2003 (Expressed in Renminbi)

	Note	**2003** **RMB'000**	2002 RMB'000
Turnover	3	**26,645**	73,062
Cost of sales		**(5,177)**	(23,345)
Gross profit		**21,468**	49,717
Other revenue	5	**639**	952
Other net income	5	**—**	140
Selling and distribution expenses		**(17,602)**	(13,084)
General and administrative expenses		**(105,379)**	(30,134)
(Loss)/profit from operations		**(100,874)**	7,591
Finance costs	6(a)	**(3,082)**	(1,516)
Provision for amount due from an associate		**(12,946)**	—
Share of results of an associate		**(212)**	18
(Loss)/profit from ordinary activities before taxation	6	**(117,114)**	6,093
Income tax	7(a)	**—**	(3,690)
(Loss)/profit attributable to shareholders	10	**(117,114)**	2,403
(Loss)/earnings per share	11		
Basic		**RMB(19.52) cents**	RMB0.40 cents

The notes on pages 28 to 64 form part of these financial statements.

Consolidated Balance Sheet

31 December 2003 (Expressed in Renminbi)

	Note	Group 2003 RMB'000	Group 2002 RMB'000	Company 2003 RMB'000	Company 2002 RMB'000
NON-CURRENT ASSETS					
Leasehold properties	12	**30,001**	31,232	**—**	—
Property, plant and equipment	13	**53,423**	46,550	**—**	—
Intangible assets	14	**2,867**	3,850	**—**	—
Deposit for purchase of leasehold properties		**—**	17,135	**—**	—
Interests in subsidiaries	15	**—**	—	**6,998**	100,784
Interest in an associate	16	**—**	15,362	**—**	—
Total non-current assets		**86,291**	114,129	**6,998**	100,784
CURRENT ASSETS					
Inventories	17	**203**	24,375	**—**	—
Trade and other receivables	18	**20,943**	64,933	**41**	20
Cash and cash equivalents	19	**11,142**	11,269	**3**	9
Total current assets		**32,288**	100,577	**44**	29
CURRENT LIABILITIES					
Trade and other payables	20	**(52,209)**	(45,594)	**(1,746)**	(1,599)
Short-term bank borrowings, secured	21	**(45,000)**	(30,000)	**—**	—
Long-term secured bank borrowings, current portion	22	**(411)**	(389)	**—**	—
Obligations under a finance lease, current portion	23	**(240)**	(240)	**—**	—
Current taxation	24(a)	**(11,846)**	(11,846)	**—**	—
Total current liabilities		**(109,706)**	(88,069)	**(1,746)**	(1,599)
Net current (liabilities)/assets		**(77,418)**	12,508	**(1,702)**	(1,570)
Total assets less current liabilities		**8,873**	126,637	**5,296**	99,214
NON-CURRENT LIABILITIES					
Long-term secured bank borrowings, non-current portion	22	**(2,436)**	(2,847)	**—**	—
Obligations under a finance lease, non-current portion	23	**(260)**	(499)	**—**	—
NET ASSETS		**6,177**	123,291	**5,296**	99,214
CAPITAL AND RESERVES					
Share capital	25	**64,200**	64,200	**64,200**	64,200
Reserves	27	**(58,023)**	59,091	**(58,904)**	35,014
		6,177	123,291	**5,296**	99,214

Approved and authorised for issue by the board of directors on 26 March 2004

Chung Chi Mang
Director

Zhong Zhi Gang
Director

The notes on pages 28 to 64 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003 (Expressed in Renminbi)

	2003	2002
	RMB'000	RMB'000
Shareholders' equity at 1 January	**123,291**	120,889
Exchange adjustments	**—**	(1)
Net (loss)/profit for the year	**(117,114)**	2,403
Shareholders' equity at 31 December	**6,177**	123,291

The notes on pages 28 to 64 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2003 (Expressed in Renminbi)

	Note	2003		2002	
		RMB'000	**RMB'000**	RMB'000	RMB'000
Operating activities					
(Loss)/profit from ordinary activities before taxation		**(117,114)**		6,093	
Adjustments for:					
Depreciation of property, plant and equipment		**1,878**		1,422	
Amortisation of leasehold properties		**1,231**		991	
Amortisation of intangible assets		**891**		434	
Impairment loss on intangible assets		**92**		—	
Provision for bad and doubtful debts		**58,088**		4,622	
Provision/(write back of provision) for obsolete inventories		**22,715**		(177)	
Provision for amount due from an associate		**12,946**		—	
Finance costs		**3,082**		1,516	
Interest income		**(12)**		(537)	
Loss on disposal of property, plant and equipment		**14**		156	
Profit on sales of available-for-sale investments		**—**		(140)	
Share of loss/(profit) of an associate		**212**		(18)	
Operating (loss)/profit before changes in working capital		**(15,977)**		14,362	
Decrease in inventories		**1,456**		17,673	
Increase in debtors, deposits and prepayments		**(7,838)**		(40,956)	
Increase/(decrease) in creditors and accrued charges		**13,832**		(1,159)	
Increase/(decrease) in deposits and receipts in advance from customers		**2,809**		(4,347)	
Increase in other tax payable		**850**		11,647	
Net cash used in operating activities			**(4,868)**		(2,780)
Investing activities					
Payment for deposit for purchase of leasehold properties		**—**		(17,135)	
Payment for purchase of property, plant and equipment		**(8,765)**		(23,677)	
Payment for purchase of intangible assets		**—**		(4,000)	
Proceeds from sale of available-for-sale investments		**—**		6,313	
Payment for purchase of the associate		**—**		(200)	
Net repayments from/(advances to) the associate		**2,204**		(15,150)	
Decrease in amount due from a director		**—**		7,200	
(Increase)/decrease in pledged bank deposits		**(7)**		6,260	
Decrease in bank deposit with original maturity over three months		**—**		10,595	
Interest received		**12**		537	
Exchange adjustments		**—**		(1)	
Net cash used in investing activities			**(6,556)**		(29,258)

