

The directors have the pleasure of presenting their annual report together with the audited financial statements of China Bio-medical Group Limited (“the Company”) and its subsidiaries (“the Group”) for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property investment, financial services, vessel transportation and trading of sea sand and gravel for construction use.

An analysis of the Group’s turnover by principal activity, all of which are conducted in Hong Kong, together with their respective contributions to operating loss from operation for the year ended 31 December 2000 is set below as follows:

	Group turnover	Contribution to profit/(loss) from operations
	HK\$'000	HK\$'000
Principal activities		
Transportation service income	23,826	5,799
Rental income	9,233	9,233
Net sales of merchandise	6,608	2,091
Interest income from loans receivable	2,831	2,831
	42,498	19,954
Other group expenses (net)		(63,128)
Operating loss before provisions and other losses and gains		(43,174)

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2000, the five largest suppliers of the Group accounted for 74% of the Group’s total purchases while the five largest customers of the Group accounted for approximately 79% of the Group’s total turnover. In addition, the largest supplier of the Group accounted for approximately 46% of the Group’s purchases whilst the largest customer of the Group accounted for approximately 56% of the Group’s turnover. None of the directors, their associates, or any shareholders (which to the knowledge of the directors owned more than 5% of the Company’s share capital) had a beneficial interest in the Group’s five largest customers or the five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2000 are set out in the consolidated income statement on pages 26 to 27 of this annual report.

No interim dividend was paid to the shareholders of the Company during the year.

The Board of Directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2000 (1999: Nil).

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

	As at/For the year ended 31 December				
	2000 \$'000	1999 \$'000	1998 \$'000	1997 \$'000	1996 \$'000
Results					
Turnover	42,498	37,499	124,772	129,919	28,065
(Loss) Profit from operations	(383,775)	(71,309)	(851,203)	17,740	11,844
Finance cost	(64,117)	(94,635)	(62,588)	(35,160)	(33,222)
Share of results of associates	—	(14,108)	—	284	—
Loss before taxation	(447,892)	(180,052)	(913,791)	(17,136)	(21,378)
Taxation	—	(5)	(15)	(21)	(15)
Minority interests	505	16,146	32,183	—	—
Net loss	(447,387)	(163,911)	(881,623)	(17,157)	(21,393)
Assets and liabilities					
Properties, machinery and equipment	363,541	727,211	749,318	1,113,546	309,853
Properties under development	—	26,710	351,860	231,345	—
Long-term investment	1	—	—	—	—
Deposit paid	29,500	—	18,000	65,444	—
Goodwill	11,200	—	16,228	56,137	—
Interest in associates	—	—	—	—	13,002
Investment securities	—	—	37,997	—	—
Net current liabilities	(201,274)	(409,995)	(448,334)	(114,268)	(161,140)
	202,968	343,926	725,069	1,352,204	161,715
Obligations under finance lease and hire purchase contract, non-current portion	—	—	(27)	(321)	(669)
Bank and other borrowings, non-current portion	(160,987)	(224,783)	(387,449)	(341,307)	(16,788)
Deferred taxation	(1,334)	—	—	—	—
Minority interest	(8,197)	—	(55,601)	—	—
Shareholders' equity	32,450	119,143	281,992	1,010,576	144,258
Capital and reserves					
Share capital	1,240,285	879,365	879,365	707,465	270,293
Reserves	(1,207,835)	(760,222)	(597,373)	303,111	(126,035)
	32,450	119,143	281,992	1,010,576	144,258

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company are set out in Notes 25 and 26 respectively, to the accompanying financial statements.

RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 27 to the accompanying financial statements. Movements in accumulated losses of the Group during the year are set out in the consolidated income statement on pages 26 to 27 of this annual report.

In the opinion of the Directors, the Company had no reserves available for distribution to shareholders at 31 December 2000 (1999: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2000.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 16 to the accompanying financial statements.

