

Chinese Medicine



Property Investment



Chinese Wet Market



Shopping Centre

Car Park



Annual Report 2002



WANG ON GROUP LIMITED

宏安集團有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

Corporate Information

BOARD OF DIRECTORS

Mr. Tang Ching Ho

Chairman and Managing Director

Ms. Yau Yuk Yin

Deputy Chairman and Deputy Managing Director

Mr. Chan Chun Hong, Thomas

Dr. Lee Peng Fei, Allen, CBE, JP*

Mr. Wong Chun, Justein, MBE, JP*

Dr. Siu Yim Kwan, Sidney*

* *Independent Non-Executive Director*

COMPANY SECRETARY

Mr. Chan Chun Hong, Thomas

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

Dah Sing Bank, Limited

The Bank of East Asia, Limited

International Bank of Asia Limited

AUDITORS

Ernst & Young

LEGAL ADVISORS

Chao & Chung

REGISTERED OFFICE

Clarendon House

Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

12th Floor, Tower 1

South Seas Centre

No.75 Mody Road

Tsimshatsui East

Kowloon

SHARE REGISTRARS

Tengis Limited

4th Floor, Hutchison House

10 Harcourt Road

Hong Kong

STOCK CODE

1222

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Garden Rooms C-D, 2nd Floor, Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Thursday, 22 August 2002 at 10:45 a.m. for the following purposes:-

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and Auditors for the year ended 31 March 2002.
2. To re-elect Dr. Siu Yim Kwan, Sidney as an independent non-executive director.
3. To re-appoint Auditors and to authorised the Board of Directors to fix their remuneration.
4. As special business, consider and, if thought fit, pass with or without modifications the following resolutions as Ordinary Resolutions:-

(A) **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company (“Shares”) or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares, and to make or grant offers, agreements and options which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall in addition to any other authorisations given to the Directors authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to:
 - (i) a Rights Issue (as hereinafter defined);
 - (ii) the exercise of rights of subscription or conversion under terms of any warrants issued by the Company or any securities which are convertible into Shares;
 - (iii) the exercise of any option under the share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to eligible persons Shares or rights to acquire Shares; or

Notice of Annual General Meeting

- (iv) an issue of Shares as scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on the Shares in accordance with the bye-laws of the Company in force from time to time,

shall not exceed in total 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution, and the said approval shall be limited accordingly; and

- (d) for the purpose of this resolution:-

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda law or the Company’s bye-laws to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means the allotment, issue or grant of Shares pursuant to an offer of Shares open for a period fixed by the Directors to holders of Shares or any class thereof on the register of members on a fixed record date in proportion to their then holdings of such Shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or stock exchange in any territory outside Hong Kong).”

- (B) **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the capital of the Company (“Shares”) be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the Shares which may be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution, and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(c) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda law or the Company’s bye-laws to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

(C) “**THAT** conditional upon the passing of the resolutions set out in paragraphs (A) and (B) of item 4 in the notice convening this meeting (“Notice”), the general mandate granted to the directors of the Company (“Directors”) to exercise the powers of the Company to allot, issue and otherwise deal with shares of the Company pursuant to resolution set out in paragraph (A) of item 4 in the Notice be and is hereby extended by the additional to the aggregate nominal amount of the share capital of the Company which may be allotted by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution set out in paragraph (B) of item 4 in the Notice, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution.”

By Order of the Board
WANG ON GROUP LIMITED
Chan Chun Hong, Thomas
Director and Company Secretary

Hong Kong
19 July 2002

Notes:

- (1) A member entitled to attend and vote at the above Meeting is entitled to appoint one or more than one proxy to attend and to vote instead of him. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy, together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company’s Hong Kong branch share registrar, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Meeting.
- (3) Completion and delivery of the form of proxy will not preclude members from attending and voting at the above Meeting or any adjournment thereof, in which case the form of proxy shall be deemed to be revoked.

Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present to our shareholders our annual results for the year ended 31 March 2002.

RESULTS

The Group's turnover and net profit attributable to shareholders for the year amounted to HK\$320.0 million (2001: HK\$212.0 million) and HK\$27.7 million (2001: loss of HK\$47.5 million), respectively.

DIVIDEND

No interim dividend was paid during the year under review (2001: Nil). The directors do not recommend the payment of a final dividend (2001: Nil).

REVIEW OF OPERATIONS

It was an encouraging year for our Group. Despite the downturn of the global economy and the difficult restructuring of the Hong Kong economy, the Group's business has continued to grow with returns to shareholders being strengthened. Turnover increased over 50% from last year, a net profit of HK\$27.7 million was recorded (as compared with a loss for last year) and our cash and cash equivalents and shareholders' equity were increased from last year's HK\$185.6 million and HK\$159.9 million, respectively, to the current year's HK\$313.8 million and HK\$468.0 million, respectively.

Management and Sub-licensing of Chinese Wet Markets

This area of business continues to be the Group's core business, contributing nearly half of the Group's turnover in the year under review. Relating to people's everyday necessities, turnover and profit contribution continued their growth despite the sluggish Hong Kong economy.

I am pleased to announce that the Hong Kong Housing Authority has recently granted to the Group the lease for the Chinese wet market at Yu Chui Shopping Centre, Shatin, with a floor area of approximately 15,000 sq. ft., which will add to the existing 12 Chinese wet markets, with a total area of 257,000 sq.ft., currently operated by the Group.

Management and Sub-licensing of Shopping Centres and Car Parks

The Group currently manages and operates 8 shopping centres with a total floor area of over 1.4 million sq. ft. and over 3,800 car parking bays, which continue to generate steady contribution to the Group.

Wai Yuen Tong Medicine Company Limited ("Wai Yuen Tong")

The acquisition of Wai Yuen Tong in February 2001 has proven to be an excellent investment decision. With the efforts contributed by the Group, Wai Yuen Tong's turnover and net profit increased from HK\$39.4 million and HK\$9.1 million (excluding a one-off gain on disposal of property, plant and equipment of HK\$3.3 million), respectively, for the 15 months ended 31 March 2001 to HK\$72.4 million and HK\$14.9 million, respectively, for the year ended 31 March 2002, which resulted in a significant contribution to the Group's turnover and net profit.

As described in the section "Investment in Dailywin Group Limited" below, with a view to enhance the Group's investment in Dailywin and to assist the Dailywin Group to improve its financial performance, the Group has since the end of the year under review disposed of Wai Yuen Tong to Dailywin in return for Dailywin's shares and convertible notes.

Chairman's Statement

REVIEW OF OPERATIONS *(continued)*

Other Investments in Pharmaceutical Business

During the year under review, the Group has invested in Luxembourg Medicine Company Limited ("Luxembourg") by acquisitions of an aggregate of approximately 47.5% equity interests in Luxembourg.

The Group also acquired 22% equity interests in China Field Enterprises Limited which holds a 80% equity interests in Hunan Xiangya Pharmaceutical Company Limited.

Investment in Dailywin Group Limited ("Dailywin")

Since acquiring a significant equity interest in Dailywin in August 2001, substantial efforts were contributed by the Group in the restructuring and re-engineering of the financial and business position of Dailywin. As detailed in Dailywin's announcement dated 7 February 2002, the legal disputes between Dailywin and the trustee for the holders of the convertible loan stock were resolved.

Since the end of the year under review, and as stated in an announcement dated 22 May 2002 with further details being provided in a circular of the Company dated 17 June 2002, the Group entered into an agreement with Dailywin to dispose of its entire interest of 75.79% in Wai Yuen Tong to Dailywin at a consideration of approximately HK\$167.0 million to be satisfied by the issue by Dailywin of new shares and convertible notes. The transaction was approved in the Company's and Dailywin's special general meetings held on 3 July 2002 and was completed on 9 July 2002.

The disposal together with the placement by the Company on 9 July 2002 of some of Dailywin's shares received as part of the consideration for the Wai Yuen Tong disposal, resulted in cash inflow of around HK\$35.0 million to the Group while the Group will, through its long-term increased shareholding in Dailywin, continue to enjoy the benefit generated from any future growth of Wai Yuen Tong.

