

## 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 2003.

### PRINCIPAL ACTIVITIES

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

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 87.

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 pages 89 to 90. 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 88.

### SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in notes 31 and 32 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 OF THE COMPANY

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 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

### DISTRIBUTABLE RESERVES

At 31 March 2003, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended) amounted to HK\$232,680,000 (2002: HK\$18,135,000). In addition, the Company's share premium account, in the amount of HK\$348,222,000 (2002: HK\$331,114,000), may be distributed in the form of fully paid bonus shares.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$81,300 (2002: HK\$258,000).

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% (2002: less than 30%) of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 64% (2002: 69%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 48% (2002: 52%) 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, S.B.St.J.

In accordance with clause 87 of the Company's bye-laws, Ms. Yau Yuk Yin will retire and, being eligible, offer herself for re-election at the forthcoming annual general meeting.

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### 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 39 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 2003, 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 ordinary shares of the Company held
Mr. Tang Ching Ho	Corporate ( <i>Note 1</i> )	2,178,840
	Personal	595,658
	Family ( <i>Note 2</i> )	595,658
	Other ( <i>Note 3</i> )	20,170,372
Ms. Yau Yuk Yin	Personal	595,658
	Family ( <i>Note 4</i> )	2,774,498
	Other ( <i>Note 4</i> )	20,170,372

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

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

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

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

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### **DIRECTORS' INTERESTS IN SHARES** *(Continued)*

Apart from the 3,370,156 issued shares in the capital of the Company held by Mr. Tang Ching Ho and Ms. Yau Yuk Yin 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.

The interests of the directors in the share options of the Company are separately disclosed in note 32 to the financial statements.

Save as disclosed above, 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 in the share option scheme disclosures in note 32 to the financial statements, 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**

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option schemes have been moved to note 32 to the financial statements.

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### SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, the following interests of 10% or more of the issued 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:

<b>Name of shareholder</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
Caister Limited	2,178,840	1.84
Mr. Tang Ching Ho	595,658	0.50
Ms. Yau Yuk Yin	595,658	0.50
Ms. Tang Mui Fong	4,684,245	3.96
Mr. Yau Yuk Tong	2,980,409	2.52
Ms. Tang Mui Fun, Karen	12,505,718	10.59
	23,540,528	19.91

The shareholdings of Caister Limited, Ms. Tang Mui Fong, Mr. Yau Yuk Tong and Ms. Tang Mui Fun, Karen 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, Karen were taken (for purposes of the duty of disclosure only) to be interested in a total of 23,540,528 shares in the capital of the Company.

Save as disclosed above, as at 31 March 2003, 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.

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### DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES")

As at 31 March 2003, the Group had provided the following financial assistance to affiliated companies, which, in aggregate, exceeded 25% of the consolidated net assets of the Group as at 31 March 2003:

Name of affiliated companies	% attributable interest held by the Company	Advances to affiliated company <i>HK\$'000</i>	Interest rate per annum %
Wai Yuen Tong Medicine Holdings Limited	30.87	78,750	Hong Kong dollar prime rate + 2%
		64,000	3.8%
		3,964	Interest-free
Hunan Xiangya Pharmaceutical Company Limited	39.2	1,701	4%
		148,415	

All of the advances are unsecured, of which HK\$6,941,000 has no fixed terms of repayment, HK\$7,588,000 is repayable by August 2003, HK\$1,701,000 is repayable in January 2005 and the remaining HK\$132,185,000 is repayable in July 2005.

The source of funding for such advances was by way of the Group's internal fundings.

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### DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") (Continued)

The information extracted from the balance sheets as at 31 March 2003 of the abovenamed affiliated companies to which the Company has granted advances is as follows:

Name of affiliated companies	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Net Asset value <i>HK\$'000</i>
Wai Yuen Tong Medicine Holdings Limited	319,685	(233,557)	(94)	86,034
Hunan Xiangya Pharmaceutical Company Limited	28,116	(16,322)	—	11,794
	347,801	(249,879)	(94)	97,828

### CONNECTED TRANSACTIONS

- (1) The following tenancy agreements were entered into between 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:
- (a) four tenancy agreements dated 23 October 2001 whereby WJL leased four pork stalls to COI for two years commencing from 23 October 2001; and
  - (b) three tenancy agreements dated 5 July 2002 whereby WJL leased three pork stalls to COI for three years commencing from 9 July 2002.

All of the above tenancy agreements were terminated in November 2002. For the year ended 31 March 2003, WJL received aggregate rentals of approximately HK\$1,935,000 from COI.

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### CONNECTED TRANSACTIONS *(Continued)*

- (2) During the year, the following transactions were conducted by Wai Yuen Tong Medicine Company Limited ("WYT"), a non wholly-owned subsidiary of the Group which had been disposed of on 9 July 2002, with an associate of WYT's substantial shareholder:

Name of company	Nature of transaction	Group	
		2003 HK\$'000	2002 HK\$'000
Received or receivable from:			
(i) Charter Most Limited	Non-refundable initial franchise fee	—	450
(ii) Charter Most Limited	Sales of products	<b>247</b>	4,694

A conditional waiver has been granted by The Stock Exchange of Hong Kong Limited (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 respective franchise agreements; 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.

The Company's auditors have reviewed the transactions as referred to in the above item (2) and confirmed that:

- (i) the transactions have received the approval of the Board of Directors;
- (ii) the transactions have been entered into in the ordinary and usual course of business of the Group and carried out in accordance with the terms of the relevant agreements; and
- (iii) the aggregate annual value of the transactions for the financial year has not exceeded HK\$10 million or 3% of the net tangible asset value of the Group, whichever is higher.

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### POST BALANCE SHEET EVENTS

Details of the Group's significant post balance sheet events are set out in note 38 to the financial statements.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2003, save that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's bye-laws.

### AUDIT COMMITTEE

Pursuant to the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company has set up an audit committee with written terms of reference, comprising two independent non-executive directors of the Company. A meeting of the audit committee was held to review the Group's annual results for the year ended 31 March 2003 before they were presented to the Board of Directors for approval.

### 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, 30 May 2003