

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the production and sale of traditional Chinese and Western pharmaceutical, health food products and property holding.

## RESULTS

The results of the Group for the year ended 31 March 2005 are set out in the consolidated income statement on page 31 of the annual report.

The directors do not recommend the payment of a dividend.

## SUBSIDIARIES AND ASSOCIATES

### Acquisition of WOD Investments Limited ("WOD")

In April 2004, the Group entered into a conditional sale and purchase agreement with Wang On Group Limited ("Wang On"), a substantial shareholder of the Company, to acquire the entire interests in, and shareholders' loan to, WOD for a cash consideration of approximately HK\$65.4 million. WOD is engaged in property holding, with its principal assets being certain leasehold land and building situated in Hong Kong.

The acquisition of WOD was approved by the shareholders of the Company at a special general meeting held on 4 June 2004 and completed on the same date, details of which are set out in a circular to the shareholders of the Company dated 12 May 2004.



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## Acquisition of CNT Health Food Pte Ltd ("CNT")

In July 2004, the Group entered into a conditional sale and purchase agreement with Mr. Ng Tee Khiang, Wing Huat Loong (Pte) Limited and Mr. Toh Pang Seng, all being independent third parties of the Company, to acquire the entire interests in CNT for a cash consideration of approximately HK\$14.7 million, subject to adjustments on the audited net profit after taxation of CNT for each of the two years ending 31 March 2006. The maximum consideration to be payable by the Group under this arrangement amounted to approximately HK\$22.8 million. CNT is engaged in the business of manufacturing, wholesale and retail of bottled bird's nest drinks, herbal essence, health tonics and other Chinese proprietary medicines in Singapore.

The acquisition of CNT was completed on 21 July 2004, details of which are set out in a circular to the shareholders of the Company dated 9 August 2004.

## Acquisition of April Full Limited ("April Full")

In August 2004, the Group entered into a conditional sale and purchase agreement with Mr. Wong Lam Ping ("Mr. Wong"), an independent third party of the Company, to acquire 72.86% interests in April Full for a cash consideration of approximately HK\$29.0 million. April Full has 70% equity interest in Huzhou Longhai Biomedicament Co., Limited ("Huzhou Longhai"), a sino foreign joint ventures established in the People's Republic of China ("PRC").

The acquisition of April Full was completed on 27 August 2004, details of which are set out in a circular to the shareholders of the Company dated 21 September 2004.

## Acquisition of Geswin Limited ("Geswin")

In January 2005, the Group entered into a conditional sale and purchase agreement with Suitbest Investments Limited, a wholly owned subsidiary of Wang On, to acquire the entire interests in, and shareholders' loan to, Geswin for a consideration of approximately HK\$63.6 million. The consideration was satisfied by cash in the amount of approximately HK\$33.6 million and the issue of convertible notes for a principal amount of HK\$30.0 million. The convertible notes are convertible into ordinary shares of HK\$0.01 each in the Company at a conversion price of HK\$0.08 each, subject to adjustments, at any time, in whole or in part, on or before 15 March 2008. Geswin is engaged in property holding, with its principal assets being certain leasehold land and building situated in Hong Kong.



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The acquisition of Geswin was approved by the shareholders of the Company at a special general meeting held on 14 March 2005 and completed on the same date, details of which are set out in a circular to the shareholders of the Company dated 23 February 2005.

Details of the Company's principal subsidiaries and associates at 31 March 2005 are set out in notes 42 and 43 to the financial statements, respectively.

## SHARE CAPITAL AND CONVERTIBLE NOTES

### Capital Reorganisation

During the year, the Company underwent a capital reorganisation ("Capital Reorganisation") whereby (i) the paid up capital and nominal value of the issued shares of the Company were reduced from HK\$0.10 each to HK\$0.01 each ("Capital Reduction"); (ii) all of the authorised but unissued share capital of the Company was cancelled; (iii) the authorised share capital of the Company was increased to the original authorized amount of HK\$600,000,000 by the creation of an additional of 59,447,226,155 ordinary shares of HK\$0.01 each; and (iv) the credit balance arising from the Capital Reduction of approximately HK\$49.8 million were transferred to general reserve as to HK\$41.9 million and accumulated losses as to HK\$7.9 million, respectively.

### Rights and Bonus Issues

The Company issued and allotted 2,211,095,380 ordinary shares of HK\$0.01 each by way of rights issue, in the proportion of three shares for every one existing share held ("Rights Share"), at a subscription price of HK\$0.16 per Rights Share to the existing shareholders, together with one bonus share issued for every three fully paid Rights Share held by the shareholders ("Rights and Bonus Issue").

The Capital Reorganisation and Rights and Bonus Issue were approved by the shareholders of the Company at a special general meeting held on 4 June 2004, details of which are set out in a circular to the shareholders of the Company dated 12 May 2004.



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## Convertible Notes

As disclosed above, during the year, the Company issued convertible notes for the acquisition of Geswin.

Details of these and other movements in the convertible notes and share capital of the Company are set out in note 26 and 29 to the financial statements, respectively.

## INVESTMENT PROPERTIES

During the year, investment properties with an aggregate net book value of approximately HK\$37.0 million were acquired.

The Group's investment properties at 31 March 2005 were revalued by an independent firm of professional valuer on an open market value basis. The gain arising on the revaluation, which has been credited to the income statement, amounted to HK\$4.2 million.

