

## **DIRECTORS' REPORT**

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The directors present their annual report and the audited financial statements for the year ended December 31, 2000.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. Details of the activities of its subsidiaries are set out in note 37 to the financial statements.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended December 31, 2000, the aggregate sales attributable to the Group's five largest customers comprised approximately 36% of the Group's total sales and the sales attributable to the Group's largest customer was approximately 15%, being sales to companies, other than members of the Group, controlled by the Company's ultimate holding company, Shijiazhuang Pharmaceutical Group Company Limited ("SPG").

The aggregate purchases during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

Other than SPG, none of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any beneficial interest in the customers mentioned above.

### **RESULTS AND APPROPRIATIONS**

The results of the Group and appropriations of the Company for the year ended December 31, 2000 are set out in the consolidated income statement on page 14 of the annual report and the accompanying notes to the financial statements.

The Company did not recommend the payment of any dividend.

### **RESERVES**

Details of movements in the reserves of the Group and of the Company during the year are set out in note 26 to the financial statements.

### **FINANCIAL SUMMARY**

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 47 of the annual report.

### **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group incurred costs mainly for the construction of new factory buildings and plant and machinery for the relocation of factory plant of theobromine products, the expansion of the production facilities of penicillin and its derivative products and the refinement of production facilities of cefazoline and 7-ACA products. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

**SHARE CAPITAL, WARRANTS AND SHARE OPTIONS**

Details of movements in the issued share capital, warrants and share options of the Company are set out in notes 23, 24 and 25 to the financial statements respectively.

**DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

The directors of the Company during the year and up to the date of this report were:

*Executive directors:*

Cai Dong Chen, *Chairman*

Ding Er Gang

Wang Xian Jun

Wei Fu Min

Wei Guo Ping

Liu Yi

(appointed on February 22, 2001)

Qu Ji Guang

(appointed on February 22, 2001)

Yue Jin

(appointed on February 22, 2001)

Wang Chun Yao

(retired on March 1, 2000)

*Independent non-executive directors:*

Huo Zhen Xing

Lee Ka Sze, Carmelo

Qi Mou Jia

In accordance with the Company's Articles of Association 92, Messrs. Liu Yi, Qu Ji Guang and Yue Jin retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with the Company's Articles of Association 101, Messrs Ding Er Gang, Wei Fu Min, Wei Guo Ping and Lee Ka Sze, Carmelo retire by rotation and, being eligible, offer themselves for re-election.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT****CAI Dong Chen**

Appointed as a director of the Company in 1998. Mr. Cai, aged 47, senior engineer, is the Chairman of SPG. Mr. Cai graduated from Hebei Pharmaceutical Finance College, the People's Republic of China (the "PRC") in 1972. He joined Hebei Pharmaceutical Factory ("HPF"), the PRC in 1972 as technician and was appointed the factory manager of HPF in 1984. Mr. Cai has over twenty years of management experience in the pharmaceutical industry.

**BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT – continued****DING Er Gang**

Appointed as a director of the Company in 1997. Mr. Ding, aged 40, is an economist. He graduated from Hebei College of Economic, the PRC and joined Hebei Province Municipal Planning Research Centre as an assistant researcher. Mr. Ding is responsible for the overall financial management.

**WANG Xian Jun**

Appointed as a director of the Company in 1994. Mr Wang, aged 38, is a senior engineer. He graduated from Beijing Chemical Industrial College, the PRC in 1987 with a master degree in chemical engineering. Mr. Wang is responsible for liaison with investors and intermediaries.

**WEI Fu Min**

Appointed as a director of the Company in 1994. Mr. Wei, aged 54, is a senior engineer. He graduated from Tianjin Industrial College, the PRC in 1970. Mr. Wei has over twenty years of technical and management experience in the pharmaceutical industry. Mr. Wei is responsible for the overall technical and production control of the Group's production.

**WEI Guo Ping**

Appointed as a director of the Company in 1994. Mr. Wei, aged 59, graduated from Shijiazhuang City Industrial College, the PRC in 1961. Mr Wei has over twenty five years of management experience in the pharmaceutical industry. Mr. Wei is responsible for the overall administration of the Group.