LIQUIDITY AND FINANCIAL RESOURCES

With a view to enlarging the Company's shareholder base and strengthening the financial position of the Company, the following fund raising capital exercises were made during the year:

- a. In August 2001, convertible bonds amounting to HK\$30,080,000 with a conversion price of HK\$0.188 per share, were issued. The bonds were subsequently fully converted into 160 million ordinary shares during the month.
- b. In October 2001, approximately HK\$12 million was raised through a top-up placing of 160 million new ordinary shares at HK\$0.08 per share.
- c. In November 2001, approximately HK\$20 million was raised through a top-up placing of 228 million new ordinary shares at HK\$0.09 per share.
- d. In December 2001, approximately HK\$24 million was raised through a top-up placing of 274 million new ordinary shares at HK\$0.09 per share.

Chairman's Statement

LIQUIDITY AND FINANCIAL RESOURCES *(continued)*

- e. In March 2002, approximately HK\$190 million was raised through a rights issue on the basis of four rights shares for every existing share held with one bonus share for four fully paid rights shares.

Subsequent to the year end, in May 2002, approximately HK\$36.5 million was raised through a top-up placing of 1,950 million new ordinary shares at HK\$0.02 per share. In June 2002, 2,000 million unlisted warrants with an initial exercise price of HK1.7 cents per share were issued at a subscription price of HK0.1 cent per share.

The Group's gearing ratio as at 31 March 2002 was approximately 0.10 (calculated with reference to the Group's total borrowings and capital and reserves of approximately HK\$46.1 million and HK\$468.0 million, respectively, as at 31 March 2002).

At 31 March 2002, the Group's investment properties and property held for re-sale with an aggregate value of approximately HK\$22.9 million and certain rental income generated therefrom were pledged to secure the Group's general banking facilities, approximately HK\$27.6 million of which was utilised at 31 March 2002.

The Group's contingent liabilities as at 31 March 2002 amounted to approximately HK\$27.9 million (2001: HK\$42.8 million).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2002, the Group had around 600 full time employees, over 95% of whom were located in Hong Kong.

The Group remunerates its employees mainly based on industry practices and individual performance and experience. On top of the regular remuneration, discretionary bonus and share option may be granted to selected staff by reference to the Group's performance as well as the individual's performance. Other benefits, such as medical and retirement benefits, are also provided.

PROSPECTS

With its strong financial resources and liquidity, the Group will continue to consolidate and strengthen its commercial properties management business and actively look for good investment opportunities with the potential to enhance the Group's future returns.

APPRECIATION

I would like to take this opportunity to thank all my fellow directors and the staff of the Group for their relentless dedication and hard work during the year.

By Order of the Board

Tang Ching Ho

Chairman and Managing Director

Hong Kong
19 July 2002

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.

Report of the Directors

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.

Report of the Directors

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.

Report of the Directors

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 |

Report of the Directors

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.

Report of the Directors

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), secondees, 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.

Report of the Directors

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 |
|---------------------------------------|-------------------------|---------------------------------|------------------|--------------------------------------|-------------------------------------|------------------|
| | At | Adjustments | At | | | of share |
| | 1 April 2001 | during the year [#] | 31 March 2002 | | | options* HK\$ |
| 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.

Report of the Directors

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

- 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.
- 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:

| | | | Group | |
|------------------------------|-----------------------|--------------------------------------|----------|----------|
| | | | 2002 | 2001 |
| Name of company | Nature of transaction | | HK\$'000 | 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 | — |

Report of the Directors

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

Report of the Auditors



To the members
Wang On Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 19 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
19 July 2002

Consolidated Profit and Loss Account

Year ended 31 March 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|--|-------|-------------------|------------------|
| TURNOVER | 5 | 320,047 | 211,998 |
| Cost of sales | | (223,891) | (201,625) |
| Gross profit | | 96,156 | 10,373 |
| Other revenue and gains | 5 | 22,889 | 24,190 |
| Selling and distribution costs | | (20,762) | (2,637) |
| Administrative expenses | | (53,407) | (40,114) |
| Other operating expenses | | (6,120) | (18,084) |
| Provision for impairment of investments | | – | (20,715) |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | 6 | 38,756 | (46,987) |
| Finance costs | 7 | (3,482) | (1,850) |
| Share of profits and losses of associates | | 3,331 | 899 |
| Amortisation of goodwill of associates | | (4,482) | – |
| PROFIT/(LOSS) BEFORE TAX | | 34,123 | (47,938) |
| Tax | 10 | (3,634) | 138 |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS | | 30,489 | (47,800) |
| Minority interests | | (2,789) | 287 |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 11 | 27,700 | (47,513) |
| DIVIDEND Proposed final | | – | – |
| EARNINGS/(LOSS) PER SHARE | 12 | | |
| Basic | | 1.81 cents | (4.39 cents) |
| Diluted | | 1.80 cents | N/A |

Consolidated Statement of Recognised Gains and Losses

Year ended 31 March 2002

| | Note | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------|------------------|------------------|
| Surplus/(deficit) on revaluation of investment properties | 32 | 1,989 | (1,841) |
| Net gains/(losses) not recognised in the profit and loss account | | 1,989 | (1,841) |
| Net profit/(loss) for the year attributable to shareholders | | 27,700 | (47,513) |
| Total recognised gains and losses | | 29,689 | (49,354) |
| Goodwill eliminated directly against consolidated reserves | 32 | – | (95,769) |
| | | 29,689 | (145,123) |

Consolidated Balance Sheet

31 March 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 13 | 71,528 | 66,371 |
| Intangible assets | 14 | 233 | – |
| Goodwill | 15 | 75 | – |
| Interests in associates | 17 | 157,126 | 729 |
| Long term investments | 18 | 1,000 | 7,437 |
| Loans receivable | | 3,399 | 2,586 |
| Rental deposits paid | | 24,866 | 21,650 |
| Deposit paid for purchase of fixed assets | | 4,000 | – |
| | | 262,227 | 98,773 |
| CURRENT ASSETS | | | |
| Properties held for re-sale | 19 | 1,167 | 5,134 |
| Short term investments | 18 | 8,914 | 11,263 |
| Inventories | 20 | 11,652 | 4,359 |
| Trade receivables | 21 | 27,517 | 6,711 |
| Prepayments, deposits and other debtors | 22 | 21,202 | 19,237 |
| Tax recoverable | | 496 | 182 |
| Cash and cash equivalents | 23 | 313,806 | 185,636 |
| | | 384,754 | 232,522 |
| CURRENT LIABILITIES | | | |
| Deferred income | | 90 | – |
| Trade payables | 24 | 10,515 | 5,440 |
| Other payables and accruals | 25 | 26,644 | 27,703 |
| Deposits received and receipts in advance | | 53,319 | 49,881 |
| Interest-bearing bank and other borrowings | 26 | 21,266 | 14,676 |
| Provisions for onerous contracts | 27 | 10,695 | 9,367 |
| Tax payable | | 3,434 | 2,467 |
| | | 125,963 | 109,534 |
| NET CURRENT ASSETS | | 258,791 | 122,988 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 521,018 | 221,761 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income | | 338 | – |
| Interest-bearing bank loans | 28 | 24,697 | 29,526 |
| Finance lease payables | 29 | 110 | 168 |
| Provisions for onerous contracts | 27 | 16,322 | 23,339 |
| Deferred tax | 30 | 983 | 983 |
| | | 42,450 | 54,016 |
| MINORITY INTERESTS | | 10,569 | 7,829 |
| | | 467,999 | 159,916 |

Consolidated Balance Sheet *(continued)*

31 March 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|-------------------------|-------|------------------|------------------|
| CAPITAL AND RESERVES | | | |
| Issued capital | 31 | 98,644 | 8,221 |
| Reserves | 32 | 369,355 | 151,695 |
| Proposed final dividend | | – | – |
| | | 467,999 | 159,916 |

