

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries and principal associates are detailed in notes 16 and 17, respectively, to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 72.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 74. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and the Group and the investment properties of the Group during the year are set out in note 13 to the financial statements. Further details of the Group's investment properties are set out on page 73.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

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RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended) amounted to HK\$18,135,000 (2001: Nil). In addition, the Company's share premium account, in the amount of HK\$331,114,000 (2001: HK\$257,272,000), may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$258,000 (2001: HK\$55,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% (2001: less than 30%) of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 69% (2001: 61%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 52% (2001: 42%) of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Tang Ching Ho

Ms. Yau Yuk Yin

Mr. Chan Chun Hong, Thomas

Independent non-executive directors:

Dr. Lee Peng Fei, Allen, CBE, JP

Mr. Wong Chun, Justein, MBE, JP

Dr. Siu Yim Kwan, Sidney

In accordance with clause 87 of the Company's bye-laws, Dr. Siu Yim Kwan, Sidney will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

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DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Executive Directors

Mr. Tang Ching Ho, aged 40, is a co-founder of the Group (which was established in 1987), and the chairman and managing director of the Company. He is responsible for the strategic planning, policy making and business development of the Group. He has extensive experience in corporate management. Mr. Tang is also a director of Caister Limited, a substantial shareholder of the Company and the Chairman of Dailywin Group Limited.

Ms. Yau Yuk Yin, aged 40, is a co-founder of the Group, and deputy chairman and deputy managing director of the Company. She is responsible for the overall human resources and administration of the Group. She has over 10 years' experience in the decoration and building industry. She is the wife of Mr. Tang Ching Ho.

Mr. Chan Chun Hong, Thomas, aged 38, joined the Group in March 1997 as a finance director and a company secretary of the Group. He is responsible for managing the finance, accounting, company secretarial functions and legal matters of the Group. He graduated from the Hong Kong Polytechnic University with a degree in accountancy and is a fellow of The Chartered Association of Certified Accountants and an associate of The Hong Kong Society of Accountants. He is also the Managing Director of Dailywin Group Limited.

Independent non-executive Directors

Dr. Lee Peng Fei, Allen, CBE, JP, aged 62, joined the Group in November 1993 as a non-executive director of the Company. He is a Deputy, HKSAR, the 9th National People's Congress and a Member of Commission on Strategic Development, HKSAR. He was a member of the Executive Council of Hong Kong from 1985 to 1992 and a member of the Legislative Council of Hong Kong from 1978 to 1997.

Mr. Wong Chun, Justein, MBE, JP, aged 48, joined the Group in November 1993 as a non-executive director of the Company. He holds a bachelor's degree in commerce and computing science from Simon Fraser University, Canada. He was a member of the Fight Crime Committee, the Independent Police Complaints Council and is currently a member of the Shatin District Council, the Advisory Committee Against Narcotics and other government advisory bodies.

Dr. Siu Yim Kwan, Sidney, S.B.St.J., aged 55, joined the Group in November 1993 as a non-executive director of the Company. He holds a doctorate degree in management from Pacific Southern University in the United States. He is also an executive member of a number of charitable organizations and sports associations.

Senior management

Mr. Kwok Tze Chiu, Samson, aged 44, joined the Group as an estimating department manager for the decoration, renovation and building business. Prior to joining the Group in September 1997, he has over twenty years' experience in the building industry. He graduated from the Hong Kong Polytechnic University with a higher certificate in building studies.

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DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES *(continued)*

Senior management *(continued)*

Mr. Lui Sai Kit, Eddie, aged 38, joined the Group as a general manager and is the head of the Group's pharmaceutical business. Prior to joining the Group in August 2000, he has over 14 years' commercial experience and held various key management positions in multinational corporations and Hong Kong listed companies. He graduated from University of Ottawa with a master degree in business administration and from York University with a bachelor's degree in business administration. He is a certified member of Certified Management Accountants of Canada.