**LIU Yi**

Appointed as a director of the Company in February 2001. Mr. Liu, aged 47, graduated from the Beijing University, the PRC in 1980. Mr. Liu has over twenty years of management experience in the pharmaceutical industry.

**QU Ji Guang**

Appointed as a director of the Company in February 2001. Mr. Qu, aged 46, has over twenty years of marketing and management experience in the pharmaceutical industry.

**YUE Jin**

Appointed as a director of the Company in February 2001. Mr. Yue, aged 37, graduated from the Hebei University, the PRC in 1985. Mr. Yue has over fifteen years of product development and project management experience in the pharmaceutical industry.

**LEE Ka Sze, Carmelo**

Appointed as a non-executive director of the Company in 1996. Mr. Lee, aged 41, is a solicitor by profession and is a partner of a Hong Kong law firm.

**BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT – continued**

**HUO Zhen Xing**

Appointed as a non-executive director of the Company in 1994. Mr. Huo, aged 64, was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

**QI Mou Jia**

Appointed as a non-executive director of the Company in 1996. Mr. Qi, aged 67, is a senior engineer. He is a former director of State Drug Administration of China (“SDA”). He was the deputy chairman and chairman of SDA in 1978 and 1982-1994 respectively.

**DIRECTORS' INTERESTS IN SECURITIES**

**(i) Shares**

As at December 31, 2000, none of the directors or their associates had any personal, family, corporate or other interest in the ordinary shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”).

**(ii) Options**

Under the Company’s share option scheme adopted on May 27, 1994, certain directors of the Company have personal interests in share options which have been granted to them to subscribe for shares in the Company. The movements during the year in the share options granted to these directors were as follows:

Name of director	Exercisable for the period	Exercise price	Outstanding at 1.1.2000	Number of share options	
				Granted during the year	Outstanding at 12.31.2000
Cai Dong Chen	5.1.1998 to 4.30.2001	HK\$0.81	1,450,000	–	1,450,000
	9.28.2000 to 9.27.2003	HK\$0.62	–	10,000,000	10,000,000
Ding Er Gang	5.1.1998 to 4.30.2001	HK\$0.81	1,450,000	–	1,450,000
	9.28.2000 to 9.27.2003	HK\$0.62	–	5,000,000	5,000,000
Wang Xian Jun	9.28.2000 to 9.27.2003	HK\$0.62	–	5,000,000	5,000,000

During the year, the Company received HK\$3 as consideration for share options granted to these directors.

Other than as disclosed above, as at December 31, 2000, none of the directors, the chief executives or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance and none of the directors 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 during the year.

**ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES**

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**DIRECTORS' INTERESTS IN CONTRACTS**

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group and for which it received normal remuneration.

Other than the above, no contracts of significance subsisted at any time during the year to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly.

**SUBSTANTIAL SHAREHOLDER**

As at December 31, 2000, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholder had an interest of 10% or more in the issued share capital of the Company:

<b>Name of shareholder</b>	<b>Number of ordinary shares of the Company held</b>	<b>Percentage of issued share capital</b>
SPG	651,054,779	52.5%

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at December 31, 2000.

**CONNECTED TRANSACTIONS**

Details of the discloseable connected transactions during the year are set out in note 36(I) to the financial statements. In the opinion of the independent non-executive directors, the above transactions were entered into by the Group:

- (i) in the ordinary and usual course of the Group's business;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to or from independent third parties.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

**DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES**

Pursuant to Practice Note 19 ("PN 19") to the Listing Rules, disclosure is required in respect of a syndicated loan agreement of HK\$185,760,000 entered into by the Company. The outstanding principal at December 31, 2000 was HK\$106,149,000 and the last instalment repayment is due on November 24, 2002.

It will be an event of default under the above loan agreement if SPG ceases to own more than 50% of the issued share capital of the Company.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under PN 19.

**CORPORATE GOVERNANCE**

In the opinion of the directors, the Company has complied throughout the year ended December 31, 2000 of the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

**AUDITORS**

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since the incorporation of the Company. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board

**CAI Dong Chen**  
*Chairman*

Hong Kong, April 19, 2001