OVERVIEW

The Group has been restructuring its business activities during the year under review. In view of the fundamental change in the operating environment of the property market in Hong Kong, the Group has divested its property investment and development activities, and is committed to pursuing a knowledge-based business which offers great potential for growth and expansion.

Since the introduction of the new management team in the second half of the year, the Group has re-visited its business strategy and as a result is focusing on pharmaceuticals and biopharmaceuticals. The new management has also taken measures to rationalise the Group's resources.

FINANCIAL RESULTS

Turnover of the Group was HK$42,498,000, representing an increase of 13% from that of last year. Loss from operations and net loss were HK$383,775,000 and HK$447,387,000 respectively, representing an increase of 438% and 173% respectively from last year's figures. This was mainly due to significant write-downs of the Group's listed and unlisted investments as well as its property portfolio.

Finance costs have been reduced by 32% to HK$64,117,000 as a result of the decrease in borrowings of HK$254,160,000 during the year. Loss per share was 8.2 HK cents, representing an increase of 122% from that of last year.

REVIEW OF OPERATIONS

During the year, a total of nine subsidiaries which held seven Group properties were disposed of to Singapore Hong Kong Properties Investment Limited ("SHKP") for a consideration of HK$92,400,000, realising a loss on disposal of HK$65,211,000. Despite the disposal, rental income from investment properties increased slightly from HK$8,741,000 last year to HK$9,233,000, mainly due to the fact that additional floor area of the Group's property portfolio had been leased out. Two more investment properties have been disposed of subsequent to the end of 2000. The Group is currently in negotiation with a number of potential buyers to dispose of its remaining property portfolio.

Turnover attributable to sand and gravel trading decreased by 63% to HK$6,608,000 as a result of the downturn of the construction industry in Hong Kong during the year. However, the Group has secured sufficient supplies of sea sand, which will be used for reclamation for major infrastructure projects such as the Container Terminal 9 project and the Disneyland project. The Group has commenced the supply of sand to the Container Terminal 9 project and is among the few selected suppliers. Negotiation in relation to the supply of sand to the Disneyland project is currently underway. It is expected that the sand and gravel trading business will provide a steady recurrent income stream for the Group.

The Group generated a turnover of HK$23,826,000 from its 70%-owned river trade transportation business which was acquired at a consideration of HK$56,000,000 in May 2000. Goodwill arising from the acquisition of the river trade transportation business amounted to HK$41,527,000, and amortisation expenses and provision for impairment in value of HK$30,327,000 in aggregate was provided for during the year as a prudent approach. The remaining balance of goodwill at the year end mainly represented the guarantee income receivable from the vendor of the river trade transportation business.

The Group acquired a proprietary right in a "voice over internet phone" technology in May 2000 for a consideration of HK$54,000,000. Commencement of the operation of such proprietary right was delayed as competition and tariff rates in the IDD market have been changing unfavourably since its acquisition. Taking a prudent approach, the investment cost of this proprietary right has been written down to HK$28,000,000 to reflect its estimated fair value. The Group is also considering the disposal of this proprietary right as it intends to divest from its non-core businesses.

In February 2000, the Group acquired a 15% interest in HK128.com Limited, which operated a local financial information website HK128.com. As the business model of HK128.com has proven to be not as optimistic as originally expected, the Group has decided not to make any further investments and has made full provision for this investment.

The Group formed a 60%-owned joint venture for the sale and manufacture of a variety of high end electronic consumer products in September 2000. A loan agreement was also entered into with the joint venture for the Group to provide a loan of up to HK$50,000,000 to the joint venture for the establishment and development of such business. Construction of the factory has yet to be completed. In view of the need to better use its resources to develop its new core business, the Group is exploring various possibilities including scaling down the investment or selling its interest in the joint venture . As such, the above-mentioned loan arrangement was terminated by mutual agreement of the relevant parties.

A Sino-foreign equity joint venture with the Institute of Virology of the Chinese Academy of Preventive Medicine ("Institute of Virology"), the first of the Group's investments in its new core business, was formed in November 2000. This joint venture is owned as to 49% and 51% by the Group and the Institute of Virology respectively. The Institute of Virology is one of the leading institutes in the PRC involved in the research and development of biopharmaceuticals, such as genetically engineered vaccines, virus diagnostic kits and genetically engineered drugs. The joint venture license was granted in January 2001 and the capital contribution of HK$24,500,000 committed by the Group has been made. The Institute of Virology holds the patents for certain genetically engineered medical products including a Hepatitis B vaccine currently used in the PRC. Currently, the Group is in the process of selecting and evaluating the research projects or patents to be transferred to the joint venture, such as virus diagnostic kits and genetically engineered thrombolytic enzyme and a third generation genetically engineered Hepatitis B vaccine. The production permit of this new vaccine is expected to be obtained in 2002. The Group also plans to acquire a biopharmaceutical factory to serve as the manufacturing base for the joint venture's products.

In December 2000, the Company entered into a joint venture agreement with the owner of Nanjing Pharmaceutical Factory ("NPF") in relation to the formation of a Sino-foreign equity joint venture with NPF. The registered capital of the joint venture is HK$50,000,000, of which the Group will contribute HK$30,000,000 in cash, representing a 60% interest in the joint venture. NPF is one of the key pharmaceutical enterprises located in the center of Nanjing, the PRC, with a history of over six decades. It is a multi-discipline pharmaceutical enterprise. Its major products are synthetic drugs, bulk chemical drugs, medicinal intermediates and pharmaceutical preparations including aspirin, sucralfate, dacarbazine, lomustine, procaine hydrochloride, praziquantel, etc. At present, a new drug — oxaliplatin, an anti-colon cancer agent, has received new drug certificate and production permit from the State Drug Administration ("SDA"), while seratrodast, an anti-asthmatic drug, has reached the clinical trial stage. The Group is currently in the process of applying for the joint venture license and will implement the GMP standards for NPF's drug manufacturing facilities as soon as possible.

