

The directors present their annual report and the audited financial statements for the year ended 31st March 2003.

### CHANGE OF NAME

Pursuant to a special resolution passed at the annual general meeting of the Company held on 22nd August 2002, the name of the Company was changed from "Dailywin Group Limited (得利集團有限公司)" to "Wai Yuen Tong Medicine Holdings Limited (位元堂藥業控股有限公司)" with effect from 23rd August 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the financial statements.

### LISTING STATUS

On 3rd April 2002, the listing of the Company's shares on the London Stock Exchange was cancelled. The Company's shares continue to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### NEW SUBSTANTIAL SHAREHOLDER

In May 2002, the Group entered into an acquisition agreement with Wang On Group Limited ("Wang On") and Town Health International Holdings Company Limited ("Town Health International") to acquire approximately 99.79% interest in Wai Yuen Tong Medicine Company Limited ("WYT") for an aggregate consideration of HK\$220 million which was satisfied by the issue of 13,600,000,000 ordinary shares of the Company at HK\$0.01 per share and the issue of convertible notes of HK\$84 million.

Upon completion of the acquisition in July 2002, Town Health International has also become a substantial shareholder of the Company.

### RESULTS

The results of the Group for the year ended 31st March 2003 are set out in the consolidated income statement on page 21 of the annual report.

The directors do not recommend the payment of a dividend.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for 33% of the Group's turnover and the largest customer accounted for 12% of the Group's turnover.

During the year, the aggregate purchases attributable to the Group's five largest suppliers were less than 30% 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.

### INVESTMENT PROPERTIES

At 31st March 2003, 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\$0.4 million arising on the revaluation has been charged to the income statement.

Details of these and other details of the investment properties of the Group are set out in note 11 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the year are set out in note 12 to the financial statements.

### SHARE CAPITAL

Details of changes in the share capital of the Company are set out in note 27 to the financial statements.

### CONVERTIBLE NOTES

During the year, the Company issued convertible notes of HK\$84 million as partial consideration for the acquisition of approximately 99.79% interest in WYT.

Details of the convertible notes outstanding at 31st March 2003 are set out in note 30 to the financial statements.

### PRINCIPAL SUBSIDIARIES AND ASSOCIATES

During the year, the Group acquired approximately 99.79% interest in WYT from Wang On and Town Health International. WYT is a company incorporated in Hong Kong with limited liability and is principally engaged in the business of manufacturing, processing and retailing of traditional Chinese medicine.

Details of the Company's principal subsidiaries and the Group's principal associates at 31st March 2003 are set out in notes 41 and 15 to the financial statements, respectively.

### DIRECTORS

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

#### Executive directors:

Tang Ching Ho

Chan Chun Hong, Thomas

Leung Wai Ho

#### Independent non-executive directors:

Siu Man Ho, Simon

Yuen Chi Choi, Simon

Cho Wing Mou

In accordance with the Company's Bye-laws, Mr. Leung Wai Ho will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

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 2003, Mr. Leung Wai Ho, a director of the Company, held 17,265 non-voting deferred shares of Dailywin Watch Products Mfg. Limited, 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 Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")

## Directors' Report

which is required to be recorded in the register maintained under Section 29 of the SDI Ordinance or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

### SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 28 to the financial statements.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 28 to the financial statements regarding the Company's share option scheme, 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 2003, 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 Strategy Limited ("Rich Time") (note 1)	4,874,001,605	30.87%
Wang On (note 1)	4,874,001,605	30.87%
Town Health Traditional Chinese Medicine Services Limited ("Town Health TCM") (note 2)	4,711,944,395	29.84%
Town Health (BVI) Limited ("Town Health BVI") (note 2)	4,711,944,395	29.84%
Town Health International (note 2)	4,711,944,395	29.84%

*Notes:*

1. Rich Time is wholly owned by Wang On. Wang On is deemed to be interested in the 4,874,001,605 shares held by Rich Time.
2. Town Health TCM is wholly owned by Town Health (BVI), which is wholly owned by Town Health International. Town Health (BVI) and Town Health International are deemed to be interested in the 4,711,944,395 shares held by Town Health TCM.

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 2003.

As partial consideration for acquisition of 99.79% interest in WYT, an aggregate amount of HK\$84,000,000 convertible notes were issued to Rich Time and Town Health TCM. Details of movement in the convertible notes are set out in note 30 to the financial statements. At 31st March 2003, an aggregate of HK\$64,000,000 convertible notes held by Rich Time is outstanding and not exercised.

As approved by the shareholders at the special general meeting on 3rd July 2002, the Securities And Futures Commission of Hong Kong granted a waiver to Wang On, Town Health International and parties acting in concert from the obligation of making a mandatory general offer for all issued shares, outstanding convertible notes and share option of the Company not already owned or acquired by them which may arise under Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of conversion of the convertible notes.

## CONNECTED TRANSACTIONS

Details of the connected transactions during the year are set out in note 40 to the financial statements.

In accordance with the waiver letter dated 7th August 2002 granted by the Stock Exchange, the independent non-executive directors have reviewed the connected transactions in respect of the transactions entered into with Charter Most Limited, an indirect wholly owned subsidiary of Town Health International, as set out in note 40(vi) to the financial statements. In their opinion, these transactions were entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms;

- (iii) in accordance with the terms of the agreements governing such transactions; and
- (iv) within the relevant limits approved by the Stock Exchange.

The Company's auditors have performed certain procedures, as agreed with the directors, in respect of the transactions as set out in note 40 (vi) to the financial statements. Based on these procedures, nothing has come to the attention of the auditors to cause them not to believe 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 agreement; 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.

### **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 (2002: HK\$109,034).

### **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.

### **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.

### 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31st 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 meeting 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 audit committee was held to review the Group's annual results for the year ended 31st March 2003 before they were presented to the Board of Directors for approval.

### 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*

30th May 2003