

The directors present their annual report and the audited financial statements for the year ended 31st March, 2002.

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 40 to the financial statements.

Cancellation of Listing

On 3rd April, 2002, the listing of the Company's shares on the London Stock Exchange was cancelled.

Change in Substantial Shareholder

In August 2001, Mr. Leung Wai Ho, a director and substantial shareholder of the Company entered into a conditional share purchase agreement (the "Share Purchase Agreement") with Rich Time Strategy Limited ("Rich Time") to dispose of 38,500,000 ordinary shares representing approximately 29.19% of the issued share capital of Company at a consideration of HK\$7.7 million. Rich Time is a wholly owned subsidiary of Wang On Group Limited ("Wang On"), a company incorporated in Bermuda with limited liability the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Upon completion of the Share Purchase Agreement in August 2001, Rich Time become the substantial shareholder of the Company. Accordingly, there was a change in the substantial shareholders of the Company, and the details of the substantial shareholders as at 31st March, 2002 are disclosed under the heading "Substantial Shareholders".

Results

The results of the Group for the year ended 31st March, 2002 are set out in the consolidated income statement on page 19.

Major Customers and Suppliers

During the year, the five largest customers of the Group accounted for 54% of the Group's turnover and the largest customer accounted for 26% of the Group's turnover.

During the year, the five largest suppliers of the Group accounted for 33% of the Group's purchases and the largest supplier accounted for 11% of the Group's purchases.

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

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 58.

Investment Properties

At 31st March, 2002, the investment properties of the Group were revalued by a firm of independent professional property valuers on an open market value basis. The deficit of HK\$0.6 million arising on the revaluation has been charged to the consolidated income statement.

Details of these and other details of the investment properties of the Group are set out in note 13 to the financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment during the year are set out in note 14 to the financial statements.

Share Capital

There were no changes in the issued share capital of the Company during the year.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

Directors

The directors during the year and up to the date of this report were:

Executive directors:

Tang Ching Ho	(appointed on 28th August, 2001)
Chan Chun Hong, Thomas	(appointed on 28th August, 2001)
Leung Wai Ho	
Tsang Pui Sing, Aloysius	(resigned on 28th August, 2001)
Leong Weng Kin	(resigned on 28th August, 2001)

Non-executive director:

Garnet Harrison	(resigned on 17th September, 2001)
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Directors (Continued)

Independent non-executive directors:

Siu Man Ho, Simon	(appointed on 28th August, 2001)
Yuen Chi Choi, Simon	(appointed on 28th August, 2001)
Cho Wing Mou	(appointed on 28th September, 2001)
Wai Chi Kin, Franklin	(resigned on 28th August, 2001)
Peter Francis	(resigned on 14th September, 2001)

In accordance with the Company's Bye-laws, Mr. Tang Ching Ho, Mr. Chan Chun Hong, Thomas, Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon, Mr. Yuen Chi Choi, Simon and Mr. Cho Wing Mou shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 the payment of compensation other than statutory compensation.

Each non-executive director serves as such until his retirement by rotation or otherwise in accordance with the Company's Bye-laws and subject to eligibility may then be re-elected.

Directors' Interests in Securities

At 31st March, 2002, Mr. Leung Wai Ho, a director of the Company, held 17,265 non-voting deferred shares of a wholly owned subsidiary of the Company.

Other than as disclosed above, none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance which is required to be recorded in the register maintained under Section 29 of the SDI Ordinance or otherwise notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Share Options

Pursuant to the share option scheme approved and adopted by the Company on 16th October, 1997 (the "1997 Scheme") for the purpose of providing incentives to directors and eligible employees, which will expire on 16th October, 2007, the Board of Directors of the Company may, at their discretion, grant options to directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company in accordance with the terms of the 1997 Scheme.

Options may be granted at a nominal consideration and will entitle the holder to subscribe for shares during a period of ten years from the date the option is granted and accepted or from a later date as determined by the Board at a price (subject to adjustments as provided therein) equal to the higher of the nominal value of the shares and 80 per cent. of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options.

Share Options (Continued)

The maximum number of shares in respect of which options may be granted under the 1997 Scheme shall not exceed 10 per cent. of the share capital of the Company in issue from time to time (except shares issued pursuant to the 1997 Scheme) and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25 per cent. of the maximum number of shares in respect of which options may be granted under the 1997 Scheme.

