



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 (together the “Group”) for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

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

The analysis of the principal activities of the operations of the Group during the year is set out in note 31 to the accompanying financial statements.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2003, the five largest suppliers of the Group accounted for approximately 89% of the Group’s total purchases while the five largest customers of the Group accounted for approximately 43% of the Group’s total turnover. In addition, the largest supplier of the Group accounted for approximately 58% of the Group’s total purchase whilst the largest customer of the Group accounted for approximately 23% of the Group’s total 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.

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RESULTS AND APPROPRIATIONS

Details of the Group’s results for the year ended 31 December 2003 are set out in the consolidated income statement on page 21 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 2003 (2002: Nil).

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				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Results					
Turnover	1,355	6,785	25,215	42,498	37,499
Profit (Loss) from operations	125,949	(115,781)	(265,731)	(383,775)	(71,309)
Finance costs	(29,450)	(24,875)	(37,518)	(64,117)	(94,635)
Share of results of associates	31	16	–	–	(14,108)
Profit (Loss) from ordinary activities before taxation	96,530	(140,640)	(303,249)	(447,892)	(180,052)
Taxation	6	806	771	–	(5)
Minority interests	(304)	441	4,267	505	16,146
Profit (Loss) attributable to shareholders	96,232	(139,393)	(298,211)	(447,387)	(163,911)
Assets and liabilities					
Property, plant and equipment	424	29,560	135,591	363,541	727,211
Properties under development	–	–	–	–	26,710
Deposit paid	–	–	–	5,000	–
Goodwill	–	1,548	1,548	11,200	–
Interest in associates	45	12,010	23,074	24,500	–
Investment securities	–	1	1	1	–
Net current liabilities	(308,101)	(447,287)	(423,742)	(201,274)	(409,995)
	(307,632)	(404,168)	(263,528)	202,968	343,926
Bank and other borrowings, non-current portion	–	–	–	(160,987)	(224,783)
Deferred taxation	–	–	(806)	(1,334)	–
Minority interests	(1,290)	(986)	(1,427)	(8,197)	–
Net (liabilities)/assets	(308,922)	(405,154)	(265,761)	32,450	119,143
Capital and reserves					
Issued capital	6,201	6,201	1,240,285	1,240,285	879,365
Reserves	3,789	3,789	479,279	479,279	479,505
Accumulated losses	(318,912)	(415,144)	(1,985,325)	(1,687,114)	(1,239,727)
	(308,922)	(405,154)	(265,761)	32,450	119,143

SHARE CAPITAL

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 Company's 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 25 to the accompanying financial statements.

Under the new rules of the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") on share option schemes 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 options 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
- (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 2003 (2002: 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 2003.

DE-MINIMIS CONCESSION

The Group had an audited negative net tangible asset value of approximately HK\$406,700,000 based on the Group's latest published annual accounts as of 31 December 2002. 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 16 May 2003, 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 19 May 2003 until the date of publication of or the due date of this annual report of the Company, whichever is earlier.

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.

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 2003 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 (2002:Nil).

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. Zhou Haijun and Ng Wai Hung 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).

INTERESTS IN EQUITY SECURITIES OF THE DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2003, the interests of the directors and the Company's chief executive in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, or which were recorded in the register required to be kept under section 352 of the SFO, were as follows:

Chief executive (within the meaning of the SFO)	Capacity in which the shares were held	Number of shares
Leung Hon Man (Note)	Nominee	54

Note: Mr. Leung was authorised to hold the fractions of the consolidated shares arising from the share consolidation effective on 18 October 2002.

The directors and the Company's chief executive have been granted options under the Company's share option scheme, details of which are set out in note 25 to the accompanying financial statements

Save as disclosed above, as at 31 December 2003, none of the directors or their associates had any personal, family, corporate or other interest in the equity securities or debentures of, or has a short position in shares in the relevant share capital of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including the interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to herein.

INTEREST OF SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2003, the following interests (whether direct or indirect) of 5% or more of the shares comprised in the share capital of the Company were recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Number of shares held	Approximate percentage of existing issued share capital of the Company
Chiang Wee Tiong	18,401,250	5.9%
Yuan Yun Nan	17,322,000	5.6%

According to the register of interests in shares and short positions kept by the Company under Section 336 of the SFO and so far as was known to the directors, other than the interests disclosed above, there was no other person (other than a director or chief executive of the Company) who, as at 31 December 2003, was directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in any options in respect of such capital.

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

During the year, the Group had the following transactions with ReliaLab Medical Laboratory & X-Ray Centre Limited ("ReliaLab"). Dr. Wan Kwong Kee, a director of the Company, and Dr. Chow Wing Cho, a director of a wholly-owned subsidiary of the Company, are also directors and indirect shareholders of ReliaLab.

	2003 HK\$'000	2002 HK\$'000
Rental expenses recharged (note a)	(45)	–
Salaries received for shared staff (note a)	(50)	–
Salaries paid for shared staff (note a)	33	–
Testing fee expenses (note b)	7	3
Laboratory testing service income (note b)	(4)	(1)
Trade payable balances	(10)	(3)
Trade receivable balances	6	2
Other receivable balances	45	–

Note:

- (a) These expenses were recharged/shared with reference to the actual expenses incurred.
- (b) These transactions were carried out at market prices.
- (c) The above transactions did not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

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.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange 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.

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 2003.

AUDITORS

KPMG Peat Marwick acted as auditors of the Company for the financial year 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.

Moore Rowland were appointed as auditors of the Company on 22 February 2002.

The auditors, Messrs. Moore Rowland merged with Messrs. Mazars on 1 October 2003 and are now practicing under the name of Moore Rowland Mazars.

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The accompanying financial statements were audited by Messrs. Moore Rowland Mazars. A resolution for the appointment of Messrs. Moore Rowland Mazars 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, 20 April 2004