Tang Ching Ho
Director

Chan Chun Hong, Thomas
Director

Consolidated Cash Flow Statement

Year ended 31 March 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|--|-------------|------------------|------------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 33(a) | 6,818 | 694 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest income from investments | | 1,381 | 2,142 |
| Interest received | | 6,340 | 12,172 |
| Interest paid | | (3,482) | (1,845) |
| Interest element of finance lease rental payments | | – | (5) |
| Dividend received from investments | | 10 | – |
| Dividend paid to minority shareholders | | (1,600) | (6,867) |
| Net cash inflow from returns on investments and servicing of finance | | 2,649 | 5,597 |
| TAX | | | |
| Hong Kong profits tax paid | | (2,301) | (340) |
| INVESTING ACTIVITIES | | | |
| Decrease/(increase) in amounts due from associates | | (66,147) | 3,041 |
| Decrease in pledged time deposits | | – | 8,037 |
| Purchases of subsidiaries | 33(b) & (c) | (100) | (108,693) |
| Purchases of associates | | (91,483) | (2,226) |
| Proceeds from disposal of subsidiaries | 33(d) | – | 4,972 |
| Proceeds from disposal of interests in a subsidiary | 33(e) | – | 30,029 |
| Proceeds from disposal of an associate | | 1,300 | – |
| Increase in deposit paid for purchase of fixed assets | | (4,000) | – |
| Purchases of fixed assets | | (16,152) | (12,910) |
| Purchases of investment properties | | – | (41) |
| Proceeds from disposal of fixed assets | | 58 | 970 |
| Proceeds from disposal of investments | | 54,991 | 44,744 |
| Purchases of long term investments | | (1,000) | (36,447) |
| Purchases of short term investments | | (36,575) | (48,216) |
| Purchases of intangible assets | | (235) | – |
| Net cash outflow from investing activities | | (159,343) | (116,740) |

Consolidated Cash Flow Statement *(continued)*

Year ended 31 March 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|--|-------|------------------|------------------|
| NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES | | (152,177) | (110,789) |
| FINANCING ACTIVITIES | 33(f) | | |
| Proceeds from issue of shares | | 285,347 | 39,150 |
| Share issue expenses | | (8,253) | (779) |
| Repayment of bank loans | | (19,416) | (3,666) |
| New bank loans | | 22,000 | 30,000 |
| Capital element of finance lease rental payments | | (58) | 63 |
| Contributions from minority shareholders | | 1,550 | 287 |
| Net cash inflow from financing activities | | 281,170 | 65,055 |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 128,993 | (45,734) |
| Cash and cash equivalents at beginning of year | | 184,813 | 230,547 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 313,806 | 184,813 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | 27,625 | 30,799 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | 286,181 | 154,837 |
| Bank overdrafts | | – | (823) |
| | | 313,806 | 184,813 |

Balance Sheet

31 March 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 13 | 30 | 49 |
| Interests in subsidiaries | 16 | 166,828 | 56,490 |
| Interests in associates | 17 | 522 | 219 |
| | | 167,380 | 56,758 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other debtors | 22 | 470 | 154 |
| Cash and cash equivalents | 23 | 281,778 | 111,306 |
| | | 282,248 | 111,460 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 25 | 1,735 | 519 |
| | | 1,735 | 519 |
| NET CURRENT ASSETS | | | |
| | | 280,513 | 110,941 |
| | | 447,893 | 167,699 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 31 | 98,644 | 8,221 |
| Reserves | 32 | 349,249 | 159,478 |
| Proposed final dividend | | – | – |
| | | 447,893 | 167,699 |

Tang Ching Ho
Director

Chan Chun Hong, Thomas
Director

Notes to Financial Statements

31 March 2002

1. CORPORATE INFORMATION

The head office and principal place of business of Wang On Group Limited is located at 12th Floor, Tower 1, South Seas Centre, No. 75 Mody Road, Tsimshatsui East, Kowloon.

During the year, the Group was involved in the following principal activities:

- management and sub-licensing of Chinese wet markets, shopping centres and car parks
- manufacture and sale of Chinese medicine, herbs and other medicinal products
- provision of project management and agency services
- property investment

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised) : “Events after the balance sheet date”
- SSAP 14 (Revised) : “Leases”
- SSAP 18 (Revised) : “Revenue”
- SSAP 26 : “Segment reporting”
- SSAP 28 : “Provisions, contingent liabilities and contingent assets”
- SSAP 29 : “Intangible assets”
- SSAP 30 : “Business combinations”
- SSAP 31 : “Impairment of assets”
- SSAP 32 : “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12 : “Business combinations – subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13 : “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet.

Notes to Financial Statements

31 March 2002

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

(continued)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 29 and 35 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 15 to the financial statements. The required new additional disclosures are included in note 32 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

Notes to Financial Statements

31 March 2002

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

(continued)

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 10 : “Accounting for investments in associates”
- SSAP 17 : “Property, plant and equipment”
- SSAP 21 : “Accounting for interests in joint ventures”

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain investments in securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company’s interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group’s share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group’s interests in associates are stated in the consolidated balance sheet at the Group’s share of net assets under the equity method of accounting less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in reserves, is included as part of the Group’s interests in associates.

Notes to Financial Statements

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates *(continued)*

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

Notes to Financial Statements

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill *(continued)*

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 April 2001, to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|--|----------------------|
| Leasehold land | Over the lease terms |
| Buildings | 2% |
| Leasehold improvements | 10% – 20% |
| Plant and machinery | 15% – 20% |
| Furniture, fixtures and office equipment | 15% – 20% |
| Motor vehicles | 20% – 30% |
| Computer equipment | 15% – 30% |

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Intangible assets represent expenses incurred for the application and registration of trademarks and patents. Trademarks and patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Notes to Financial Statements

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provision for onerous contracts

Onerous contracts represent lease contracts for certain Hong Kong properties and projects where the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them. Provisions for onerous contracts are recognised based on the difference between the rental payments receivable by the Group and those unavoidable rental payments payable by the Group under the contracts, together with any compensation or penalties arising from failure to fulfill the contracts, discounted to their present value as appropriate.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Investments

Debt securities which are intended to be held to maturity are accounted for as held-to-maturity securities, while other securities are accounted for as investment securities or other investments, as explained below.

The profit or loss on disposal of an investment is credited or charged to the profit and loss account in the period in which the disposal occurs, and is calculated as the difference between the net sales proceeds and the carrying amount of the investment.

Provisions against the carrying amounts of investments are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Notes to Financial Statements

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments *(continued)*

Held-to-maturity securities

Investments in dated debt securities which are intended to be held to maturity are stated at cost, adjusted for the amortisation of premiums or discounts arising on acquisitions, less any provisions for impairment in values.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised as an expense in the profit and loss account in the period in which they arise.

Investment securities

Investments in dated debt securities, equity securities and unit trusts, intended to be held for a continuing strategic or identified long term purpose, are stated at cost less any provisions for impairment in values.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise.

Other investments

Investments in equity securities which are not intended to be held for an identified long term purpose are stated in the balance sheet at fair values. Fair values are determined on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of such investments are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction, renovation and decoration contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the percentage of billings raised to the estimated total billings for each contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is reflected as an amount due from contract customers.

Notes to Financial Statements

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction, renovation and decoration contracts *(continued)*

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Website development costs

Costs incurred for the development and enhancement of websites are charged to the profit and loss account as incurred.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from construction and decoration contracts, on the percentage of completion basis as further explained in the accounting policy for "Construction, renovation and decoration contracts" above;
- (b) from the provision of project management and agency services, when the services are rendered;
- (c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

Notes to Financial Statements

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

- (d) from the sale of properties, at the time when the sale agreement becomes unconditional;
- (e) franchise fee income, on a time proportion basis over the franchise period;
- (f) rental and sub-licensing fee income, on an accrual basis; and
- (g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Prior to the Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "prior scheme") for those employees who were eligible to participate in this scheme. This prior scheme operated in a similar way to the Scheme, except that when an employee left the prior scheme before his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer contributions. This prior scheme was terminated with effect from 1 December 2000.

Notes to Financial Statements

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Properties held for re-sale

Properties held for re-sale are stated at the lower of their carrying values and net realisable values, which are determined by the directors by reference to prevailing market prices.

