

2004

INTERIM REPORT



EVERPRIDE BIOPHARMACEUTICAL COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

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This report, for which the directors (the “Directors”) of Everpride Biopharmaceutical Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this 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 report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Group for the six months ended 30 June 2004 was approximately RMB14,815,000, representing an increase of approximately 60 per cent. as compared with that of the corresponding period in 2003.
- Loss attributable to shareholders for the six months ended 30 June 2004 was approximately RMB2,978,000.
- Loss per share was approximately RMB0.50 cents.
- The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2004.

UNAUDITED INTERIM RESULTS

The board of Directors (the “Board”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2004 (the “Period”), together with the comparative unaudited figures for the six months ended 30 June 2003, as follows:

Consolidated Income Statement

	Note	(Unaudited) Six months ended 30 June		(Unaudited) Three months ended 30 June	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2	14,815	9,238	7,620	4,940
Cost of sales		(1,338)	(1,589)	(695)	(787)
Gross profit		13,477	7,649	6,925	4,153
Other revenue		474	364	55	242
Selling and distribution expenses		(6,483)	(7,379)	(5,275)	(4,576)
General and administrative expenses		(8,960)	(16,525)	(5,442)	(12,114)
Loss from operations		(1,492)	(15,891)	(3,737)	(12,295)
Finance costs		(1,486)	(1,578)	(680)	(888)
Share of result of an associate		—	(38)	—	(52)
Loss from ordinary activities before taxation		(2,978)	(17,507)	(4,417)	(13,235)
Taxation	3	—	13	—	17
Loss attributable to shareholders		(2,978)	(17,494)	(4,417)	(13,218)
Loss per share — Basic	4	RMB(0.50) cents	RMB(2.92) cents	RMB(0.74) cents	RMB(2.20) cents

Consolidated Balance Sheet

	<i>Note</i>	(Unaudited) As at 30 June 2004 RMB'000	(Audited) As at 31 December 2003 RMB'000
NON-CURRENT ASSETS			
Leasehold properties		30,181	30,001
Property, plant and equipment		52,511	53,423
Intangible assets		2,467	2,867
Interest in an associate		—	—
Total non-current assets		85,159	86,291
CURRENT ASSETS			
Inventories	7	1,576	203
Prepayments, deposits and other receivables		4,637	1,810
Accounts receivable	8	18,495	19,133
Cash and cash equivalents	9	1,224	11,142
Total current assets		25,932	32,288
CURRENT LIABILITIES			
Due to a director		(1,124)	(255)
Accounts payable	12	(1,352)	(803)
Deposits and receipts in advance from customers		(13,137)	(13,064)
Accrued expenses and other payables		(14,513)	(10,387)
Short-term bank borrowings, secured	10	(35,000)	(45,000)
Long-term secured bank borrowings, current portion	11	(426)	(411)
Obligations under a finance lease, current portion		(240)	(240)
Tax payable		(39,734)	(39,546)
Total current liabilities		(105,526)	(109,706)
Net current liabilities		(79,594)	(77,418)
Total assets less current liabilities		5,565	8,873

	<i>Note</i>	(Unaudited) As at 30 June 2004 RMB'000	(Audited) As at 31 December 2003 RMB'000
NON-CURRENT LIABILITIES			
Long-term secured bank borrowings, non-current portion	11	(2,226)	(2,436)
Obligations under a finance lease, non-current portion		(140)	(260)
NET ASSETS		3,199	6,177
CAPITAL AND RESERVES			
Share capital		64,200	64,200
Reserves	5	(61,001)	(58,023)
		3,199	6,177

Consolidated Statement of Changes in Equity (Unaudited)

	Share capital	General reserve fund	Capital reserve	Exchange reserve fund	(Accumulated losses)/ Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at						
1 January 2003	64,200	9,025	7,195	(97)	42,968	123,291
Loss attributable to shareholders	—	—	—	—	(17,494)	(17,494)
Balance as at						
30 June 2003	64,200	9,025	7,195	(97)	25,474	105,797
Balance as at						
1 January 2004	64,200	9,025	7,195	(97)	(74,146)	6,177
Loss attributable to shareholders	—	—	—	—	(2,978)	(2,978)
Balance as at						
30 June 2004	64,200	9,025	7,195	(97)	(77,124)	3,199

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	3,616	(24,277)
NET CASH INFLOW FROM INVESTING ACTIVITIES	9,134	17,522
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	(11,801)	8,020
INCREASE IN CASH AND CASH EQUIVALENTS	949	1,265
CASH AND CASH EQUIVALENTS, beginning of Period	275	409
CASH AND CASH EQUIVALENTS, end of Period	1,224	1,674

Notes:

1. Basis of presentation and principal accounting policies

The Company was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Its shares have been listed on GEM since 20 July 2001.