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

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## PROPERTY, PLANT AND EQUIPMENT

During the year, certain items of property, plant and equipment with an aggregate net book value of HK\$206.1 million were acquired as a result of the acquisition of subsidiaries.

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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



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## DIRECTORS

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

### Executive directors:

Tang Ching Ho

Chan Chun Hong, Thomas

### Non executive director:

Leung Wai Ho

### Independent non-executive directors:

Siu Man Ho, Simon

Yuen Chi Choi

Cho Wing Mou

In accordance with clause 87 of the Company's Bye-laws, Mr. Yuen Chi Choi shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

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

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws and, subject to eligibility, may then be re-elected.



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## DIRECTORS' INTERESTS IN SECURITIES

None of the directors, chief executives, nor their associates, had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 March 2005, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Director of Listed Companies ("Model Code").

## SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 30 to the financial statements.

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

Option type	Date of grant	Exercise price	Exercise price	Exercisable period	Number of options		
		per share prior to Rights and Bonus Issue	per share adjusted for the effect of Rights and Bonus Issue		Outstanding at 1.4.2004	Cancelled during the year	Outstanding at 31.3.2005
		HK\$	HK\$				
			(note)				
<b>1997 Scheme</b>							
Employees	9.12.1999	28.50	5.7	9.12.1999 to 8.12.2009	37,600	(37,600)	–
	3.3.2000	82.00	16.4	3.3.2000 to 2.3.2010	20,000	(20,000)	–
					57,600	(57,600)	–

Note: The exercise price per share brought forward from last year has been adjusted to reflect the effect of the Rights and Bonus Issue during the year.

As at the date of this report, the total number of shares available for issue under the Company's share option scheme is 27,638,642, representing 7.9% of the share capital of the Company in issue at the date of this report.



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Other than 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 debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that, as at 31 March 2005, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

### Ordinary shares at HK\$0.01 each

Name of shareholder	Number of shares	Percentage
	(Note 1)	(Note 3)
Wang On (Note 2)	1,197,323,315(L)	32.44%
Wang On Enterprises (BVI) Limited ("WOE") (Note 2)	1,197,323,315(L)	32.44%
Rich Time Strategy Limited ("Rich Time") (Note 2)	1,197,323,315(L)	32.44%

Note:

1. The letter "L" denotes a long position in the shares of the Company.
2. Rich Time is wholly owned by WOE, which is wholly owned by Wang On. WOE and Wang On are deemed to be interested in 1,197,323,315 shares held by Rich Time. Out of 1,197,323,315 shares, 200,000,000 shares are the shares issuable upon conversion of the convertible notes held by Rich Time.
3. The percentage represented the number of shares over the total of the share capital of the Company as at 31 March 2005 of 3,490,869,225 shares and 200,000,000 shares issuable upon conversion of the convertible notes held by Rich Time.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital as at 31 March 2005.



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## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On 8 April 2004 and 28 January 2005, the Group entered into conditional sale and purchase agreements with Wang On to acquire the entire equity interests in, and shareholder's loan to, WOD and Geswin, respectively. Wang On is a substantial shareholder of the Company. The transactions with Wang On constituted connected transactions under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

On 1 July 2004, WOD Investments Limited entered into a lease agreement with Denox Management Limited, a wholly owned subsidiary of Wang On, for certain office situated in Hong Kong, which constituted a connected transactions under Chapter 14A of the Listing Rules.

On 23 July 2004, Wai Yuen Tong (Retail) Limited, a subsidiary of the Company, entered into a lease agreement with Geswin, a then indirect wholly-owned subsidiary of Wang On, for certain retail shops situated in Hong Kong, which constituted a continuing connected transactions under Chapter 14A of the Listing Rules. On the completion of the acquisition of entire interests in, and shareholders' loan to, Geswin by the Group on 14 March 2005, the lease transaction ceased to constitute a continuing connected transactions under the Listing Rules.

In addition, on 29 July 2004, Winning Forever Limited, an indirectly held associate of the Company, entered into a lease agreement with Century Fortune Hong Kong Limited, an indirectly owned subsidiary of Wang On, for certain leasehold land and buildings situated in Hong Kong, which also constituted a continuing connected transactions pursuant to Chapter 14 of the Listing Rules.

Further details of these and other discloseable connected transactions during the year are set out in note 40 to the financial statements.

The independent non-executive directors confirm that the transactions were entered into by the Group in the ordinary course of its business, on terms no less favourable than terms available to independent third parties and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.





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Save as disclosed above:

- (i) 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; and
- (ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

## EMOLUMENT POLICY

The Group's emolument policy for its employees is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by the shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 30 to the financial statements.

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## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the Group's turnover.

During the year, the largest supplier accounted for 20% of the Group's purchases and the five largest suppliers of the Group accounted for 48% of the Group's purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the directors owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest suppliers.



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## DONATIONS

During the year, the Group made charitable and other donations totalling HK\$3.7 million (2004: HK\$30,000).

## 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 its existing shareholders.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

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The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of its independent non-executive directors are independent.

## AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 under Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee also reviewed the audited consolidated financial statements for the year ended 31 March 2005 of the Group. The audit committee comprises three independent non-executive directors of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2005.



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## POST BALANCE SHEET EVENTS

Details of significant events taking place after the balance sheet date are set out in note 41 to the financial statements.

## 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**

*Director*

6 July 2005