For the year ended 31 December 2003 (Expressed in Renminbi)

	Note	2003 RMB'000	2003 RMB'000	2002 RMB'000	2002 RMB'000
Financing activities					
Proceeds from new short-term bank loans		**15,000**		33,603	
Repayment of long-term bank loans		**(389)**		(367)	
Capital element of finance lease rentals paid		**(239)**		(240)	
Interest element of finance lease rentals paid		**(54)**		(51)	
Interest paid		**(3,028)**		(1,465)	
Net cash from financing activities			**11,290**		31,480
Net decrease in cash and cash equivalents			**(134)**		(558)
Cash and cash equivalents at 1 January			**409**		967
Cash and cash equivalents at 31 December	19		**275**		409

The notes on pages 28 to 64 form part of these financial statements.

1. CORPORATION INFORMATION

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, and its shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with the effect from 20 July 2001. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies, and its principal place of business is Unit 3105, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong.

The principal activities of the Company and the Group are investment holding and the manufacturing and sales of medicines respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") published by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

Notwithstanding that the Company and the Group sustained current losses and had net current liabilities as at 31 December 2003, including the Group's short-term bank loans of approximately RMB29,000,000 which have been overdue as at the date of authorisation for issue of these financial statements, the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when the fall due having regard to the following:

(i) ongoing support of the Group's present bankers and the successful outcome of the renewal of the overdue bank loans made available to the Group;

(ii) adequate financing for other bankers or other sources being available to the Group to fund the Group's operations before sufficient cash flows are generated from operations; and

(iii) continuing financial support received from the ultimate holding company.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, it is appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern. These would include any adjustments required to write down the Group's and the Company's assets to their recoverable amounts, to provide for any liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

(c) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decision.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year. When the Group's share of losses exceeds the carrying amount of associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

(e) Leasehold properties

Land in the People's Republic China (the "PRC") is owned by the State and no individual land ownership right exists. In accordance with IFRS 40 "Investment Property", it is concluded that all interests in property held under an operating lease should be dealt with in accordance with IFRS 17 "Leases". All leasehold land and buildings are excluded from the classification of property, plant and equipment and are classified as leasehold properties. Costs of the leasehold properties are amortised on a straight line basis in a systematic manner which is representative of the time pattern of the benefits. In this respect, leasehold properties are stated at cost less accumulated amortisation and impairment losses (see note 2(i)).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment

(i) Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation and impairment losses (see note 2(i)). Major expenditures on modifications and betterments of property, plant and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs of property, plant and equipment are expensed when incurred. Depreciation is calculated to write off the cost less residual value of each assets on a straight-line basis over its estimated useful life. The annual rates of depreciation are as follows:

Machinery and equipment	10%
Furniture and office equipment	12.5%
Motor vehicles	12.5% to 16.7%

(ii) The depreciation method and useful life are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the property, plant and equipment.

(iii) Gains or losses arising from the retirement or disposal of an asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(iv) Construction-in-progress represents buildings under construction and machinery pending for installation. It is stated at cost, which includes construction expenditures incurred, cost of machinery, interest capitalised and other direct costs capitalised during the construction and installation period. No depreciation is provided in respect of construction-in-progress until the construction or installation is completed and the asset is put into operational use.

(g) Intangible assets and amortisation

(i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets and amortisation (Continued)

(ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(iii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(iv) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of the underlying products of not exceeding ten years, commencing from the date when the products are put into commercial production.

(v) The amortisation method and useful life of the intangible assets are reviewed periodically to ensure that the method and period of amortisation are consistent with the expected pattern of economic benefits from the intangible assets.

(h) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the terms of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(ii) *Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— leasehold properties;

— property, plant and equipment;

— interests in subsidiaries and associates; and

— intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Accounts receivable

Accounts receivable, which generally have credit terms ranging from 90 to 180 days, are recognised and carried at cost less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(l) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of charges in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost of the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution schemes are recognised as an expense in the income statement as incurred.