PROPERTIES, MACHINERY AND EQUIPMENT

Details of movements in properties, machinery and equipment and investment properties during the year are set out in Note 11 and Note 12 to the accompanying financial statements.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31 December 2000 are set out in Notes 21 and 23 to the accompanying financial statements.

SUBSEQUENT EVENTS

Details of the significant subsequent events are set out in Note 34 to the accompanying financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive:

Dr. Wan Kwong Kee (<i>Chairman</i>)	(Appointed on 26 July 2000)
Mr. Chan Peng Kuan (<i>Managing Director</i>)	(Appointed on 15 August 2000)
Mr. Huang Bin	(Appointed on 27 November 2000 and resigned on 28 April 2001)
Mr. David Wong Wai Chi	(Resigned on 4 October 2000)
Mr. Richard Cheung Chung Leung	(Resigned on 30 September 2000)

Non-executive:

Mr. David Wong Wai Chi	(Appointed on 4 October 2000 and resigned on 23 April 2001)
Mr. Tam Tai Wai	(Resigned on 30 June 2000)

Independent Non-executive:

Mr. Zhou Haijun	(Appointed on 13 April 2001)
Mr. Ng Wai Hung	(Appointed on 14 September 2000)
Mr. Lui Ming	(Resigned on 18 April 2001)
Mr. Tony Lee Man Chun	(Resigned on 31 August 2000)

In accordance with article 103 of the Company's articles of association, Messrs. Wan Kwong Kee and Chan Peng Kuan retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The appointments of non-executive directors are not for specific terms. They are subject to retirement by rotation in accordance with the Company's articles of association.

None of the directors has an unexpired contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 December 2000, the directors of the Company had the following beneficial interests in the shares of the Company and its subsidiaries within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

The Company

	Number of ordinary shares		Number of outstanding share options
	Personal interests (Note)	Corporate interests (Note)	
David Wong Wai Chi	313,038,401	470,000	—

Note: Mr. David Wong Wai Chi is a beneficial shareholder of the entire issued share capital of Grandful Holdings Limited which owned 470,000 shares in the Company at 31 December 2000.

REPORT OF THE DIRECTORS

At 31 December 2000, the directors and chief executive of the Company had the following personal interests in options to subscribe for shares of the Company granted at HK\$1 per grantee under a share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

Directors	No. of options outstanding at the year end	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options HK\$	Market value per share on exercise of options HK\$
Wan Kwong Kee	10,000,000	5 October 2000	5 October 2000 – 4 October 2003	—	0.206	—
Chan Peng Kuan	10,000,000	5 October 2000	5 October 2000 – 4 October 2003	—	0.206	—
David Wong Wai Chi	—	20 December 1997	20 December 1997 – 19 December 2000	18,000,000	0.3	0.285
	—	31 March 2000	31 March 2000 – 29 March 2003	30,000,000	0.2	0.245
	—	31 July 2000	31 July 2000 – 29 July 2003	16,600,000	0.2	0.275
Richard Cheung Chung Leung	—	31 March 2000	31 March 2000 – 29 March 2003	20,000,000	0.2	0.226
Tam Tai Wai	—	31 March 2000	31 March 2000 – 29 March 2003	20,000,000	0.2	0.270

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has not been notified of any interest in the Company's issued shares at 31 December 2000 amounting to 10% or more of the ordinary shares in issue and recorded in the register required to be kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

- (a) Pursuant to two purchase agreements dated 2 December 1996 and 28 February 1997 respectively, the Group acquired 20% and 80% of the equity interest in Pacific Engineering Limited ("PEL") from David Resources Company Limited ("DRCL"), respectively. According to the terms of the agreement dated 28 February 1997 ("the Agreement"), DRCL guaranteed that the net profit of PEL would not be less than HK\$13,000,000 for each of the years ended 31 March 1998 and 1999. The net loss for 31 March 1998 and 1999 amounted to approximately HK\$7,229,000 and HK\$7,946,000 respectively, and profit guarantee income of approximately HK\$20,229,000 and HK\$20,946,000 were recorded in the Group's financial statements for the years ended 31 December 1998 and 1999 respectively. During the year ended 31 December 2000, DRCL claimed that it was only liable to pay 80% of the profit guarantee to the Group under the terms of the Agreement. As advised by Group's legal counsel, 20% of profit guarantee income of approximately HK\$8,234,000 was therefore reversed during the year.

