

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 2001.

PRINCIPAL ACTIVITIES

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

The analysis of the principal activities of the operations of the Group during the year are set out in the note 33 to the accompanying financial statements.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2001, the five largest suppliers of the Group accounted for 85% of the Group's total purchases while the five largest customers of the Group accounted for approximately 58% of the Group's total turnover. In addition, the largest supplier of the Group accounted for approximately 33% of the Group's purchases whilst the largest customer of the Group accounted for approximately 17% 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 2001 are set out in the consolidated income statement on pages 20 and 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 2001 (2000: 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 | | | | |
|---|--------------------------------------|-------------|-----------|-----------|-----------|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Results | | | | | |
| Turnover | 25,215 | 42,498 | 37,499 | 124,772 | 129,919 |
| (Loss) Profit from operations | (265,731) | (383,775) | (71,309) | (851,203) | 17,740 |
| Finance cost | (37,518) | (64,117) | (94,635) | (62,588) | (35,160) |
| Share of results of associates | - | - | (14,108) | - | 284 |
| Loss before taxation | (303,249) | (447,892) | (180,052) | (913,791) | (17,136) |
| Taxation | 771 | - | (5) | (15) | (21) |
| Minority interests | 4,267 | 505 | 16,146 | 32,183 | - |
| Loss from ordinary activities for the year | (298,211) | (447,387) | (163,911) | (881,623) | (17,157) |
| Assets and liabilities | | | | | |
| Property, plant and equipment | 135,591 | 363,541 | 727,211 | 749,318 | 1,113,546 |
| Properties under development | - | - | 26,710 | 351,860 | 231,345 |
| Deposit paid | - | 5,000 | - | 18,000 | 65,444 |
| Goodwill | 1,548 | 11,200 | - | 16,228 | 56,137 |
| Interest in associates | 23,074 | 24,500 | - | - | - |
| Investment securities | 1 | 1 | - | 37,997 | - |
| Net current liabilities | (424,988) | (201,274) | (409,995) | (448,334) | (114,268) |
| | (264,774) | 202,968 | 343,926 | 725,069 | 1,352,204 |
| Obligations under finance lease and hire purchase contract, non-current portion | - | - | - | (27) | (321) |
| Bank and other borrowings, non-current portion | - | (160,987) | (224,783) | (387,449) | (341,307) |
| Deferred taxation | (806) | (1,334) | - | - | - |
| Minority interests | (181) | (8,197) | - | (55,601) | - |
| Net (liabilities)/assets | (265,761) | 32,450 | 119,143 | 281,992 | 1,010,576 |
| Capital and reserves | | | | | |
| Issued capital | 1,240,285 | 1,240,285 | 879,365 | 879,365 | 707,465 |
| Reserves | (1,506,046) | (1,207,835) | (760,222) | (597,373) | 303,111 |
| | (265,761) | 32,450 | 119,143 | 281,992 | 1,010,576 |

SHARE CAPITAL

Details of share capital of the Company are set out in note 24 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 29 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 26 to the accompanying financial statements.

The Stock Exchange has introduced a number of changes to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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
- (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 25 to the accompanying financial statements.

In the opinion of the Directors, the Company had no reserves available for distribution to shareholders at 31 December 2001 (2000: 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 2001.

DE-MINIMIS CONCESSION

The Group has an unaudited negative net tangible asset value of approximately HK\$3 million based on the Group's latest published interim accounts as of 30 June 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 21 December 2001, 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 21 December 2001 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.

In view of the negative net tangible asset value of the Company as at 31 December 2001, 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.

REPORT OF THE DIRECTORS

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 2001 are set out in note 19 and note 22 to the accompanying financial statements.

SUBSEQUENT EVENTS

Details of 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 (*Chairman*)

Mr. Chan Peng Kuan (*Managing Director*)

Mr. Huang Bin

(*Resigned on 28 April 2001*)

Non-executive:

Mr. David Wong Wai Chi

(*Resigned on 23 April 2001*)

Independent Non-executive:

Mr. Zhou Haijun

(*Appointed on 13 April 2001*)

Mr. Ng Wai Hung

Mr. Lui Ming

(*Resigned on 18 April 2001*)

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).

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 December 2001, 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 2001, 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 | Price per share to be paid 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 |

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.

The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial year. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The Directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

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 2001 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) In 2000, the Group disposed of nine subsidiaries (all being property holding companies) to SHKP note (i). Under the sale and purchase agreement, the total consideration amounted to approximately HK\$92,400,000 and as a result, the Group recognised a loss on disposal of approximately HK\$65,211,000 therein.

The Group's bank loans amounting to approximately HK\$65,211,000 as at the date of disposal of the properties were secured by mortgages over the properties held by five out of the nine subsidiaries. These bank loans had not been transferred to SHKP pursuant to the disposal.

On 15 June 2001, the Group and SHKP signed a Deed of Confirmation whereby SHKP agreed to assume the aforementioned loans from the Group. On 1 August 2001, approximately HK\$22,811,000 of the aforementioned loans were formally transferred to SHKP through disposal at net book value of Sheen Win Investment Limited, the subsidiary carrying such loans, to SHKP. On the basis of the above mentioned developments, the Group has recorded the amount of loans that SHKP has agreed to assume as income for the current year.

- (b) On 28 December 2001, the Group acquired 100% of the equity interest in GenePro Medical Biotechnology Limited at total consideration of HK\$1,000,000 from GenePro Laboratory Limited note (ii).

Notes:

- (i) SHKP is a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited. Mr. Lui Ming and Mr. Wong Wai Chi, David, were directors of the Company until 18 and 23 April 2001 respectively, were also directors of SHKP during the year.
- (ii) GenePro Laboratory Limited ("GPL") and GenePro Medical Biotechnology Limited, a subsidiary of GPL are companies incorporated in Hong Kong. Dr. Wan Kwong Kee, a director of the Company, is also a director of GPL and has 26.8% equity interest in GPL.

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 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.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Audit Committee has reviewed with the 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 2001.

AUDITORS

KPMG Peat Marwick acted as auditors of the Company for the financial years ended 31 December 1998 and 31 December 1999 respectively 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 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, 24 April 2002