(n) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credit, that is, those differences are taken into account if they relate to the same taxable authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously;

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred the liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities or a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised in the income statement as follows:

(i) *Sales of goods*

Revenue is recognised when the goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods, the related risks and rewards of ownership. Revenue excludes value added tax and is stated after deduction of any goods returns and trade discounts.

(ii) *Royalty income*

Royalty income is recognised on an accrual basis in accordance with the relevant agreement.

(iii) *Interest income*

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

(q) Advertising and promotion costs

Cost of advertising and promotion are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset of its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date.

Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Renminbi at the average exchange rates for the year; balance sheet items are translated into Renminbi at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(v) Subsequent events

Past-year-end events that provide additional information about the Group's position at the balance sheet date (i.e. adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events disclosed in the notes to the financial statements when material.

(w) Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. TURNOVER

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of any goods returns and trade discounts, and royalty income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003	2002
	RMB'000	RMB'000
Sales of goods	**26,645**	68,562
Royalty income	**—**	4,500
	26,645	73,062

Sales to the top five customers accounted for approximately 46% (2002: 63%) of the Group's turnover for the year ended 31 December 2003.

4. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

Throughout the year, the Group has been operating in a single business segment, i.e. the manufacture and sale of medicines. Accordingly, no business segment information is presented.

(b) Geographical segment

As the Group's revenue and results were substantially derived from the People's Republic of China ("PRC") and its operating assets and liabilities are also based in the PRC, no geographical segment information is presented.

5. OTHER REVENUE AND NET INCOME

	2003 RMB'000	2002 RMB'000
Other revenue		
Interest income	**12**	537
Sample income	**588**	415
Others	**39**	—
	639	952
Other net income		
Profit on sales of available-for-sale investments	**—**	140

6. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2003 RMB'000	2002 RMB'000
(a) Finance costs		
Interest on bank advances and other borrowings		
— wholly repayable within five years	**2,700**	1,273
— after five years	**328**	192
Finance charges on obligations under a finance lease	**54**	51
Total borrowing costs	**3,082**	1,516
(b) Staff costs		
Contributions to defined contribution plans	**1,167**	965
Salaries, wages and other benefits	**11,326**	13,242
Total staff costs	**12,493**	14,207

6. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

	2003 RMB'000	2002 RMB'000
(c) Other items		
Cost of inventories sold	**5,177**	23,345
Auditors' remuneration	**449**	373
Depreciation		
— owned assets	**1,675**	1,219
— an asset held under finance lease	**203**	203
Amortisation of leasehold properties	**1,231**	991
Amortisation of intangible assets	**891**	434
Impairment loss on intangible assets	**92**	—
Research and development costs	**230**	1,179
Advertising and promotion expenses	**12,338**	6,769
Operating lease charges: minimum lease payments		
— property rental	**2,673**	861
Provision/(write-back of provision) for obsolete inventories	**22,715**	(177)
Provision for bad and doubtful debts	**58,088**	4,622
Loss on disposal of property, plant and equipment	**14**	156
Net exchange (gain)/loss	**(81)**	370

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2003 RMB'000	2002 RMB'000
Current tax — Provision for PRC enterprise income tax for the year		
Tax for the year	—	3,684
Share of taxation of an associate	—	6
	—	3,690

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(a) Taxation in the consolidated income statement represents: (Continued)

Notes:

(i) 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.

(ii) No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit in Hong Kong during the year (2002: Nil).

(iii) Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride"), a wholly-owned subsidiary established and operating in Shanxi Province, PRC, is subject to PRC enterprise income tax at a rate of 33% (state income tax — 30% and local income tax — 3%). However, it is exempted from state income tax and local income tax for two years starting from the first year of profitable operations after offsetting prior years' losses, followed by a 50% reduction on the state income tax for the next three years. The tax exemption period of Shanxi Everpride expired on 31 December 2000 and it is subject to PRC enterprise income tax at an effective rate of 18% from 1 January 2001 to 31 December 2003.

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2003 **RMB'000**	2002 RMB'000
(Loss)/profit before tax	**(117,114)**	6,093
Notional tax on (loss)/profit before tax, calculated at the statutory rate of 33%	**(38,648)**	2,010
Tax effect of non-deductible expenses	**31,023**	422
Tax effect of non-taxable revenue	**(204)**	(58)
Tax effect of unused tax losses not recognised	**6,409**	2,244
Tax effect of reduced tax rate	**1,420**	(928)
Actual tax expense	**—**	3,690

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Fees for executive directors	**—**	—
Fees for non-executive directors	**139**	139
Other emoluments for executive directors		
— basic salaries and allowances	**3,924**	5,531
— retirement scheme contributions	**61**	75
	4,124	5,745

Included in the directors' remuneration were fees of RMB27,000 (2002: RMB70,000), RMBNil (2002: RMB53,000), RMB70,000 (2002: RMB16,000) and RMB42,000 (2002: RMBNil) paid to the non-executive directors during the year.

Emoluments of each of the executive directors amounted to approximately RMB1,150,000 (2002: RMB2,464,000), RMB1,235,000 (2002: RMB1,275,000), RMB972,000 (2002: RMB1,239,000), RMB314,000 (2002: RMB314,000) and RMB314,000 (2002: RMB314,000) for the year.