The unaudited interim results have been prepared in accordance with International Financial Reporting Standards 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 accounting policies adopted are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2003.

2. Turnover and segment information

The Company is an investment holding company and the Group is principally engaged in the manufacture and sales of medicines in Mainland China.

Turnover represents the sales value of goods supplied to customers (which excludes value added tax) and is stated after deduction of all goods returns and trade discounts.

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

(b) *Geographical segment*

As the Group's revenue and results were substantially derived from Mainland China and its operating assets and liabilities are also based in Mainland China, no geographical segment information is presented.

3. Taxation

Taxation in the unaudited interim results represents:

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
Share of taxation of an associate	—	13

Notes:

- a. 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.
- b. No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit in Hong Kong during the Period.
- c. Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride"), a wholly-owned subsidiary established and operating in Shanxi Province, Mainland China, is subject to Mainland China enterprise income tax at a rate of 33% (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 Mainland China enterprise income tax at an effective rate of 18% from 1 January 2001 to 31 December 2003. No provision for Mainland China enterprise income tax has been made as Shanxi Everpride had prior years' losses brought forward to offset the estimated assessable profit in Mainland China during the Period.

4. Loss per share

The calculation of basic loss per share for the six months and three months ended 30 June 2004 is based on the loss attributable to shareholders of approximately RMB2,978,000 and RMB4,417,000 (2003: loss of approximately RMB17,494,000 and RMB13,218,000), respectively, and on the weighted average number of 600,000,000 (2003: 600,000,000) ordinary shares in issue during the Period.

Diluted loss per share for the six months and three months ended 30 June 2004 and 2003 are not presented as there were no dilutive potential ordinary shares in existence during such periods.

5. Reserves

There were no movements in reserves of the Group during the Period other than loss attributable to shareholders of approximately RMB2,978,000 (2003: loss of approximately RMB17,494,000).

6. Dividend

The Directors do not recommend the payment of any interim dividend for the Period (2003: Nil).

7. Inventories

Inventories consist of:

	(Unaudited) As at 30 June 2004 RMB'000	(Audited) As at 31 December 2003 RMB'000
Raw materials	286	200
Finished goods	1,290	3
	1,576	203

8. Accounts receivable

Ageing analysis of accounts receivable is as follows:

	(Unaudited) As at 30 June 2004 RMB'000	(Audited) As at 31 December 2003 RMB'000
0 to 30 days	2,605	4,376
31 to 60 days	2,077	3,258
61 to 90 days	1,552	2,907
91 to 180 days	6,057	4,056
181 to 365 days	8,081	5,532
Over 365 days	52,783	51,041
	73,155	71,170
Less: Provision for bad and doubtful debts	(54,660)	(52,037)
	18,495	19,133

The Group generally requires its customers 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.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	(Unaudited) As at 30 June 2004 RMB'000	(Audited) As at 31 December 2003 RMB'000
Pledged bank deposits, denominated in		
— United States dollars	—	10,867
Other cash and bank deposits, denominated in		
— Hong Kong dollars and United States dollars	23	26
— Renminbi	1,201	249
Cash and cash equivalents in the consolidated balance sheet	1,224	11,142
Less: Pledged bank deposits	—	(10,867)
Cash and cash equivalents in the condensed consolidated cash flow statement	1,224	275

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

10. Short-term bank borrowings, secured

Short-term bank borrowings bear interest at the rate of 6.6906% per annum and are secured by certain leasehold properties with an aggregate carrying value of approximately RMB21,724,000.

11. Long-term secured bank borrowings

Long-term bank borrowings bear interest at the rate of 5.04% per annum and are secured by certain leasehold properties with an aggregate carrying value of approximately RMB5,463,000.