DRCL is a company incorporated in Hong Kong in which Mr. Wong Wai Chi, David has beneficial interests.

- (b) Pursuant to the terms of disposal of the entire equity interests in Wellstech International Limited ("WIL") to SHKP, the Group guaranteed that the total rental income to be earned by WIL for the year ended 28 September 2000 would not be less than HK\$3,600,000. The total rental income recorded by WIL for the year then ended amounted to approximately HK\$2,890,000. As a result, profit guarantee of approximately HK\$710,000 was charged by WIL during the year ended 31 December 2000.
- (c) Pursuant to a management service agreement dated 26 September 1998 as varied by a variation agreement dated 20 October 1999, a subsidiary of the Company recharged a subsidiary of SHKP a management fee of approximately HK\$2,232,000 for the provision of management and operational services during the year to SHKP and its subsidiaries.
- (d) On 29 May 2000, a wholly owned subsidiary of the Company, Talent Power Technology Limited ("TPTL") has entered into an agreement with Global Link Cyber Corporation Limited ("GLCCL") whereby GLCCL granted to TPTL a non-exclusive and non-transferable license for ten years to use a proprietary telephone network system which includes the software, hardware, related documentation and media for the operation of a "Voice over Internet" service in Hong Kong for a license fee in a fixed sum of HK\$54,000,000. GLCCL is solely and beneficially owned by Mr. Wong Wai Kin, a brother of Mr. David Wong Wai Chi.
- (e) During the year, the Group disposed of nine subsidiaries (all being property holding companies) to SHKP. Under the sale and purchase agreement, the total consideration amounted to approximately HK\$92,400,000 and the Company recognized a loss on disposal of approximately HK\$65,211,000.
- (f) During the year, the Group charged interest expenses of HK\$7,668,000 to SHKP.

- (g) During the year ended 31 December 2000, the Group paid professional fees totalling approximately \$5,825,000 (1999: \$30,000) to Messrs. John Ku, Tam & Ho under normal commercial terms. Messrs. John Ku, Tam & Ho is a firm of solicitors where Tam Tai Wai, a non-executive director of the Company is a partner.

Messrs. David Wong Wai Chi and Richard Cheung Chung Leung are substantially interested in (b), (c), (e) and (f) above as directors of SHKP.

Apart from the foregoing, no contract of significance to which the Company or any of its subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

USE OF PROCEEDS FROM CAPITAL RAISED

Details of the use of proceeds from capital raised during the year are as follows:

1. During the year, 204,600,000 share options were exercised by eligible employees at HK\$0.2 to HK\$0.3 per share raising approximately HK\$42,720,000, which was used as general working capital;
2. In February 2000, 300,000,000 shares were allotted at HK\$0.2 per share for the acquisition of 15% equity interests of HK128.com Limited, which is principally engaged in the operation of a financial information website in Hong Kong;
3. In April 2000, 1,000,000,000 shares were placed at HK\$0.2 per share to independent investors not associated with the Company or its directors raising net proceeds of approximately HK\$193,000,000, which was used for acquisition of high technology projects and as general working capital; and
4. In August 2000, 300,000,000 shares were placed at HK\$0.215 per share to independent investors not associated with the Company or its directors raising net proceeds of approximately HK\$61,000,000, which was used for acquisition of high technology and bio-technology projects, reduction of debts and as general working capital.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practices ("the Code") as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association. The Company has established an audit committee in accordance with paragraph 14 of the Code. In the opinion of the directors, this meets the objective of the Code.

AUDITORS

KPMG Peat Marwick have acted as auditors of the Company for the preceding three financial years.

Arthur Andersen & Co was appointed as auditors of the Company on 15 December 2000.

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wan Kwong Kee

Chairman

Hong Kong, 30 May 2001