No directors waived any emoluments during the year (2002: Nil). No incentive payments for joining the Group or compensation for loss of office was paid or payable to any director for the year (2002: Nil).

8. DIRECTORS' REMUNERATION (Continued)

The remuneration of the directors is within the following bands:

	Number of directors	
	2003	2002
Executive directors		
— Nil – RMB1,070,000 (approximately equivalent to HK$1,000,000)	**3**	2
— RMB1,070,001 (approximately equivalent to HK$1,000,000) – RMB1,605,000 (approximately equivalent to HK$1,500,000)	**2**	2
— RMB1,605,001 (approximately equivalent to HK$1,500,001) – RMB2,140,000 (approximately equivalent to HK$2,000,000)	**—**	—
— RMB2,140,001 (equivalent to approximately HK$2,000,001) – RMB2,675,000 (approximately equivalent to HK$2,500,000)	**—**	1
Non-executive directors		
— Nil to RMB1,070,000 (approximately equivalents to HK$1,000,000)	**3**	3
	8	8

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, five (2002: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five highest paid individuals are as follows:

	2003	2002
	RMB'000	RMB'000
Salaries and other emoluments	**3,924**	5,669
Discretionary bonuses	**—**	—
Retirement scheme contributions	**61**	74
	3,985	5,743

31 DECEMBER 2003 (Expressed in Renminbi)

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

The emoluments of the five highest paid individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2003	2002
Nil – RMB1,070,000 (approximately equivalent to HK$1,000,000)	**3**	2
RMB1,070,001 (approximately equivalent to HK$1,000,000) – RMB1,605,000 (approximately equivalent to HK$1,500,000)	**2**	2
RMB1,605,001 (approximately equivalent to HK$1,500,001) – RMB2,140,000 (approximately equivalent to HK$2,000,000)	**—**	—
RMB2,140,000 (approximately equivalent to HK$2,000,001) to RMB2,675,000 (approximately equivalent to HK$2,500,000)	**—**	1
	5	5

10. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of approximately RMB93,918,000 (2002: RMB10,688,000) which has been dealt with in the financial statements of the Company.

11. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of approximately RMB117,114,000 (2002: profit of approximately RMB2,403,000) and on the weighted average of 600,000,000 (2002: 600,000,000) ordinary shares in issue during the year.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is not presented as there was no dilutive potential ordinary shares in existence during the years ended 31 December 2003 and 2002.

12. LEASEHOLD PROPERTIES

(a) Movements in leasehold properties of the Group are as follows:

	Land RMB'000	**Buildings** RMB'000	**Total** RMB'000
Cost			
At 1 January 2003 and at 31 December 2003	1,250	31,949	33,199
Accumulated amortisation			
At 1 January 2003	—	1,967	1,967
Amortisation for the year	66	1,165	1,231
At 31 December 2003	66	3,132	3,198
Net book value			
At 31 December 2003	1,184	28,817	30,001
At 31 December 2002	1,250	29,982	31,232

(b) The analysis of net book value of leasehold properties is as follows:

		2003			2002	
	Land	**Buildings**	**Total**	Land	Buildings	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
In PRC						
— long-term leases (i)	**—**	**7,437**	**7,437**	—	7,842	7,842
— medium-term leases (ii)	**1,184**	**21,380**	**22,564**	1,250	22,140	23,390
	1,184	**28,817**	**30,001**	1,250	29,982	31,232

Notes —

(i) Buildings under long-term leases are granted with land use rights for periods ranging from 64 to 70 years up to 2064 to 2070.

(ii) The land use right under medium-term lease comprises land use fees paid to the government of Taigu County for the right to use the land where the Group's factory buildings in Taigu County of Shanxi Province are located for a period of 40 years up to 2040.

Buildings under medium-term leases are granted with land use rights for periods ranging from 40 to 50 years up to 2040 to 2048.

13. PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment of the Group are as follows:

	Machinery and equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost					
At 1 January 2003	6,858	2,350	7,170	32,977	49,355
Additions	—	734	3,350	4,681	8,765
Transfer	3,168	—	—	(3,168)	—
Disposals	—	(23)	—	—	(23)
At 31 December 2003	10,026	3,061	10,520	34,490	58,097
Accumulated depreciation					
At 1 January 2003	614	772	1,419	—	2,805
Charge for the year	85	901	892	—	1,878
Written back on disposals	—	(9)	—	—	(9)
At 31 December 2003	699	1,664	2,311	—	4,674
Net book value					
At 31 December 2003	9,327	1,397	8,209	34,490	53,423
At 31 December 2002	6,244	1,578	5,751	32,977	46,550

As at 31 December 2003, the net book value of a motor vehicle held under a finance lease of the Group was approximately RMB712,000 (2002: RMB915,000).