12. Accounts payable

Ageing analysis of accounts payable is as follows:

	(Unaudited) As at 30 June 2004 RMB'000	(Audited) As at 31 December 2003 RMB'000
0 to 30 days	16	150
31 to 60 days	198	137
61 to 90 days	355	88
91 to 180 days	150	39
181 to 365 days	285	—
Over 365 days	348	389
	1,352	803

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

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.

During the Period under review, the Group recorded an unaudited consolidated turnover of approximately RMB14,815,000 (2003: RMB9,238,000), which represented an increase of approximately 60 per cent. as compared with that of the corresponding period in 2003. The Group's unaudited consolidated loss attributable to shareholders for the Period was approximately RMB2,978,000 (2003: loss attributable to shareholders of approximately RMB17,494,000). The decrease in loss for the Period is due to the reduction in advertising expenses and provision for bad and doubtful debts.

"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. "Puli Capsule" which is classified as an over-the-counter ("OTC") medicine which has been the major market for the Group in Mainland China. The increase in turnover during the Period was due to the substantial increase in the sales of "Puli Capsule" which outweighed the decrease in the sales of "Plasmin Capsule".

Sales and Marketing

Due to the increase in the public awareness and acceptance of “Puli Capsule”, its contributions to the Group became more significant during the Period. The sales of “Puli Capsule” was approximately RMB14,210,000 (2003: RMB7,405,000), representing approximately 96 per cent. of the consolidated turnover of the Group during the Period. 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 RMB605,000 (2003: RMB1,833,000), representing approximately 4 per cent. of the consolidated turnover of the Group during the Period.

In order to improve the sales of “Plasmin Capsule”, the Group will continue to focus more on developing the prescription medicine market through doctors in hospitals. Besides, the Group will put more efforts in mass media advertising to further promote the sales of “Puli Capsule” through the OTC medicine market.

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 Period 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 State Drug Administration of the People’s Republic of China (“SDA”) in 2002 for clinical trial approval. Up to the date of this 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.

Introduction of “Plasmin Tablet”

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 “Plasmin 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 the third quarter of 2004.

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. 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 minimise the performance risk of the Group.

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 30 June 2004, the Group had cash and cash equivalents amounting to approximately RMB1,224,000. With the limited available resources and due to the unsatisfactory operating results during the Period, 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 Period.

Charges on Group Assets

As at 30 June 2004, certain leasehold properties with an aggregate carrying value of approximately RMB27,187,000 were pledged as collateral for the Group's bank borrowings.

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 Period.

Material Acquisitions and Disposals

The Group had no material acquisitions or disposals during the Period 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 RMB2,526,000 for the Period under review.

Gearing Ratio

As at 30 June 2004, the Group's gearing ratio, being the ratio of total liabilities to total assets, was 97 per cent..

Contingent Liabilities

As at 30 June 2004, the Group had no contingent liabilities.

OTHER INFORMATION

Directors' and chief executives' interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations

As at 30 June 2004, 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 5.46 to 5.68 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	234,000,000 (L) (Note 2)	39.00%

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 234,000,000 shares owned by Montgomery Properties Holding Limited.

Save as disclosed above, as at 30 June 2004, 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 5.46 to 5.68 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 30 June 2004, 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	234,000,000 (L)	39.00%
Ms. Ma Wai (Note 2)	Interest of spouse	234,000,000 (L)	39.00%
Montgomery Properties Holding Limited	Beneficial owner	234,000,000 (L)	39.00%

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 234,000,000 shares in which Mr. Chung is deemed or taken to be interested for the purpose of the SFO.

Save as disclosed above, as at 30 June 2004, 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 30 June 2004, none of the Directors and employees of the Company or its subsidiaries were granted options to subscribe for shares in the Company.

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

As at 30 June 2004, 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.

Audit committee

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.28 to 5.33 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 two times during the Period. The Group's unaudited interim results for the Period 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 Period, 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.

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 Period.

Code of conduct regarding directors' securities transactions

For the Period under review, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, the Directors have complied with the required standard of dealings and the code of conduct regarding directors' securities transactions for the Period under review.

Board practices and procedures

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the Period under review.

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

Hong Kong, 11 August 2004