Ms. Tang Mui Fun, Karen, aged 31, is the head of the Group's commercial management department. Prior to joining the Group in May 1997, she had 4 years' experience in the accounting and auditing fields. She graduated from the University of Hull (England) with a bachelor's degree in accountancy. She is a sister of Mr. Tang.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 38 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Nature of interest	Number of shares held
Tang Ching Ho ("Mr. Tang")	Corporate <i>(Note 1)</i>	217,884,000
	Personal	59,565,870
	Family <i>(Note 2)</i>	59,565,870
	Other <i>(Note 3)</i>	1,635,857,379
Yau Yuk Yin ("Ms. Yau")	Personal	59,565,870
	Family <i>(Note 4)</i>	277,449,870
	Other <i>(Note 4)</i>	1,635,857,379
Siu Yim Kwan, Sidney	Personal	600,000

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DIRECTORS' INTERESTS IN SHARES *(continued)*

Note 1: Mr. Tang was interested in these shares through Caister Limited, a company which is wholly and beneficially owned by Mr. Tang.

Note 2: Mr. Tang was taken to be interested under the SDI Ordinance in those shares in which his spouse, Ms. Yau, was interested.

Note 3: Agreements were entered into between Middlemore Limited, a company wholly and beneficially owned by Mr. Tang, and (i) Ms. Tang Mui Fong; (ii) Ms. Tang Mui Fun; and (iii) Mr. Yau Yuk Tong, all being relatives of Mr. Tang, as a result of which, for the purpose of Sections 9 and 10 of the SDI Ordinance, Mr. Tang was taken (for the purpose of the duty of disclosure only) to be interested in the shares owned by them.

Note 4: Ms. Yau was taken to be interested under the SDI Ordinance in those shares in which her spouse, Mr. Tang, was interested.

Apart from the 337,015,740 issued shares in the capital of the Company held by Mr. Tang and Ms. Yau pursuant to Sections 4 and 8 of the SDI Ordinance, they were also taken (for the purpose of the duty of disclosure only) to be interested in all the issued shares in the capital of the Company referred to in Note 3 above pursuant to Sections 9 and 10 of the SDI Ordinance.

Save as disclosed above and as disclosed below under the headings "Directors' rights to acquire shares" and "Share option schemes", none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the heading "Share option schemes" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. On 6 February 1995, the Company approved a share option scheme (the "Old Scheme") under which the directors of the Company may, at their discretion, invite any executive directors or full-time employees of the Group to take up share options to subscribe for shares of the Company at any time during the 10 years from the date of approval. The Old Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 28 February 1995.

In compliance with the amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), subsequent to the balance sheet date, on 3 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted pursuant to an ordinary resolution passed at a special general meeting of the Company. As a result, the Company will no longer grant any further share options under the Old Scheme. However, all share options granted prior to the termination of the Old Scheme will remain in full force and effect. As at 31 March 2002, there were 262,800,000 share options granted under the Old Scheme remaining outstanding.

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SHARE OPTION SCHEMES *(continued)*

Under the New Scheme, eligible persons include any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time), secondee, any holder of securities issued by any member of the Group, any business or joint venture partner, contractor, agent or representative, any person or entity that provides research, development or other technology support or any advisory, consultancy, professional or other services to the Group, any supplier, producer or licensor of goods or services to the Group, any customer, licensee (including any sub-licensee) or distributor of goods or services of the Group, or any landlord or tenant (including any sub-tenant) of the Group or any substantial shareholder or company controlled by a substantial shareholder, or any company controlled by one or more persons belonging to any of the above classes of participants. The New Scheme became effective on 3 May 2002 and, unless otherwise terminated earlier by shareholders in a general meeting, will remain in force for a period of ten years from that date. No share options have been granted under the New Scheme since the date of its adoption.

Pursuant to the New Scheme, the maximum number of shares on which share options may be granted under the New Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company from time to time, excluding any shares issued on the exercise of share options. As at 31 March 2002, the number of shares issuable under the share options granted under the Old Scheme was 262,800,000, which represented approximately 2.7% of the Company's shares in issue as at that date.

The maximum number of shares issuable under share options to each eligible person (except a substantial shareholder or an independent non-executive director or any of their respective associates) under the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of such limit must be separately approved by shareholders with such eligible person and his associates abstaining from voting.

Share options granted to a director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the option). Where any grant of share options to a substantial shareholder or an independent non-executive director (or any of their respective associates) will result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the New Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant representing in aggregate over 0.1% of the shares in issue; and having an aggregate value, based on the closing price of the Company's shares at each date of grant, in excess of HK\$5 million, such further grant of share options is required to be approved by shareholders in a general meeting in accordance with the Listing Rules. Any change in the terms of a share option granted to a substantial shareholder or an independent non-executive director or any of their respective associate is also required to be approved by shareholders.