Deferred income

Deferred income represents the initial franchise fee received, which is recognised as income on a time proportion basis over the franchise period.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the Chinese wet markets segment engages in the management and sub-licensing of Chinese wet markets;
- (b) the shopping centres and car parks segment engages in the management and sub-licensing of shopping centres and car parks;
- (c) the pharmaceutical segment manufactures and sells Chinese medicine, herbs and other medicinal products; and
- (d) the corporate and other segment comprises the Group's management services business, which provides management and security services and provides cleaning services. This segment also includes corporate income and expense items.

No geographical segment information is presented as over 90% of the Group's turnover was derived from customers in Hong Kong during the year.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31 March 2002

4. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

| Group | Chinese wet markets | | Shopping centres and car parks | | Pharmaceutical | | Corporate and other | | Eliminations | | Consolidated | |
|--|---------------------|----------|--------------------------------|----------|----------------|----------|---------------------|----------|--------------|----------|--------------|----------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | 152,770 | 98,471 | 85,939 | 97,119 | 70,727 | 9,036 | 10,611 | 7,372 | – | – | 320,047 | 211,998 |
| Intersegment sales | 767 | 6 | 994 | 880 | 1,609 | – | – | – | (3,370) | (886) | – | – |
| Other revenue | 995 | 1,101 | 2,713 | 3,273 | 1,052 | 1,043 | 10,408 | 4,459 | – | – | 15,168 | 9,876 |
| Total | 154,532 | 99,578 | 89,646 | 101,272 | 73,388 | 10,079 | 21,019 | 11,831 | (3,370) | (886) | 335,215 | 221,874 |
| Segment results | 13,676 | 4,641 | 2,194 | (10,731) | 17,044 | 1,866 | 4,472 | (52,269) | (846) | – | 36,540 | (56,493) |
| Unallocated expenses | | | | | | | | | | | (5,505) | (4,808) |
| Interest income | | | | | | | | | | | 7,721 | 14,314 |
| Profit/(loss) from operating activities | | | | | | | | | | | 38,756 | (46,987) |
| Finance costs | | | | | | | | | | | (3,482) | (1,850) |
| Share of profits and losses of associates (including amortisation of goodwill) | | | | | | | | | | | (1,151) | 899 |
| Profit/(loss) before tax | | | | | | | | | | | 34,123 | (47,938) |
| Tax | | | | | | | | | | | (3,634) | 138 |
| Profit/(loss) before minority interests | | | | | | | | | | | 30,489 | (47,800) |
| Minority interests | | | | | | | | | | | (2,789) | 287 |
| Net profit/(loss) from ordinary activities attributable to shareholders | | | | | | | | | | | 27,700 | (47,513) |

| Group | Chinese wet markets | | Shopping centres and car parks | | Pharmaceutical | | Corporate and other | | Eliminations | | Consolidated | |
|----------------------------|---------------------|----------|--------------------------------|----------|----------------|----------|---------------------|----------|--------------|----------|--------------|-----------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 85,602 | 66,376 | 37,551 | 41,918 | 52,628 | 36,347 | 379,499 | 232,747 | (65,921) | (47,827) | 489,359 | 329,561 |
| Interests in associates | – | – | 3 | – | 72,416 | 200 | 84,707 | 529 | – | – | 157,126 | 729 |
| Total assets | 85,602 | 66,376 | 37,554 | 41,918 | 125,044 | 36,547 | 464,206 | 233,276 | (65,921) | (47,827) | 646,485 | 330,290 |
| Segment liabilities | (78,072) | (60,328) | (58,611) | (69,872) | (11,302) | (3,889) | (35,013) | (29,468) | 65,076 | 47,827 | (117,922) | (115,730) |
| Unallocated liabilities | – | – | – | – | – | – | – | – | – | – | (49,995) | (46,815) |
| Total liabilities | (78,072) | (60,328) | (58,611) | (69,872) | (11,302) | (3,889) | (35,013) | (29,468) | 65,076 | 47,827 | (167,917) | (162,545) |
| Other segment information: | | | | | | | | | | | | |
| Depreciation | 8,412 | 5,218 | 4,461 | 4,202 | 1,865 | 339 | 1,075 | 1,145 | – | – | 15,813 | 10,904 |
| Amortisation: | | | | | | | | | | | | |
| Goodwill | – | – | – | – | 1,517 | – | 2,990 | – | – | – | 4,507 | – |
| Intangible assets | – | – | – | – | 2 | – | – | – | – | – | 2 | – |
| Other non-cash expenses | – | – | – | – | – | – | 2,201 | 61,500 | – | – | 2,201 | 61,500 |
| Capital expenditure | 10,596 | 6,639 | 330 | 2,780 | 3,547 | 2,495 | 1,679 | 1,037 | – | – | 16,152 | 12,951 |

Notes to Financial Statements

31 March 2002

5. TURNOVER, REVENUE AND GAINS

Turnover represents management and sub-licensing fee income received and receivable; the invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and the gross rental income received and receivable from investment properties during the year.

An analysis of turnover, other revenue and gains is as follows:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|------------------|------------------|
| Turnover | | |
| Sub-licensing fee income | 232,859 | 184,732 |
| Management income | 5,946 | 10,858 |
| Sales of goods | 75,620 | 10,266 |
| Rendering of services | 4,030 | 4,408 |
| Gross rental income | 1,592 | 1,734 |
| | 320,047 | 211,998 |
| Other revenue | | |
| Interest income | 6,340 | 12,172 |
| Interest income from investments | 1,381 | 2,142 |
| Forfeiture of deposits received | 431 | 270 |
| Franchise income | 323 | – |
| Others | 5,784 | 6,050 |
| | 14,259 | 20,634 |
| Gains | | |
| Gain on disposal of investments | 8,546 | 2,281 |
| Net holding gain on investments | 84 | 215 |
| Gain on disposal of interests in subsidiaries | – | 1,060 |
| | 8,630 | 3,556 |
| | 22,889 | 24,190 |

Notes to Financial Statements

31 March 2002

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

| | Group | |
|--|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Amortisation of trademarks and patents * | 2 | – |
| Amortisation of goodwill**** | 25 | – |
| Auditors' remuneration | 900 | 945 |
| Cost of inventories sold | 24,741 | 3,398 |
| Cost of services provided | 195,094 | 197,647 |
| Depreciation | 15,813 | 10,904 |
| Exchange losses, net | 955 | 12 |
| Loss on disposal of fixed assets | 614 | 19 |
| Minimum lease payments under operating leases for land and buildings | 138,325 | 119,515 |
| Provision for contingency, net | – | 8,927 |
| Provision/(write-back of provision) for doubtful debts | (903) | 4,544 |
| Provision for impairment of investments*** | – | 20,715 |
| Website development cost | – | 7,169 |
| Staff costs (including directors' remuneration – note 8): | | |
| Wages and salaries | 56,581 | 40,262 |
| Pension contributions | 1,873 | 754 |
| Less: Forfeited contributions | – | (148) |
| Net pension contributions** | 1,873 | 606 |
| | 58,454 | 40,868 |
| Net provision/(amount released) for onerous contracts – note 27 | (5,689) | 26,676 |
| Gain on disposal of properties held for re-sale | (6) | (641) |
| Net rental income | (2,219) | (1,734) |

* The amortisation of trademarks and patents for the year is included in "Selling and distribution costs" on the face of the consolidated profit and loss account.

** At 31 March 2002, the forfeited contributions available to reduce the Group's contributions to the pension scheme in future year were not material (2001: approximately HK\$148,000).

*** The provision for impairment of investments is included in "Provision for impairment of investments" on the face of the consolidated profit and loss account.

**** The amortisation of goodwill is included in "Other operating expenses" on the face of the consolidated profit and loss account.