(b) Analysis of construction-in-progress of the Group is as follows:

	2003 RMB'000	2002 RMB'000
Construction costs of buildings	**28,640**	28,640
Cost of machinery pending installation	**5,850**	4,337
	34,490	32,977

Construction-in-progress represents the Group's factory buildings under construction and machinery pending installation. The ancillary factory buildings are located in a parcel of land which the Group has the land use rights for 40 years up to 2040 (see note 12(b)).

14. INTANGIBLE ASSETS

Movements in intangible assets of the Group are as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Cost		
At 1 January and 31 December	**5,000**	5,000
Accumulated amortisation and impairment losses		
At 1 January	**1,150**	716
Charge for the year	**891**	434
Impairment loss	**92**	—
At 31 December	**2,133**	1,150
Net book value		
At 31 December	**2,867**	3,850

Intangible assets represents exclusive rights acquired by the Group to produce and well the products of "Plasma Capsule" and "Puli Capsule" within and outside the PRC.

The amortisation charge and impairment loss for the year is included in "general and administrative expenses" in the consolidated income statement.

15. INTERESTS IN SUBSIDIARIES

In the Company's balance sheet, interests in subsidiaries consists of:

	2003	2002
	RMB'000	RMB'000
Unlisted shares, at cost	**57,784**	57,784
Due from subsidiaries	**42,922**	45,101
Due to subsidiaries	**(5,968)**	(2,101)
	94,738	100,784
Less: Impairment loss	**(87,740)**	—
	6,998	100,784

The balances with subsidiaries are unsecured, non-interest bearing and without pre-determined repayment terms.

The underlying value of the interests in subsidiaries, in the opinion of the Company's directors, not less than its carrying value as at 31 December 2003.

The particulars of all subsidiaries of the Company at 31 December 2003 were as follows:

		Particulars of issued and fully paid share capital/	Proportion of ownership interest			
Name of company	**Place of incorporation**	**registered capital**	**Group's effective interest**	**held by the Company**	**held by the subsidiary**	**Principal activities**
Garner International Investments Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1 each	100%	100%	—	Investment holding
Everpride Pharmaceutical (H.K.) Co., Limited	Hong Kong	100 ordinary shares of HK$1 each	100%	—	100%	Trading of medicines
Scyla Assets Limited	BVI	1,000 ordinary shares of US$1 each	100%	—	100%	Investment holding
Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride")*	PRC	US$2,280,000	100%	—	100%	Manufacture and sales medicines

* Shanxi Everpride is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to 26 May 2015.

16. INTEREST IN AN ASSOCIATE

	The Group	
	2003	2002
	RMB'000	RMB'000
Share of net assets	**—**	212
Due from associate	**12,946**	15,150
Less: Provision	**(12,946)**	—
	—	15,150
	—	15,362

The balance with the associate is unsecured, non-interest bearing, and without pre-determined repayment term.

Details of the associate as at 31 December 2003 were as follows:

Name of company	Place of incorporation	Registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by the Company	Proportion of ownership interest: held by the subsidiary	Principal activities
Shanxi Everpride Medical and Healthy Apparatus and Instruments Co., Ltd.*	PRC	RMB1,000,000	20%	—	20%	Trading of medical and health apparatus and instruments

* The associate is private enterprise established in the PRC to be operated for 10 years up to 2012.

17. INVENTORIES

	The Group	
	2003	2002
	RMB'000	RMB'000
Raw materials, at cost	**200**	22,926
Finished goods, at cost	**3**	1,695
	203	24,621
Less: General provision for obsolete inventories	**—**	(246)
	203	24,375

18. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Rental and other deposits	**244**	641	**—**	—
Accounts receivable	**19,133**	61,458	**—**	—
Prepayments and other receivables	**1,566**	2,834	**41**	20
	20,943	64,933	**41**	20

All of the trade and other receivables, apart from rental and other deposits, are expected to be recovered within one year.

18. TRADE AND OTHER RECEIVABLES (Continued)

Included in trade and other receivables are accounts receivable with the following ageing analysis:

	The Group	
	2003	2002
	RMB'000	RMB'000
0 to 30 days	**4,376**	4,233
31 to 60 days	**3,258**	10,877
61 to 90 days	**2,907**	5,714
91 to 180 days	**4,056**	27,820
181 to 365 days	**5,532**	12,565
Over 365 days	**51,041**	5,466
	71,170	66,675
Less: Provision for bad and doubtful debts	**(52,037)**	(5,217)
	19,133	61,458

The Group generally requires its customer to pay a deposit shortly before delivery of goods, with the remaining balance of the sales with credit periods ranging from 90 to 180 days.

19. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits, denominated in				
— United States dollar	**10,867**	10,860	**—**	—
Other cash and bank deposits, denominated in				
— Hong Kong dollars and United States dollars	**26**	34	**3**	9
— Renminbi	**249**	375	**—**	—
	275	409	**3**	9
Cash and cash equivalents in the balance sheets	**11,142**	11,269	**3**	9
Less: Pledged bank deposits	**(10,867)**	(10,860)		
Cash and cash equivalents in the consolidated cash flow statement	**275**	409		

Renminbi is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China.

