



"The Group has made great strides in identifying and anchoring a key focus on commercialization of biotech drug products. We believe that the mix of our expertise and creativity will provide the momentum to drive future success."



On behalf of the Board of Directors, I am pleased to present the annual report and audited financial statements of the Company and the Group for the year ended 31 December 2001.

BUSINESS REVIEW

The Group reported a turnover of HK\$22,318,000 for the year as compared to HK\$26,386,000 for the previous year. Of the turnover of HK\$22,318,000 for the year, HK\$11,327,000 was derived from the Group's subsidiary, Weihai Sinogen Pharmaceutical Co., Ltd ("Sinogen"). The remaining turnover was derived from the Group's trading subsidiaries. The Group's loss for the year significantly reduced from HK\$92,621,000 or 10.6 cents per share in the previous year to HK\$57,258,000 or 4.9 cents per share for the year. This represents an improvement of 38.2% in absolute terms and a 53.8% improvement in terms of loss per share compared to that of the previous year.

Both the Group's gross profit margin and loss for the year showed significant improvement. Overall gross profit margin for the year rose from 9.3% to 31.2% whereas operating loss for the year lowered from HK\$68,249,000 to HK\$42,236,000, representing an improvement of 38.1% compared to that of the previous year. The improvement has been due to the encouraging pick up of business activities of Sinogen and a winding down of restructuring activities during the year. The Group's share of loss of associated companies also reduced significantly from HK\$12,421,000 in the previous year to HK\$439,000 for the year. This was mainly due to the reclassification of Sinogen's share of loss for the previous year of HK\$7,555,000 before it changed from being an associated company to a subsidiary of the Company and the narrowing of the share of loss of LT3000 Online Limited ("LT3000") from HK\$4,866,000 in the previous year to HK\$439,000 in the current year.

Biopharmaceuticals Division

The year 2001 was a year of restructure and improvement for the Division aiming to lay a solid foundation for future growth. Substantial efforts were devoted in the first half in restructuring the personnel of the marketing

team and focused efforts being devoted in the second half in relocating the sales headquarters from Weihai to Shanghai and the building of a national sales network. The restructuring has brewed positive results when Sinogen first witnessed the completion of a fully operational proprietary national sales network in November 2001. At the current date, Sinogen has a total of 8 regional sales offices and a marketing and sales team of 30 directly employed staff and 50 commissioned based staff stationed at strategic regions of the country. This proprietary sales network lays the infrastructure for the efficient distribution of Wei Jia in the vast and geographically diverse PRC market. The same infrastructure is planned to also support the distribution of new products in the future, thereby economizing the cost of future distribution and reduces the company's reliance on intermediates that feed on the profit margin of its products.

The active sales of Wei Jia started around March 2001. The sales volume has been encouraging and has stayed north throughout the past months. Total sales of around 1,000,000 vials was achieved for the year despite a late start. Market demand up to this date has exceeded the production capacity of Sinogen. The situation is expected to be overcome by the third quarter of this year when the new production line is expected to be completed. The new line has a planned maximum production volume of 20,000,000 vials per annum and will be sufficient to meet the demand in the coming two years. Construction of the new production line is actively under way.

Since Wei Jia is a prescription drug for hospital use, the most effective means of promotion is through experts recommendation and professional seminars. Sinogen devoted the first part of the second half in recruiting liver experts to join its panel and commenced high visibility promotion activities through professional seminars, sponsorship of events and participation in major trade related exhibitions and social activities in the fourth quarter of 2001. The company has since sponsored, co-sponsored and participated in more than 10 seminars and exhibitions in the PRC. A total of not less than 12 sponsored seminars have been planned for 2002. All the seminars sponsored by Sinogen are conducted by the company's appointed panel of leading liver experts in the PRC.

The completion of an efficient national sales network and active marketing activities are expected to propel the sales momentum of Wei Jia in 2002. With production constraint being resolved following the completion of the new production line, sales volume is expected to surge significantly in the second half. Management is confident that the sales in 2002 will be a multiple of that in 2001.

Building on the existing findings of Wei Jia, the company is actively engaged in the development of the second generation Wei Jia which will be a recombinant DNA drug with enhanced features. Research work is being conducted by in-house scientists in collaboration with scientists in the PRC and the United States. The research work is expected to generate new patents for registration in the second half.

Active steps have been undertaken to gradually build a project pipeline for the Company. Apart from liver drugs, anti-cancer and paediatric drugs have been identified as being the key areas where new drug projects will be sourced in the future. Current focus will be placed on projects that have gone through or otherwise reached an advanced stage in the clinical trial process.

