

Report of the Directors

The directors have the pleasure in 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 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property investment, pharmaceuticals, bio-pharmaceuticals, financial services and transportation services.

The analysis of the principal activities of the operations of the Group during the year is set out in note 30 to the accompanying financial statements.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2002, the five largest customers of the Group accounted for approximately 76% of the Group's total turnover and the largest customer of the Group accounted for approximately 41% of the Group's turnover. The five largest suppliers of the Group accounted for less than 30% of the total purchase of the Group. 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.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2002 are set out in the consolidated income statement on pages 21 and 22 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 2002 (2001: Nil).

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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				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results					
Turnover	6,785	25,215	42,498	37,499	124,772
Loss from operations	(115,781)	(265,731)	(383,775)	(71,309)	(851,203)
Finance costs	(24,875)	(37,518)	(64,117)	(94,635)	(62,588)
Share of results of associates	16	-	-	(14,108)	-
Loss before taxation	(140,640)	(303,249)	(447,892)	(180,052)	(913,791)
Taxation	806	771	-	(5)	(15)
Minority interests	441	4,267	505	16,146	32,183
Loss for the year	(139,393)	(298,211)	(447,387)	(163,911)	(881,623)
Assets and liabilities					
Property, plant and equipment	29,560	135,591	363,541	727,211	749,318
Properties under development	-	-	-	26,710	351,860
Deposit paid	-	-	5,000	-	18,000
Goodwill	1,548	1,548	11,200	-	16,228
Interest in associates	12,010	23,074	24,500	-	-
Investment securities	1	1	1	-	37,997
Net current liabilities	(447,287)	(423,742)	(201,274)	(409,995)	(448,334)
	(404,168)	(263,528)	202,968	343,926	725,069
Obligations under finance lease and hire purchase contract, non-current portion	-	-	-	-	(27)
Bank and other borrowings, non-current portion	-	-	(160,987)	(224,783)	(387,449)
Deferred taxation	-	(806)	(1,334)	-	-
Minority interests	(986)	(1,427)	(8,197)	-	(55,601)
Net (liabilities) assets	(405,154)	(265,761)	32,450	119,143	281,992
Capital and reserves					
Issued capital	6,201	1,240,285	1,240,285	879,365	879,365
Reserves	(411,355)	(1,506,046)	(1,207,835)	(760,222)	(597,373)
	(405,154)	(265,761)	32,450	119,143	281,992

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SHARE CAPITAL

During the year, the Company carried out the following capital reorganization scheme:

- (i) Reduction of the capital of the Company by adjusting the nominal value of the shares of the Company by way of cancelling paid up capital to the extent of HK\$0.199 on each of the issued shares and by reducing the nominal value of all the issued and unissued shares from HK\$0.20 to HK\$0.001;
- (ii) Cancellation of all the share premium account of the Company;
- (iii) Increase in the authorised share capital of the Company to the original amount of HK\$2,000,000,000 by the creation of an additional 1,990,000,000,000 new shares of HK\$0.001 each; and
- (iv) Consolidation of every 20 shares of HK\$0.001 each, whether issued or unissued, into 1 share of HK\$0.02 each.

Details of share capital of the Company are set out in note 22 to the accompanying financial statements

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the executive directors and other employees of the Group. The Scheme became effective on 31 May 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Details of the Scheme are set out in note 24 to the accompanying financial statements.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has introduced a number of changes to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on share option schemes. These new rules came into effect on 1 September 2001. An option granted under the Scheme shall be subject to the new changes which include, inter alia, the followings:

- (a) the maximum number of shares issuable under the share option to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting;
- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors; and

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SHARE OPTION SCHEME (Continued)

- (c) the exercise price of the share options is determined by directors, but may not be less than the higher of (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

The Company shall amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 23 to the accompanying financial statements.

In the opinion of the directors, the Company had no reserves available for distribution to shareholders at 31 December 2002 (2001: 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 2002.

DE-MINIMIS CONCESSION

The Group has an audited negative net tangible asset value of approximately HK\$267 million based on the Group's latest published annual accounts as of 31 December 2001. As a result of the negative net tangible asset value, the Company would be required to disclose and obtain shareholders' approval in respect of all acquisitions and realisations of assets notwithstanding that, in monetary terms, the transactions in question may be insignificant. As such, the Company applied to the Stock Exchange for the De-minimis Concession which would allow the Company flexibility to carry out its business activities, whilst providing the market with sufficient information to appraise the position of the Company.

On 17 May 2002, the Company obtained the approval from the Stock Exchange to adopt the De-minimis Concession for the purpose of determining the "assets test" and the "consideration test" under Chapter 14 of the Listing Rules for classifying notifiable transactions (other than connected transactions) of the Company in accordance with the guidelines issued by the Stock Exchange on 3 May 2001.

The Stock Exchange's approval for the De-minimis Concession will remain valid from 17 May 2002 until the date of publication of or the due date of this annual report of the Company, whichever is earlier.

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DE-MINIMIS CONCESSION *(Continued)*

The Company shall adopt the De-minimis Concession such that each transaction (other than connected transactions) will be considered de-minimis if:

- (1) the transaction is carried out in the normal and ordinary course of business of the Company;
- (2) the transaction is entered into on normal commercial terms; and
- (3) the consideration or the value of the transaction does not exceed HK\$1,000,000.

In such circumstances, the "assets test" and the "consideration test" shall not apply and such transaction shall not be subject to any disclosure or shareholders' approval requirements.

In view of the negative net tangible asset value of the Company as at 31 December 2002, the Company will make application to the Stock Exchange for the De-minimis Concession accordingly.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 14 to the accompanying financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment and investment properties during the year are set out in note 11 and note 10 to the accompanying financial statements.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31 December 2002 are set out in note 18 to the accompanying financial statements.

BORROWING COST CAPITALISATION

No borrowing cost was capitalised by the Group during the year (2001: Nil).

SUBSEQUENT EVENTS

Details of significant subsequent events are set out in note 31 to the accompanying financial statements.

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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 (*Chairman*)
Mr. Chan Peng Kuan (*Managing Director*)

Independent Non-executive:

Mr. Zhou Haijun
Mr. Ng Wai Hung

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 2002, none of the directors of the Company had any 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.

At 31 December 2002, 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 (Note 1)	Date granted	Period during which options exercisable	Price per share to be paid on exercise of options (Note 1) HK\$
Wan Kwong Kee	500,000	5 October 2000	5 October 2000 – 4 October 2003	4.12
Chan Peng Kuan	500,000	5 October 2000	5 October 2000 – 4 October 2003	4.12

Note 1: After consolidation of 20 Shares into 1 Share on 18 October 2002

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DIRECTORS' INTERESTS IN EQUITY SECURITIES *(Continued)*

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 2002 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 SDI Ordinance.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN CONTRACTS

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

In September 2002, 15 share options were exercised by an eligible employee at HK\$0.206 raising HK\$3.09 which was used 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 throughout the accounting period covered by this 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 has met the objective of the Code.

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AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2002.

AUDITORS

KPMG Peat Marwick acted as auditors of the Company for the financial years ended 31 December 1999 and resigned on 28 July 2000.

Arthur Andersen & Co acted as auditors of the Company for the financial year ended 31 December 2000 and resigned on 19 February 2002.

Moores Rowland were appointed as auditors of the Company for the financial year ended 31 December 2001 on 22 February 2002.

The accompanying financial statements were audited by Messrs. Moores Rowland. A resolution for the appointment of Messrs. Moores Rowland 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, 23 April 2003