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts payable	**803**	1,316	**—**	—
Deposits and receipts in advance from customers	**13,064**	10,255	**—**	—
Accrued expenses and other payables	**10,387**	6,897	**1,746**	1,599
Value added tax payable	**27,700**	26,850	**—**	—
Due to a director*	**255**	276	**—**	—
	52,209	45,594	**1,746**	1,599

* The amount due to a director is unsecured, non-interest bearing and has no fixed terms of repayment.

All of the trade and other payables, apart from deposits and receipts in advance from customers, are expected to be settled within one year.

Included in trade and other payables are accounts payable with the following ageing analysis:

	The Group	
	2003	2002
	RMB'000	RMB'000
0 to 30 days	**150**	961
31 to 60 days	**137**	—
61 to 90 days	**88**	—
91 to 180 days	**39**	6
181 to 365 days	**—**	75
Over 365 days	**389**	274
	803	1,316

21. SHORT-TERM BANK BORROWINGS, SECURED

Short-term bank borrowings bear interest at rates of 6.6906% (2002: 6.372% to 7.605%) per annum.

The banking facilities of certain subsidiaries are secured by mortgages over their leasehold properties with an aggregate carrying value of approximately RMB20,875,000 (2002: RMB20,445,000) and charges over their bank deposits of approximately RMB10,867,000 (2002: RMB10,860,000). Such banking facilities, amounting to approximately RMB45,000,000 (2002: RMB30,000,000), were utilised to the extent of approximately RMB45,000,000 (2002: RMB30,000,000) at 31 December 2003.

22. LONG-TERM SECURED BANK BORROWINGS

At 31 December 2003, the long-term secured bank borrowings were repayable as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Within 1 year	**411**	389
After 1 year but within 2 years	**434**	411
After 2 years but within 5 years	**1,459**	1,380
After 5 years	**543**	1,056
	2,847	3,236
Less: Amounts repayable within one year included under current liabilities	**(411)**	(389)
Non-current portion	**2,436**	2,847

Long-term bank borrowings bear interest at a rate of 5.58% (2002: 5.58%) per annum.

Long-term bank borrowings are secured by mortgage over the Group's leasehold properties with an aggregate carrying value of approximately RMB5,579,000 (2002: RMB5,812,000).

23. OBLIGATIONS UNDER A FINANCE LEASE

At 31 December 2003, the Group had obligations under a finance lease repayable as follows:

	The Group					
	2003			2002		
	Present value of the minimum lease payments RMB'000	**Interest expense relating to future periods RMB'000**	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Interest expense relating to future periods RMB'000	Total minimum lease payments RMB'000
Within 1 year	**240**	**51**	**291**	240	51	291
After 1 year but within 2 years	**240**	**51**	**291**	240	51	291
After 2 years but within 5 years	**20**	**4**	**24**	259	55	314
	260	**55**	**315**	499	106	605
	500	**106**	**606**	739	157	896

24. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2003 RMB'000	2002 RMB'000
Balance of provision for PRC enterprise income tax at 1 January	**11,846**	8,162
Provision for PRC enterprise income tax for the year	**—**	3,684
	11,846	11,846
Amount of taxation payable expected to be settled after more than 1 year	**11,846**	11,846

24. INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax liabilities/(assets) not recognised

The following temporary differences have not been recognised:

	The Group		**The Company**	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax liabilities/(assets) arising from:				
Depreciation allowances in excess of related depreciation	**24**	26	**—**	—
Provision for bad and doubtful debts	**(21,189)**	(2,020)	**—**	—
Provision for obsolete inventories	**(7,577)**	(81)	**—**	—
Tax losses	**(10,341)**	(3,932)	**(2,986)**	(1,905)
	(39,083)	(6,007)	**(2,986)**	(1,905)

At the balance sheet date and for the year, no deferred tax assets has been recognised in relation to the deductible temporary differences and tax losses as it is not probable that taxable profit will be available against which the deductible temporary differences and tax losses can be utilised. The Group's tax losses of approximately RMB4,818,000 and RMB5,523,000 will expire in five years and do not expire respectively. The tax losses of the Company do not expire under current tax legislation.

The Group and the Company had no significant potential deferred tax liabilities for the year and at the balance sheet date.

25. SHARE CAPITAL

	The Group		The Company	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
Authorised — Ordinary shares of HK$0.10 (equivalent to RMB0.107) each	2,000,000	214,000	2,000,000	214,000
Issued and fully paid — Ordinary shares of HK$0.10 (equivalent to RMB0.107) each	600,000	64,200	600,000	64,200

During the year, there was no change in the Company's authorised and issued share capital.

26. EMPLOYEE SHARE OPTIONS

The Company has adopted on 5 July 2001, a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible employees for their contribution to the Group. Eligible employees of the Scheme include all executive directors, executives, officers and full-time employees of the Group.

The exercise price of the options shall be the highest of (i) nominal amount of a share; (ii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (iii) an amount determined by a duly authorised committee of the Board (the "Committee") in relation to each option, being not less than the arithmetical average closing price of a share as stated in the Stock Exchange's daily quotations sheet on each of the five trading days immediately preceding the date of grant of the option. The Scheme will remain valid for a period of 10 years commencing from 5 July 2001, after which period no further options will be granted but the provisions of the Scheme shall in all other respects remain in full force and effect.