The Company is also actively seeking to establish strategic alliance with leading research institutions in the PRC and industry participants overseas. Exploratory talks are being undertaken and it is hopeful that some arrangements may be reached in the latter half of 2002.

Trading and PVC Division

Due to tough trading conditions, the Company's trading subsidiaries only achieved a turnover of HK\$10,991,000 in the second half having not been successful in scoring a deal in the first half. In view of the not very encouraging results of the Division so far and the Group's focus being shifted to biopharmaceuticals, management has taken a conservative evaluation of the future prospects of the Division and decided to make full provision for the net assets of the Division which amounted to HK\$10,059,000 as at 31 December 2001. Management of the Company is of the view that the gradual wind down of the operations of the Division should benefit a more focused development in the core business of biopharmaceuticals.

Medical Technology Division

Despite an encouraging start in the first half, LT3000 failed to sustain its momentum in the second half. This was due the prevalence of a cautious attitude in the market for internet related software that had resulted in an unexpectedly low acceptance of the company's products. Increased marketing efforts are being undertaken to stimulate an increased demand for the company's products in 2002. However, the results to date have fallen behind target. In view of the current results and the unexpected future potential of LT3000, management of the Company has adopted the auditors' recommendation for accelerating the amortization of the goodwill arising from the acquisition of LT3000. Accordingly, accelerated amortisation of the remaining goodwill amounting to HK\$11,619,000 has been recorded in the profit and loss account for the year.

Corporate Acquisitions and Financial Resources

The Company conducted one share placement in April this year for 142,000,000 shares and another placement in December 2001 for 200,000,000 shares. The two placements have raised approximately HK\$37,600,000 and HK\$45,600,000 respectively for financing the construction of the new production line and marketing activities of Sinogen, with a small proportion being applied as working capital for the Group.

As at the balance sheet date, the group's aggregate bank borrowings and finance leases stood at HK\$28,108,000 of which HK\$14,570,000 was payable within 12 months, HK\$11,132,000 was payable between 2 and 5 years, HK\$2,406,000 being payable after 5 years. Current liabilities of the Group has reduced significantly from HK\$71,372,000 in the previous year to HK\$51,410,000, representing a drop of 28.0%. On the other hand, current assets have a staggering 6.0 fold rise from HK\$8,203,000 in the previous year to HK\$48,926,000 as at the balance sheet date. As a result, the net current liabilities of the Group sharply improved from HK\$63,169,000 to HK\$2,484,000. The Group's total liabilities at the balance sheet date amounted to HK\$64,948,000 and represents 54.4% of total assets as at that date. This compares favorably with the 76.5% at the balance sheet date of the previous year.

At the date of this report, the Company has unutilized credit facilities amounting to HK\$82,000,000 approximately. The Directors believe that the Group has sufficient financial resources to support its current operations and to pursue its corporate plans.

Management and Staff

At the date of this announcement, the Group and its subsidiary employs a total of about 145 full-time employees including full-time directors and executives. This represents a healthy and logical growth from the previous year's level of 85 full time staff. The employment of staff and executives conform to normal commercial practice. Share option benefits are granted to and included as an employment term of selected senior executives of the Company.

Future Prospects

The Group will continue to focus its development in the biopharmaceutical field and will use China as the technology development platform for leveraging expansion into other regions of Asia. The Group is currently studying new drug projects with near and medium term strategic value to add to its product pipeline. The Group targets to have at least two additions in the year 2002.

With an efficient national sales network firmly in place, the Group is well positioned to integrate with its production facilities and its new product pipeline. It is expected that the completion of the new production line by Sinogen will propel a surge in turnover for the subsidiary in the second half of 2002 and will resolve the problem of shortage in supply for at least two years. The active efforts being undertaken by the Group in the sourcing of new products will certainly add scale economy and efficiency to the distribution system in the future. The proprietary distribution structure promises the future control and competitiveness of Sinogen in the PRC market amidst the Government effort to rationalize the distribution chain.

Active exploratory work is being undertaken with a view to export Wei Jia to countries in South-East Asia. The opening of overseas markets has important strategic implications for Wei Jia and other products developed by the Group in the future.

Appreciation

On behalf of the Board of Directors of the Company, I would like to thank our shareholders, bankers, professional parties with whom the Group work with and customers for their support and our executives and staff members for their creativity and dedication. With their support, I am confident that the Group will stride towards success and will bring returns to all parties concerned.

SHAN SHIYONG

Chairman

Hong Kong, 24 April 2002