Notes to Financial Statements

31 March 2002

7. FINANCE COSTS

| | Group | |
|---|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Interest on bank loans, overdrafts and other loans wholly repayable within five years | 3,482 | 1,845 |
| Interest on finance leases | – | 5 |
| | 3,482 | 1,850 |

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

| | Group | |
|---|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Fees: | | |
| Executive directors | – | – |
| Independent non-executive directors | 631 | 631 |
| Other emoluments for executive directors: | | |
| Salaries and allowances | 10,319 | 9,012 |
| Pension scheme contributions | 36 | 48 |
| | 10,986 | 9,691 |

The remuneration of the directors fell within the following bands:

| | Number of directors | |
|--------------------------------|---------------------|------|
| | 2002 | 2001 |
| Nil to HK\$1,000,000 | 3 | 3 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 1 |
| HK\$2,500,001 to HK\$3,000,000 | – | 1 |
| HK\$4,000,001 to HK\$4,500,000 | 2 | 1 |
| | 6 | 6 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

31 March 2002

8. DIRECTORS' REMUNERATION *(continued)*

During the year, 109,000,000 share options were granted to two of the directors as adjustments to their share options granted in the prior year, as a result of the rights issue and bonus share issue of the Company allotted during the year. Further details of the share options granted are set out under the heading "Share option schemes" in the Report of the Directors on pages 13 to 15 of the Annual Report. No value in respect of the share options granted during the year has been charged to the profit and loss account.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: three) directors, details of whose remuneration are disclosed in note 8 above. The details of the remuneration of the remaining two (2001: two) non-director, highest paid employees are as follows:

| | Group | |
|------------------------------|-----------------|----------|
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| Salaries and allowances | 3,021 | 2,199 |
| Pension scheme contributions | 175 | 45 |
| | 3,196 | 2,244 |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|--------------------------------|----------------------------|------|
| | 2002 | 2001 |
| Nil to HK\$1,000,000 | – | 1 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | – |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 1 |
| | 2 | 2 |

During the year, 110,000,000 share options were granted to the two non-director, highest paid employees as adjustments to their share options granted in the prior year, as a result of the rights issue and bonus share issue of the Company allotted during the year. Further details of the share options granted are set out under the heading "Share option schemes" in the Report of the Directors on pages 13 to 15 of the Annual Report. No value in respect of the share options granted during the year has been charged to the profit and loss account.

Notes to Financial Statements

31 March 2002

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

| | 2002 HK\$'000 | 2001 HK\$'000 |
|----------------------------------|------------------|------------------|
| Group: | | |
| Hong Kong profits tax | 3,092 | 411 |
| Overprovision in the prior year | (138) | (1,644) |
| Deferred – note 30 | – | 919 |
| | 2,954 | (314) |
| Share of tax attributable to: | | |
| Associates | 680 | 176 |
| Tax charge/(credit) for the year | 3,634 | (138) |

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company was HK\$3,100,000 (2001: loss of HK\$136,426,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK\$27,700,000 (2001: loss of HK\$47,513,000) and on the weighted average number of 1,531,551,990 (2001: 1,082,338,198) ordinary shares in issue during the year, as adjusted to reflect the rights issue and bonus issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$27,700,000. The weighted average number of ordinary shares used in the calculation is the 1,531,551,990 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 6,425,028 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

The diluted loss per share for the year ended 31 March 2001 has not been shown as the share options outstanding had an anti-dilutive effect on the basic loss per share.

Notes to Financial Statements

31 March 2002

13. FIXED ASSETS

Group

| | Investment properties HK\$'000 | Leasehold land and buildings HK\$'000 | Leasehold improve- ments HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and office equipment HK\$'000 | Motor vehicles HK\$'000 | Computer equipment HK\$'000 | Total HK\$'000 |
|--|--------------------------------------|--|--|------------------------------------|---|-------------------------------|-----------------------------------|-------------------|
| Cost or valuation: | | | | | | | | |
| At beginning of year | 17,750 | 6,156 | 32,094 | 8,541 | 69,393 | 2,851 | 2,938 | 139,723 |
| Additions | – | – | 11,163 | 2,642 | 1,280 | 330 | 737 | 16,152 |
| Transfer from properties held for re-sale | 3,501 | – | – | – | – | – | – | 3,501 |
| Disposals | – | – | (625) | (24) | (8) | (123) | – | (780) |
| Surplus on revaluation | 1,989 | – | – | – | – | – | – | 1,989 |
| Transfers | (1,550) | 1,550 | – | – | – | – | – | – |
| At 31 March 2002 | 21,690 | 7,706 | 42,632 | 11,159 | 70,665 | 3,058 | 3,675 | 160,585 |
| Accumulated depreciation: | | | | | | | | |
| At beginning of year | – | 831 | 15,146 | 5,983 | 46,529 | 2,719 | 2,144 | 73,352 |
| Provided during the year | – | 123 | 5,687 | 1,175 | 8,253 | 107 | 468 | 15,813 |
| Disposals | – | – | – | – | (4) | (104) | – | (108) |
| At 31 March 2002 | – | 954 | 20,833 | 7,158 | 54,778 | 2,722 | 2,612 | 89,057 |
| Net book value: | | | | | | | | |
| At 31 March 2002 | 21,690 | 6,752 | 21,799 | 4,001 | 15,887 | 336 | 1,063 | 71,528 |
| At 31 March 2001 | 17,750 | 5,325 | 16,948 | 2,558 | 22,864 | 132 | 794 | 66,371 |
| Analysis of cost or valuation: | | | | | | | | |
| At cost | – | 7,706 | 42,632 | 11,159 | 70,665 | 3,058 | 3,675 | 138,895 |
| At 31 March 2002 valuation | 21,690 | – | – | – | – | – | – | 21,690 |
| | 21,690 | 7,706 | 42,632 | 11,159 | 70,665 | 3,058 | 3,675 | 160,585 |

Notes to Financial Statements

31 March 2002

13. FIXED ASSETS (continued)

Company

| | Furniture, fixtures and office equipment HK\$'000 | Computer equipment HK\$'000 | Total HK\$'000 |
|----------------------------------|--|-----------------------------------|-------------------|
| Cost: | | | |
| At beginning of year | 10 | 66 | 76 |
| Additions | 5 | – | 5 |
| At 31 March 2002 | 15 | 66 | 81 |
| Accumulated depreciation: | | | |
| At beginning of year | 1 | 26 | 27 |
| Provided during the year | 4 | 20 | 24 |
| At 31 March 2002 | 5 | 46 | 51 |
| Net book value: | | | |
| At 31 March 2002 | 10 | 20 | 30 |
| At 31 March 2001 | 9 | 40 | 49 |

The net book value of the fixed assets of the Group held under finance leases included in the total amount of furniture, fixtures and office equipment at 31 March 2002 amounted to HK\$170,400 (2001: HK\$240,453).

The Group's leasehold land and buildings and investment properties are all situated in Hong Kong and held under medium term leases.

The Group's investment properties were revalued on 31 March 2002 by Vigers Hong Kong Limited, an independent professional valuer, on an open market, existing use basis. The investment properties are leased to a director of the Company and third parties under operating leases, further summary details of which are included in notes 35 and 38 to the financial statements.

At 31 March 2002, the Group's investment properties and property held for re-sale with an aggregate value of HK\$22,857,000 and certain rental income generated therefrom were pledged to secure the Group's general banking facilities, approximately HK\$27,625,000 of which was utilised at 31 March 2002 (Note 28).

Further particulars of the Group's investment properties are included on page 73.

Notes to Financial Statements

31 March 2002

14. INTANGIBLE ASSETS

| Group | Trademarks and patents |
|---|-----------------------------------|
| | HK\$'000 |
| Cost: | |
| Additions and at 31 March 2002 | 235 |
| Accumulated amortisation: | |
| Provided during the year and at 31 March 2002 | (2) |
| Net book value: | |
| At 31 March 2002 | 233 |

15. GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of a subsidiary and associates, are as follows:

| Group | Goodwill arising on acquisition of a subsidiary | Goodwill arising on acquisition of associates (Note 17) |
|--|--|--|
| | HK\$'000 | HK\$'000 |
| Cost: | | |
| Acquisitions during the year and at 31 March 2002 | 100 | 85,003 |
| Accumulated amortisation and impairment: | | |
| Amortisation provided during the year and at 31 March 2002 | (25) | (4,482) |
| Net amount: | | |
| At 31 March 2002 | 75 | 80,521 |

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 April 2001 to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

Notes to Financial Statements

31 March 2002

15. GOODWILL *(continued)*

The amounts of goodwill and negative goodwill remaining in consolidated reserves as at 31 March 2002, arising from the acquisition of subsidiaries prior to 1 April 2001, were HK\$95,933,000 and HK\$8,112,000, respectively. The amounts of goodwill and negative goodwill are stated at cost.