As at the date of this annual report, the total number of the shares available for issue under the Scheme is 60,000,000 shares, representing 10% (the "Scheme Mandate Limit") of the issued share capital of the Company. The Scheme Mandate Limit may be renewed by the approval of shareholders, subject to a maximum limit of 180,000,000 shares, being 30% of the total issued share capital as at the date of the listing of the shares on GEM. The maximum number of shares issuable under share options to each eligible employee is 25% of the aggregate number of shares for the time being issued or issuable under the Scheme.

26. EMPLOYEE SHARE OPTIONS (Continued)

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Committee to each grantee provided that the period within which the option must be exercised shall be not less than three years and not more than ten years from the date of grant of the option. The Scheme does not set a minimum period for which an option must be held before it can be exercised and it is at the discretion of the Committee to impose such a requirement. HK$10 is payable by the eligible employee to the Company an acceptance of the option offer.

During the both years and as at 31 December 2003 and 2002, no eligible employee had been granted any option to subscribe for shares in the Company.

27. RESERVES

(a) The Group

	Capital reserve (note (i)) RMB'000	General reserve fund (note (ii)) RMB'000	Exchange reserve fund RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
At 1 January 2002	7,195	9,025	(96)	40,565	56,689
Net profit for the year	—	—	—	2,403	2,403
Exchange adjustments	—	—	(1)	—	(1)
At 31 December 2002 and 1 January 2003	7,195	9,025	(97)	42,968	59,091
Net loss for the year	—	—	—	(117,114)	(117,114)
At 31 December 2003	7,195	9,025	(97)	(74,146)	(58,023)

Included in the figure for the (accumulated losses)/retained profits is an amount of approximately RMB200,000 (2002: RMB12,000), being the accumulated losses (2002: retained profits) attributable to the associate.

27. RESERVES (Continued)

(a) The Group (Continued)

Notes —

(i) *Capital reserve*

Capital reserve represents the difference between the aggregate nominal value of the share capital issued by the Company and the aggregate amount of the issued share capital of subsidiaries acquired by the Company through an exchange of shares.

(ii) *General reserve fund*

According to the relevant laws and regulations in the PRC, Shanxi Everpride, as a wholly foreign-owned enterprise established in the PRC, is required to appropriate at least 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with the generally accepted accounting principals and financial regulations applicable to the PRC enterprises, to a general reserve fund until the balance of the fund reaches 50% of its registered capital. Thereafter, any further appropriation can be made at the directors' discretion.

The general reserve fund can be utilised to offset the prior years' losses, or be utilised to increase the capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such increase.

The directors of Shanxi Everpride resolved not to appropriate its after-tax profit to the general reserve fund for each of the years ended 31 December 2003 and 2002. It is because the general reserve fund of Shanxi Everpride has reached 50% of its registered capital and no further appropriation is necessary unless that is an increase in the amount of its registered capital.

(b) The Company

	Contributed surplus (note (i)) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2002	56,774	(11,072)	45,702
Net loss for the year	—	(10,688)	(10,688)
At 31 December 2002 and 1 January 2003	56,774	(21,760)	35,014
Net loss for the year	—	(93,918)	(93,918)
At 31 December 2003	56,774	(115,678)	(58,904)

In the opinion of the Company's directors, as at 31 December 2003, the Company has no reserves available for distribution to its shareholders.

27. RESERVES (Continued)

(b) The Company (Continued)

At 31 December 2002, the aggregate amount of the Company's reserves available for distribution to shareholders was approximately RMB35,014,000 computing in accordance with the Companies Law (2000 Revision) of the Cayman Islands and the Company's articles of association. This includes the Company's contributed surplus of approximately RMB56,774,000 less accumulated losses of approximately RMB21,760,000 which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

Note —

(i) *Contributed surplus*

The contributed surplus of the Company represents the difference between the aggregate nominal value of the share capital issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares

Under the Companies Law (2000 Revision) of the Cayman Islands, contributed surplus is distributable to shareholders, subject to condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby less than the aggregate of its liabilities and its issued capital account.

28. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

As stipulated by the rules and regulations in the PRC, Shanxi Everpride, a subsidiary established in the PRC, is required to contribute to a state-sponsored retirement plan for all of its employees at approximately 17% of the basic salary of its employees.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

For the year ended 31 December 2003, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately RMB1,167,000 (2002: RMB965,000) which was included in the staff costs.

29. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2003 not provided for in the financial statements were as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Contracted for		
— acquisition of machinery and equipment	**2,900**	3,669
— construction of ancillary factory buildings	**980**	5,021
	3,880	8,690

(b) At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Within 1 year	**1,641**	2,332
After 1 year but within 5 years	**834**	2,398
	2,475	4,730

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

30. FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and bank deposits, accounts receivable, deposits and other current assets, short-term bank borrowings and accounts payable approximate their fair values because of the short maturity of these instruments.