During the year, the Group has been in discussion with a number of universities and research institutes in the PRC for the formation of a network of incubators for new biopharmaceutical products. Currently, the Company is selecting and evaluating a number of interesting research projects and patents which would serve as the pipeline for the Group's biopharmaceutical products in the short to medium term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2000, the net asset value of the Group was approximately HK$32,450,000, representing a decrease of 73% in comparison to that of last year. Total borrowings mainly consist of mortgage loans, trust receipt loans , overdrafts and other loans amounting to HK$376,747,000, representing a significant decrease of HK$254,160,000 against that of last year. With regard to the disposal of five out of the nine subsidiaries to SHKP, bank loans of HK$62,437,000 had not been transferred to SHKP. The Group is in the process of negotiating with SHKP and the relevant banks for transfer of those loans to SHKP. After the mortgage loans and the overdraft are transferred to SHKP, total Group borrowings will be further reduced to HK$314,310,000. Approximately HK$215,760,000 of the Group's borrowings are due within one year with the remaining repayable from two years to twelve years. Total borrowings to shareholders' fund was approximately 1,161% as compared to approximately 530% last year. In spite of the significant reduction of bank borrowings of HK$254,160,000, the gearing ratio increased during the year. This was mainly due to a substantial drop in the shareholders' fund as a result of the net loss amounting to HK$447,387,000. Current ratio of the Group was 31% as compared to 20% of last year.

The Company entered into a convertible secured note purchase agreement with Acqua Wellington Far Eastern Fund I Ltd. in March 2001 for the issue of notes convertible into securities of the Company for a total commitment of up to US$30,000,000. Pursuant to such agreement, the Group will be able to draw on this stand-by facility when the Company's volume weighted average share price is on or above HK$0.22 per share. In May 2001, the Company entered into an agreement with China Union Pharmaceutical Company Limited ("China Union Pharmaceutical") for the subscription of convertible note in an aggregate principal amount of HK$80,000,000 convertible into shares of the Company at HK$0.22 per share at the option of the Company. The convertible note has a term of one year and is interest bearing at a rate of 3% per annum. China Union Pharmaceutical is an investment holding company with focus on medium sized companies with strong management and significant growth potential in the Greater China region. It is well-connected with financial institutions and pharmaceutical enterprises in Hong Kong and the PRC.

With the proceeds from the disposal of the Group's property portfolio and non-core businesses, the inflow of its recurrent income and the convertible note agreements in place, the Group will have adequate financial resources to meet its financial obligations when they come due and for the development of its pharmaceutical and biopharmaceutical businesses.

CHARGES ON ASSETS

As at 31 December 2000, certain assets of the Group with an aggregate carrying value of HK$359,534,000 (1999: HK$832,645,000) were pledged to secure the Group's borrowings.

EMPLOYEE REMUNERATION POLICY

The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and reviewed annually by the management.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 31 December 2000 are set out in the Note 31 to the accompanying financial statements.

PROSPECTS

The Group recognises the importance of technical expertise, professional management, quality control and market-driven strategies in the success of modern knowledge-based pharmaceutical and biopharmaceutical businesses. The Group has therefore recruited a team of professional managers experienced in pharmaceutical factory management, GMP and quality control, and formed an advisory board comprising leading experts in biopharmaceutical and new drug approval in the PRC. The advisory board will make a significant contribution to the selection and evaluation of new investment projects in pharmaceuticals and biopharmaceuticals as well as new drugs to be developed in the future.

The Group intends to develop the NPF joint venture and the Institute of Virology joint venture as its center for pharmaceuticals and biopharmaceuticals respectively. While implementing GMP standards in NPF's production facilities, the Group also intends to implement a market-driven sales and marketing strategy as soon as possible. In addition to the new drugs to be produced, the Group intends to diversify NPF's product mix in order to capture a larger market share. With regard to the Institute of Virology joint venture, the Group is currently considering a number of proposals for the acquisition of a GMP accredited biopharmaceutical factory for the production of its biopharmaceutical products. It is planned that further patents or research projects will be acquired by the joint venture from the Institute of Virology to ensure a continuous supply of new products to be manufactured by the joint venture.

The Group is currently in discussion with a major PRC drug distributor regarding the formation of a joint venture and strategic alliance in the marketing and distribution of the Group's pharmaceutical products. After completion of the evaluation process, the Group will form a network of incubators with some of the leading research institutes in the PRC to ensure a pipeline of new technologically advanced products in the short to medium term.

The Group envisages that it will turn into a fully integrated bio-medical group with the capabilities in research and development, manufacturing and distribution in the near future. With the proceeds from the disposal of non-core assets and the issues of convertible notes, the Group will have adequate funding to support its new business endeavors. Upon full conversion of the convertible note issued to China Union Pharmaceutical, it will become the single largest shareholder of the Company who is expected to introduce more strategic investors and business opportunities to the Group through its excellent connections in the financial and pharmaceutical areas.

The resolution for the change of the Company's name to "China Bio-medical Group Limited" had been passed in the extraordinary general meeting held on 23 April 2001. The new name, "China Bio-medical Group Limited", will more appropriately reflect the core business of the Group and signals a brand new future for the Group.