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SHARE OPTION SCHEMES (continued)

An offer for the grant of share options must be accepted within thirty days of the day on which such offer was made. The amount payable by the grantee of a share option to the Company on acceptance of the offer of the grant of a share option is HK\$1.00.

The option price per share payable on the exercise of an option is determined by the directors provided that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of a share option is accepted by the eligible person), which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant, provided that the option price per share shall in no event be less than the nominal amount of one share.

The following share options were outstanding under the Old Scheme during the year:

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$
	At 1 April 2001	Adjustments during the year [#]	At 31 March 2002			
Directors						
Tang Ching Ho	10,900,000	54,500,000	65,400,000	6-3-2001	6-3-2001 to 5-2-2005	0.0217
Yau Yuk Yin	10,900,000	54,500,000	65,400,000	6-3-2001	6-3-2001 to 5-2-2005	0.0217
Other employees						
In aggregate	22,000,000	110,000,000	132,000,000	6-3-2001	6-3-2001 to 5-2-2005	0.0217
	43,800,000	219,000,000	262,800,000			

[#] Adjustments to the number of share options granted as a result of rights issue and bonus issue in 2002.

* The exercise price had been adjusted for rights issue and bonus issue in 2002.

Summary details of the Company's share option schemes are also set out in note 31 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding share options.

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SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of ordinary shares held	Percentage of the Company's share capital
Caister Limited	217,884,000	2.21%
Tang Ching Ho	59,565,870	0.60%
Yau Yuk Yin	59,565,870	0.60%
Tang Mui Fong	395,424,570	4.01%
Yau Yuk Tong	249,040,950	2.53%
Tang Mui Fun	991,391,859	10.05%
	1,972,873,119	20.00%

The shareholdings of Caister Limited, Ms. Tang Mui Fong, Mr. Yau Yuk Tong and Ms. Tang Mui Fun in the capital of the Company are also disclosed above as the corporate interests and other interests of Mr. Tang Ching Ho and Ms. Yau Yuk Yin under the heading "Directors' interests in shares".

Pursuant to Sections 9 and 10 of the SDI Ordinance, Caister Limited, Mr. Tang Ching Ho, Ms. Yau Yuk Yin, Ms. Tang Mui Fong, Mr. Yau Yuk Tong and Ms. Tang Mui Fun were taken (for purposes of the duty of disclosure only) to be interested in a total of 1,972,873,119 shares in the capital of the Company.

Save as disclosed above, as at 31 March 2002, no persons, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

- (1) On 23 October 2001, Wang On Majorluck Limited ("WJL"), a wholly owned subsidiary of the Group, and China Ocean Investments Limited ("COI"), a non-wholly owned subsidiary of the Group, entered into tenancy agreements whereby WJL leases 4 pork stalls to COI for 2 years commencing from 23 October 2001 and expiring on 22 October 2003 with an option to COI to renew the tenancy for a further term of 1 year. For the year ended 31 March 2002, WJL received rentals of approximately HK\$767,000 from COI.
- (2) During the year, the following transactions were conducted by Wai Yuen Tong Medicine Company Limited ("WYT"), a 75.79% owned subsidiary of the Group, with an associate of WYT's substantial shareholder:

Name of company	Nature of transaction	Group	
		2002 HK\$'000	2001 HK\$'000
Received or receivable from:			
(i) Charter Most Limited	Non-refundable initial franchise fee	450	–
(ii) Charter Most Limited	Sales of products	4,694	–

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CONNECTED TRANSACTIONS *(continued)*

A conditional waiver has been granted by the Stock Exchange for strict compliance with the Listing Rules by the Company in respect of the above transactions. These connected transactions have been reviewed by the independent non-executive directors of the Company who have confirmed that these transactions were:

- (i) entered into by the Group in the ordinary course of business;
- (ii) conducted on normal commercial terms;
- (iii) entered into in accordance with the terms of the franchise agreement; and
- (iv) the aggregate value of the above transactions did not exceed HK\$10 million or 3% of the net tangible asset value of the Group, whichever is higher.

POST BALANCE SHEET EVENTS

Details of the Group's significant post balance sheet events are set out in note 37 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2002, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tang Ching Ho

Chairman and Managing Director

Hong Kong
19 July 2002