There is no quoted market price for the Company's investments in unlisted subsidiaries and other methods of reasonably estimating its fair value are clearly inappropriate or unworkable.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Credit risk

The Group's accounts receivable relate to sales of goods to third parties. The Group performs ongoing credit evaluation of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains a provision for doubtful debts and actual losses have been within management's expectations. As at 31 December 2003, the Group's five largest accounts receivable accounted for approximately 60% (2002: 63%) of the Group's gross accounts receivable.

No other financial assets carry a significant exposure to credit risk.

(b) Economic risk

The Group's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the Government of the People's Republic of China ("PRC Government") has been pursuing economic reform policies for the past years, no assurance can be given that the PRC Government will continue to pursue such policies or that such policies may not be significantly altered.

(c) Currency risk

A substantial portion of the Group's revenue-generating operations and its expenses are transacted in Renminbi, the exchange rate of Renminbi is determined by a single rate of exchange quoted by the People's Bank of China and Renminbi is not freely convertible into foreign currencies.

(d) Business risk

A substantial portion of the Group's operations is conducted in the PRC. This includes risks associated with, among others, the political, economic and legal environment in the PRC.

(e) Interest rate risk

The interest rates of bank borrowings of the Group are disclosed in notes 21 and 22.

32. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2003 to be Montgomery Properties Holding Limited, which is incorporated in British Virgin Islands.

NOTICE IS HEREBY GIVEN that an annual general meeting of Everpride Biopharmaceutical Company Limited (the "Company") will be held at Unit 3105, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong on 30 April, 2004 at 10:00 a.m. for the following purposes:

1. to receive and adopt the audited consolidated financial statements of the Company and the reports of the directors of the Company (the "Directors") and of the auditors of the Company for the year ended 31 December, 2003.

2. to re-elect the retiring Directors of the Company and to authorise the board of Directors of the Company (the "Board of Directors") to fix the Directors' remuneration.

3. to re-appoint Messrs. Charles Chan, Ip & Fung CPA Ltd as the auditors of the Company and to authorise the Board of Directors to fix their remuneration.

4. as special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

   A. "**THAT**:

      (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (d)) of all the powers of the Company to allot or issue securities of the Company including shares of HK$0.10 each in the capital of the Company and to make or grant offers, agreements or options, including warrants to subscribe for shares, which might require securities to be issued, allotted or disposed of be and is hereby generally and unconditionally approved;

      (b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers after the end of the Relevant Period;

      (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as defined in paragraph (d)) or any issue of shares of the Company on the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time or on the exercise of any options granted under the share option scheme of the Company or an issue of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company (the "Articles of Association"), shall not exceed the aggregate of 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws of the Cayman Islands or the Articles of Association of the Company to be held; and

(iii) the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

B. "**THAT**:

(a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (c)) of all the powers of the Company to repurchase its securities (including shares of HK$0.10 each) on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose subject to and in accordance with all applicable laws and/or the requirements of the Stock Exchange or of any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of securities authorised to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws of the Cayman Islands or the Articles of Association of the Company to be held; and

(iii) the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution."

C. "**THAT** conditional on the passing of the resolutions Nos. 4A and 4B, the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot or issue additional securities and to make or grant offers, agreements and options pursuant to the resolution No. 4A be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution No. 4B, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution."

5. as special business, to consider and, if thought fit, pass with or without amendments the following resolution as a special resolution:

"**THAT** the existing Articles of Association of the Company be and are hereby amended in the following manner:

Article 2

By inserting the following new definition of "associate" in Article 2:

""associate" the meaning attributed to it in the rules of the Designated Stock Exchange."

Article 76

1. By re-numbering existing Article 76 as Article 76(1);

2. By inserting the following as new Article 76(2):

“(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

Article 88

By deleting the existing Article 88 in its entirety and replacing therewith the following new Article 88:

“88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”

Article 103

By deleting the existing Article 103 in its entirety and replacing therewith the following new Article 103:

"103 (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

(i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;

(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

(v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or

(vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(2) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board." "

By Order of the Board
EVERPRIDE BIOPHARMACEUTICAL COMPANY LIMITED
Chung Chi Mang
Chairman

Hong Kong, 26 March, 2004

Head Office and Principal Place of Business:
Unit 3105, Sino Plaza
255–257, Gloucester Road
Causeway Bay
Hong Kong

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, subject to the provisions of the Articles of Association of the Company, vote instead of him. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power of attorney or authority must be deposited at the Company's Hong Kong branch share registrar, Abacus Share Registrars Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

3. For the purpose of determining the identity of members who are entitled to attend and vote at the above meeting, the register of members of the Company will be closed from 27 April, 2004 to 30 April, 2004 (both dates inclusive) during which period no transfer of shares will be registered. All properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Abacus Share Registrars Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 26 April, 2004.

4. Regarding resolution No. 4B above, a circular containing a summary of the more important provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange relating to the repurchase of the securities on the Stock Exchange will be despatched to the shareholders together with the annual report containing this notice.