The following table discloses movement in the Company's share options during the year:

	Date of grant	Exercise price	Number of share options outstanding as at 31.3.2001 and 31.3.2002	Exercisable period
Category 1: Directors				
Tsang Pui Sing, Aloysius (Note)	9th December, 1999	0.285	1,200,000	9th December, 1999 to 8th December, 2009
	3rd March, 2000	0.820	1,000,000	3rd March, 2000 to 2nd March, 2010
Leong Weng Kin (Note)	9th December, 1999	0.285	1,100,000	9th December, 1999 to 8th December, 2009
	3rd March, 2000	0.820	1,000,000	3rd March, 2000 to 2nd March, 2010
			<hr/> 4,300,000	
Category 2: Employees	9th December, 1999	0.285	1,680,000	9th December, 1999 to 8th December, 2009
			<hr/> 5,980,000	

No share options were granted or exercised during the year.

Note: Mr. Tsang Pui Sing, Aloysius, and Mr. Leong Weng Kin resigned as directors of the Company on 28th August, 2001.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement enabling the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, held any rights to subscribe for securities of the Company, or had exercised any such rights.

Substantial Shareholders

As at 31st March, 2002, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance, showed that the following persons had an interest of 10% or more in the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares held	Approximate shareholding percentage
Rich Time (<i>Note</i>)	38,500,000	29.19%
Wang On (<i>Note</i>)	38,500,000	29.19%

Note: Rich Time is wholly owned by Wang On. Wang On is deemed to be interested in 38,500,000 shares held by Rich Time.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued ordinary share capital of the Company as at 31st March, 2002.

Connected Transactions

During the year and subsequent to the balance sheet date, the Group had the following connected transactions:

- (i) In August 2001, Mr. Leung Wai Ho ("Mr. Leung"), a director of the Company, advanced term loans of approximately HK\$8.8 million to the Company. The term loans carry interest at prime rate plus 2% and are repayable within one year. Mr. Leung is a connected person under the Listing Rules. Interest expenses incurred for the year amounted to approximately HK\$385,000.
- (ii) During the year, Rich Time, a substantial shareholder of the Company, advanced in aggregate term loans of approximately HK\$65.8 million to the Company. The term loans carry interest at prime rate plus 2%. Included in the term loans is an amount of HK\$0.9 million which is repayable within one year, the remaining balances of approximately HK\$64.9 million are repayable within five years. Interest expenses incurred for the year amounted to approximately HK\$1,173,000.
- (iii) During the year, the Company paid management fee of HK\$560,000 to Wang On.

Connected Transactions (Continued)

- (iv) On 22nd May, 2002, the Company entered into a sale and purchase agreement with Wang On and Town Heath International Holdings Company Limited ("Town Health") for the acquisition of an effective interest of approximately 99.79% in Wai Yuen Tong Medicine Company Limited ("Wai Yuen Tong") through the acquisition of the entire issued share capital of Reliance City Investments Limited and Plenty Time Investments Limited for an aggregate consideration of HK\$220 million. The aggregate consideration was satisfied (a) as to HK\$136 million by the issue of 10,308,888,666 and 3,291,111,334 ordinary shares of HK\$0.01 each of the Company at HK\$0.01 per share to Wang On and Town Health respectively, (b) as to HK\$84 million by the issue of HK\$64 million and HK\$20 million convertible notes to Wang On and Town Health respectively. Wai Yuen Tong is engaged in the manufacture, processing, retailing and sale of traditional Chinese medicine. The acquisition constitutes a connected transaction for the Company under the Listing Rules since Wang On is a substantial shareholder (as defined under the Listing Rules) of the Company and is deemed to be a connected person of the Company. The acquisition was approved by the independent shareholders of the Company at a special general meeting held on 3rd July, 2002.

Directors' Interests in Contracts of Significance

Save as disclosed in the section "Connected Transactions", there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Donations

During the year, the Group made charitable and other donations totalling HK\$109,034 (2001: HK\$78,000).

Purchase, Sale or Redemption of the Company's Listed Securities

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

Post Balance Sheet Events

Details of significant events occurring after the balance sheet date are set out in note 41 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.

Corporate Governance

The Company has complied throughout the year ended 31st March, 2002 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

Auditors

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chan Chun Hong, Thomas
Managing Director

19th July, 2002