The amount of goodwill recorded in consolidated reserves as at 1 April 2001, arising from the acquisition of associates prior to 1 April 2001, was HK\$2,226,000. Upon disposal of an associate during the year, goodwill of HK\$1,300,000 was released from the consolidated reserves. The amount of goodwill remaining in consolidated reserves as at 31 March 2002 was HK\$926,000. The amount of goodwill is stated at cost.

16. INTERESTS IN SUBSIDIARIES

| | Company | |
|-----------------------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Unlisted shares, at cost | 71,000 | 71,000 |
| Due from subsidiaries – note (i) | 487,093 | 327,341 |
| Loans to subsidiaries – note (ii) | 77,321 | 93,863 |
| Due to subsidiaries – note (i) | (49,137) | (16,265) |
| | 586,277 | 475,939 |
| Provisions for impairment | (419,449) | (419,449) |
| | 166,828 | 56,490 |

Notes:

- (i) The amounts are unsecured and have no fixed terms of repayment. Except for a balance of HK\$65,750,000 advanced to a subsidiary which bears interest at Hong Kong dollar prime rate plus 2% p.a., the remaining balances are interest-free.
- (ii) The amounts are unsecured and have no fixed terms of repayment. Except for a loan to a subsidiary of HK\$14,472,000 which bears interest at 6% per annum, the remaining balances are interest-free.

Notes to Financial Statements

31 March 2002

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows:

| Name | Place of incorporation/ operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---------------------------------------|---|--|---------------|---|
| | | | Direct % | Indirect % | |
| Advance Century Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Investment holding |
| Billion Good Investment Limited | Hong Kong | Ordinary HK\$2 | – | 75.79 | Property holding and investment |
| Charter Golden Design & Contracting Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Provision of decoration services |
| China Ocean Investments Limited | Hong Kong | Ordinary HK\$5,000 “A” shares and HK\$5,000 “B” shares (Note 4) | – | 50.1 | Management of pork stalls and butcher shops |
| Conway Consultants Limited | Hong Kong | Ordinary HK\$1,400,000 Non-voting preference (Note 2) HK\$600,000 | – | 70 | Provision of medical consultation services |
| Denox Management Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Management and sub-letting of properties |
| Fenny Planning & Project Management Limited | Hong Kong | Ordinary HK\$100 | – | 100 | Promotion of Chinese wet markets |
| Fulling Limited | Hong Kong | Ordinary HK\$100 | – | 100 | Money lending |
| Geswin Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Investment holding |

Notes to Financial Statements

31 March 2002

16. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---------------------------------------|--|--|---------------|---|
| | | | Direct % | Indirect % | |
| Goodtech Management Limited | Hong Kong | Ordinary HK\$1,100,100 | – | 100 | Management of shopping centres |
| Grand Quality Development Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Property investment |
| Join China Investment Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Investment holding |
| Lead Fortune Limited | Hong Kong | Ordinary HK\$1,000 | – | 100 | Property management |
| Lica Parking Company Limited | Hong Kong | Ordinary HK\$25,500,000 | – | 99 | Management and sub-licensing of car parks |
| Macro Pacific Investment Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Investment holding |
| Majorluck Limited | Hong Kong | Ordinary HK\$10,000 | – | 100 | Management and sub-licensing of Chinese wet markets |
| Mak's Construction Company Limited (formerly known as Wang On Construction Engineering Limited) | Hong Kong | Ordinary HK\$15,000,000 Non-voting deferred (Note 3) HK\$100 | – | 100 | Provision of construction, renovation and project management services |
| Parking Lot Management Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Management and sub-licensing of car parks |

Notes to Financial Statements

31 March 2002

16. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|--|--|---------------|--|
| | | | Direct % | Indirect % | |
| Royal Focus Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Investment holding |
| Wai Yuen Tong Medicine Company Limited | Hong Kong | Ordinary HK\$217,374 Non-voting deferred (Note 3) HK\$17,373,750 | – | 75.79 | Manufacture and sale of Chinese medicine, herbs and other medicinal products |
| Wang On Builders Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Provision of renovation and project management services |
| Wang On Commercial Management Limited | British Virgin Islands/ Hong Kong | Ordinary US\$2 | – | 100 | Investment holding |
| Wang On Design & Contracting Limited | Hong Kong | Ordinary HK\$1,000,000 | – | 100 | Provision of decoration services |
| Wang On Engineering Holding Limited | Hong Kong | Ordinary HK\$477 Non-voting deferred (Note 3) HK\$1,262,523 | – | 100 | Provision of decoration and project management services |
| Wang On Enterprises (BVI) Limited | British Virgin Islands/ Hong Kong | Ordinary US\$1 | 100 | – | Investment holding |

Notes to Financial Statements

31 March 2002

16. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---------------------------------------|--|--|---------------|---|
| | | | Direct % | Indirect % | |
| Wang On Majorluck Limited | Hong Kong | Ordinary HK\$1,000 | – | 100 | Management and sub-licensing of Chinese wet markets |
| Wang On Shopping Centre Management Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Management and sub-licensing of shopping centres |
| Willing Dental Consultants Limited | Hong Kong | Ordinary HK\$100 | – | 100 | Provision of dental consultation services |

Notes:

- (1) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.
- (2) The non-voting preference shares carry no voting rights. They have priority over any other class of shares provided the assets of the Company available for distribution to its members.
- (3) The non-voting deferred shares carry no voting rights or rights to dividends. On the winding-up of the companies, the non-voting deferred shares have a right to repayment in proportion to the amounts paid up on all ordinary and deferred shares after the first HK\$1,000,000,000,000 thereof has been distributed among the holders of the ordinary shares.
- (4) Each "A" share and "B" share rank pari passu as regards to voting rights and all other aspects except that the holders of "A" shares shall be entitled to receive one-third of the profits distributed by ways of dividend and one-third of the capital and surplus assets upon winding up of the company while the holders of "B" shares shall be entitled to receive two-third of the profits distributed by ways of dividend and two-third of the capital and surplus assets upon winding up of the company.

Notes to Financial Statements

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17. INTERESTS IN ASSOCIATES

| | Group | | Company | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Share of net assets | 9,237 | 102 | – | – |
| Goodwill on acquisition – note 15 | 80,521 | – | – | – |
| | 89,758 | 102 | – | – |
| Due from associates | 1,221 | 1,227 | 522 | 219 |
| Loans to associates | 66,150 | – | – | – |
| | 157,129 | 1,329 | 522 | 219 |
| Provisions for impairment | (3) | (600) | – | – |
| | 157,126 | 729 | 522 | 219 |

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

Included in the loans to associates is an amount of HK\$400,000 which is unsecured, bears interest at 6% per annum and has no fixed terms of repayment.

The remaining loans to an associate with an aggregate amount of HK\$65,750,000 are unsecured, bear interest at the Hong Kong dollar prime rate plus 2% per annum and are repayable before September 2003. Subsequent to the balance sheet date, HK\$900,000 of the loans were repaid, and pursuant to a revised loan agreement, the repayment date of the remaining loans with an aggregate amount of HK\$64,850,000 is extended to July 2005.

Notes to Financial Statements

31 March 2002

17. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates at the balance sheet date are as follows:

| Name | Business structure | Place of incorporation/ operations | Percentage of ownership interest attributable to the Group | | Principal activities |
|--|--------------------|---------------------------------------|--|-----------|--|
| | | | 2002 % | 2001 % | |
| Dailywin Group Limited* (Notes 2 and 3) | Corporate | Bermuda/ Hong Kong | 29.19 | – | Manufacture and sale of watches and components |
| Luxembourg Medicine Company Limited (Note 2) | Corporate | Hong Kong | 47.53 | – | Manufacture and sale of cough syrup |
| China Field Enterprises Limited | Corporate | Hong Kong | 22 | – | Investment holding |
| Tse's Waxing & Cleaning Company Limited | Corporate | Hong Kong | 50 | 50 | Provision of cleaning services |

Notes:

- (1) The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.
 - (2) The financial statements of the company is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.
 - (3) The Group increased its equity interests in Dailywin Group Limited after the balance sheet date, as detailed in note 37 to the financial statements.
- * Listed on The Stock Exchange of Hong Kong Limited

Notes to Financial Statements

31 March 2002

17. INTERESTS IN ASSOCIATES *(continued)*

Extracts of the financial information of the Group's material associates are as follows:

| | Dailywin Group Limited Year ended 31 March 2002 HK\$'000 | Luxembourg Medicine Company Limited Year ended 31 March 2002 HK\$'000 |
|--|--|--|
| Profit and loss accounts | | |
| Turnover | 220,812 | 42,215 |
| Profit/(loss) attributable to shareholders | (33,552) | 9,544 |
| Balance sheets | | |
| Non-current assets | 26,572 | 1,566 |
| Current assets | 56,888 | 24,406 |
| Current liabilities | (64,520) | (13,852) |
| Non-current liabilities | (65,762) | (1,600) |
| Net assets/(liabilities) | (46,822) | 10,520 |

18. INVESTMENTS

(a) Long term investments

| | 2002 HK\$'000 | Group 2001 HK\$'000 |
|---|------------------|---------------------------|
| Held-to-maturity securities: | | |
| Hong Kong listed dated debt securities, at amortised cost | – | 7,437 |
| Investment securities: | | |
| Hong Kong unlisted unit trusts, at cost | 1,000 | – |
| Hong Kong unlisted equity shares, at cost | 12,521 | 12,521 |
| Less: Provisions for impairment | (12,521) | (12,521) |
| | 1,000 | 7,437 |

Notes to Financial Statements

31 March 2002

18. INVESTMENTS (continued)

(b) Short term investments

| | 2002 HK\$'000 | Group 2001 HK\$'000 |
|---|------------------|---------------------------|
| Held-to-maturity securities: | | |
| Hong Kong listed dated debt securities, at amortised cost | – | 4,906 |
| Investment securities: | | |
| Hong Kong unlisted unit trusts, at cost # | 5,000 | – |
| Hong Kong listed equity securities, at cost | – | 13,531 |
| Less: Provisions for impairment | – | (8,194) |
| Other investments: | | |
| Hong Kong listed equity securities, at fair value | 3,914 | 1,020 |
| | 8,914 | 11,263 |

The Hong Kong unlisted unit trusts were disposed after the balance sheet date at a gain of HK\$203,000.

19. PROPERTIES HELD FOR RE-SALE

During the year, certain properties held for re-sale with an aggregate carrying value of HK\$3,501,000 were transferred to investment properties (Note 13). The properties are retail shops situated in Hong Kong and are currently leased to third parties.

20. INVENTORIES

| | 2002 HK\$'000 | Group 2001 HK\$'000 |
|-------------------|------------------|---------------------------|
| Raw materials | 4,524 | 952 |
| Packing materials | 3,280 | 1,065 |
| Finished goods | 3,848 | 2,342 |
| | 11,652 | 4,359 |

None of the inventories included in the above were carried at net realisable value as at the balance sheet date (2001: Nil).

Notes to Financial Statements

31 March 2002

21. TRADE RECEIVABLES

An aged analysis of trade receivables as at the balance sheet date, based on invoice date, is as follows:

| | Group | | 2001 | |
|------------------------------------|---------------|------------|----------|-----|
| | 2002 | | 2001 | |
| | HK\$'000 | % | HK\$'000 | % |
| Within 90 days | 26,792 | 96 | 6,460 | 92 |
| 91 days to 180 days | 440 | 2 | 62 | 1 |
| Over 180 days | 552 | 2 | 504 | 7 |
| | 27,784 | 100 | 7,026 | 100 |
| Less: Provision for doubtful debts | (267) | | (315) | |
| | 27,517 | | 6,711 | |

The Group's businesses generally do not grant any credit to customers, except for the Group's pharmaceutical business which offers credit terms of 30 to 180 days.

As at 31 March 2002, retentions held by customers for contract works, as included in trade receivables were nil (2001: HK\$224,000).

22. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

| | Group | | Company | |
|-------------------|---------------|----------|------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Prepayments | 8,889 | 1,592 | 459 | 137 |
| Deposits | 5,814 | 7,992 | 11 | 11 |
| Other receivables | 6,499 | 9,653 | – | 6 |
| | 21,202 | 19,237 | 470 | 154 |

23. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|------------------------|----------------|----------|----------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cash and bank balances | 27,625 | 30,799 | 9,267 | 417 |
| Time deposits | 286,181 | 154,837 | 272,511 | 110,889 |
| | 313,806 | 185,636 | 281,778 | 111,306 |

Notes to Financial Statements

31 March 2002

24. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

| | Group | |
|---------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Within 90 days | 6,669 | 1,191 |
| 91 days to 180 days | 15 | – |
| Over 180 days | 3,831 | 4,249 |
| | 10,515 | 5,440 |

25. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|----------------|------------------|------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Other payables | 11,584 | 16,169 | 168 | 87 |
| Accruals | 15,060 | 11,534 | 1,567 | 432 |
| | 26,644 | 27,703 | 1,735 | 519 |

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | | Group | |
|--|-------|------------------|------------------|
| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
| Current portion of bank loans and overdrafts | 28 | 21,208 | 14,618 |
| Current portion of finance lease payables | 29 | 58 | 58 |
| | | 21,266 | 14,676 |

27. PROVISIONS FOR ONEROUS CONTRACTS

| | Group | |
|---|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| At beginning of year | 32,706 | 10,580 |
| Additional provision | 2,884 | 26,676 |
| Amount utilised during the year | (8,573) | (4,550) |
| At 31 March | 27,017 | 32,706 |
| Portion classified as current liabilities | (10,695) | (9,367) |
| Long term portion | 16,322 | 23,339 |

Notes to Financial Statements

31 March 2002

28. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

| | | Group | |
|---|-------|------------------|------------------|
| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
| Bank overdrafts: | | | |
| Unsecured | | – | 823 |
| Bank loans: | | | |
| Secured | (i) | 15,160 | 7,118 |
| Unsecured | | 30,745 | 36,203 |
| | | 45,905 | 43,321 |
| Convertible bonds | (ii) | – | – |
| | | 45,905 | 44,144 |
| Bank overdrafts repayable on demand | (i) | – | 823 |
| Bank loans repayable: | | | |
| Within one year | | 21,208 | 13,795 |
| In the second year | | 18,835 | 13,864 |
| In the third to fifth years, inclusive | | 4,927 | 13,458 |
| Beyond five years | | 935 | 2,204 |
| | | 45,905 | 43,321 |
| | | 45,905 | 44,144 |
| Portion classified as current liabilities (Note 26) | | (21,208) | (14,618) |
| Long term portion | | 24,697 | 29,526 |

Notes:

- (i) The Group's overdraft facilities and certain bank loans are secured by the pledge of the Group's investment properties (2001: HK\$17,750,000 of investment properties and HK\$5,134,000 properties held for re-sale).
- (ii) In August 2001, the Group issued convertible bonds to eight subscribers in the aggregate principal amount of HK\$30,080,000. The convertible bonds were interest-free and were convertible into new ordinary shares of the Company at the conversion price of HK\$0.188 at any time prior to the second anniversary of the date of issue of convertible bonds. In August 2001, all convertible bonds were converted into new ordinary shares of the Company as further detailed in note 31(b) to the financial statements.

Notes to Financial Statements

31 March 2002

29. FINANCE LEASE PAYABLES

The Group leases certain of its office equipment. These leases are classified as finance leases and have remaining lease terms of 3 years.

At 31 March 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

| Group | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|------------------|---|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Amounts payable: | | | | |
| Within one year | 58 | 58 | 58 | 58 |
| In the second year | 58 | 58 | 58 | 58 |
| In the third to fifth years, inclusive | 52 | 110 | 52 | 110 |
| Total minimum finance lease payments | 168 | 226 | 168 | 226 |
| Future finance charges | – | – | | |
| Total net finance lease payables | 168 | 226 | | |
| Portion classified as current liabilities (Note 26) | (58) | (58) | | |
| Long term portion | 110 | 168 | | |

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

30. DEFERRED TAX

| | Group | |
|-------------------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Balance at beginning of year | 983 | – |
| Acquisition of a subsidiary | – | 64 |
| Charge for the year – Note 10 | – | 919 |
| At 31 March | 983 | 983 |

Notes to Financial Statements

31 March 2002

30. DEFERRED TAX *(continued)*

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

31. SHARE CAPITAL

| Shares | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Authorised: | | |
| 20,000,000,000 (2001: 10,000,000,000) ordinary shares of HK\$0.01 (2001: HK\$0.01) each | 200,000 | 100,000 |
| Issued and fully paid: | | |
| 9,864,365,596 (2001: 822,060,933) ordinary shares of HK\$0.01 (2001: HK\$0.01) each | 98,644 | 8,221 |

During the year, the following movements in the share capital were recorded:

- Pursuant to an ordinary resolution passed on 6 February 2002, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$200,000,000 by the creation of 10,000,000,000 additional shares of HK\$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.
- The exercise of the conversion rights of all of the convertible bonds was made in August 2001 at a conversion price of HK\$0.188 per ordinary share, resulting in the issue of 160,000,000 ordinary shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$30,080,000.
- On 25 September 2001, 1 November 2001 and 19 December 2001 (the "Issue Dates"), certain shareholders of the Company (the "Shareholders") sold an aggregate of 353,900,000 existing ordinary shares of the Company at HK\$0.08 to HK\$0.09 per share to independent investors. On the respective Issue Dates, the Company allotted an aggregate of 662,000,000 new ordinary shares of the Company at HK\$0.08 to HK\$0.09 per share to the Shareholders. The closing market prices of the ordinary share of the Company at the Issue Dates, on which the terms of the issues were fixed, were HK\$0.089, HK\$0.112 and HK\$0.107, respectively per share. These shares rank pari passu in all respects with the then existing issued ordinary shares of the Company. The resulting proceeds, before expenses, of HK\$57,980,000, were mainly used by the Company to acquire an associate, repay bank loans, acquire fixed assets and for general working capital purposes.

Notes to Financial Statements

31 March 2002

31. SHARE CAPITAL *(continued)*

- (d) A rights issue of four rights shares for every existing share held by members on the register of members on 28 February 2002 was made, at an issue price of HK\$0.03 per rights share, resulting in the issue of 6,576,243,732 ordinary shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$197,287,000.
- (e) Together with the rights issue, a bonus issue of one bonus share for four fully paid rights shares was made, resulting in the issue of 1,644,060,931 ordinary shares of HK\$0.01 each.

A summary of the transactions during the year with reference to the above movements of the Company's ordinary share capital is as follows:

| | Number of shares in issue | Share capital HK\$'000 |
|-------------------------------------|------------------------------|---------------------------|
| At 1 April 2001 | 822,060,933 | 8,221 |
| Conversion of convertible bonds (b) | 160,000,000 | 1,600 |
| Placement (c) | 662,000,000 | 6,620 |
| Rights issue (d) | 6,576,243,732 | 65,762 |
| Bonus issue (e) | 1,644,060,931 | 16,441 |
| At 31 March 2002 | 9,864,365,596 | 98,644 |

Share options

The Company operates share option schemes, further details of which are set out under the heading "Share option schemes" in the Report of the Directors on pages 13 to 15 of the Annual Report.

Details of the share options granted are as follows:

| Exercise price per share | Exercise period | At 1 April 2001 | Adjustments for rights and bonus issues during the year | At 31 March 2002 |
|-----------------------------|---------------------------------|--------------------|--|---------------------|
| HK\$ 0.0217 | 6 March 2001 to 5 February 2005 | 43,800,000 | 219,000,000 | 262,800,000 |

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 262,800,000 additional shares of HK\$0.01 each and proceeds of approximately HK\$5,703,000.

Notes to Financial Statements

31 March 2002

32. RESERVES

| Group | | | | | | |
|--|------|-----------------------------|--------------------|--|--|----------|
| | | Share premium account | Capital reserve | Investment property revaluation reserve | Retained profits/ losses (accumulated) | Total |
| | Note | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2000 | | 218,987 | 5,721 | 2,095 | 31,730 | 258,533 |
| Issue of shares | | 37,800 | – | – | – | 37,800 |
| Share issue expenses | | (779) | – | – | – | (779) |
| Premium on shares issued by way of scrip dividend | | 1,264 | – | – | – | 1,264 |
| Goodwill on acquisition | | – | (5,721) | – | (90,048) | (95,769) |
| Deficit on revaluation of investment properties | | – | – | (1,841) | – | (1,841) |
| Loss for the year | | – | – | – | (47,513) | (47,513) |
| At 31 March and 1 April 2001 | | 257,272 | – | 254 | (105,831) | 151,695 |
| Transfer | (i) | (129,270) | – | – | 129,270 | – |
| Conversions of convertible bonds | | 28,480 | – | – | – | 28,480 |
| Placement of shares | | 51,360 | – | – | – | 51,360 |
| Rights issue | | 131,525 | – | – | – | 131,525 |
| Bonus issue | | – | – | – | (16,441) | (16,441) |
| Share issue expenses | | (8,253) | – | – | – | (8,253) |
| Surplus on revaluation of investment properties | | – | – | 1,989 | – | 1,989 |
| Release of goodwill on disposal of an associate | | – | – | – | 1,300 | 1,300 |
| Profit for the year | | – | – | – | 27,700 | 27,700 |
| At 31 March 2002 | | 331,114 | – | 2,243 | 35,998 | 369,355 |

Note:

- (i) Pursuant to a special resolution passed on 9 November 2001, the Company's share premium account was reduced by an amount of HK\$129,270,000, which was applied to offset the accumulated losses of the Group.

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31 March 2002

32. RESERVES (continued)

| Group | Share premium account HK\$'000 | Capital reserve HK\$'000 | Investment property revaluation reserve HK\$'000 | Retained profits/ (accumulated losses) HK\$'000 | Total HK\$'000 |
|--------------------------|---|--------------------------------|--|---|-------------------|
| Reserves retained by: | | | | | |
| Company and subsidiaries | 331,114 | – | 2,243 | 33,094 | 366,451 |
| Associates | – | – | – | 2,904 | 2,904 |
| At 31 March 2002 | 331,114 | – | 2,243 | 35,998 | 369,355 |
| Company and subsidiaries | 257,272 | – | 254 | (106,084) | 151,442 |
| Associates | – | – | – | 253 | 253 |
| At 31 March 2001 | 257,272 | – | 254 | (105,831) | 151,695 |

Certain amounts of goodwill and negative goodwill arising from acquisitions of subsidiaries and associates remain eliminated against the capital reserve and retained profits and credited to the capital reserve, respectively, as explained in note 15 to the financial statements.

| Company | Note | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Retained profits/ (accumulated losses) HK\$'000 | Total HK\$'000 |
|--|------|---|------------------------------------|---|-------------------|
| At 1 April 2000 | | 218,987 | 31,476 | 7,156 | 257,619 |
| Issue of shares | | 37,800 | – | – | 37,800 |
| Share issue expenses | | (779) | – | – | (779) |
| Premium on shares issued by way of scrip dividend | | 1,264 | – | – | 1,264 |
| Loss for the year | | – | – | (136,426) | (136,426) |
| At 31 March and 1 April 2001 | | 257,272 | 31,476 | (129,270) | 159,478 |
| Transfer | (i) | (129,270) | – | 129,270 | – |
| Conversion of convertible bonds | | 28,480 | – | – | 28,480 |
| Placement of shares | | 51,360 | – | – | 51,360 |
| Rights issue | | 131,525 | – | – | 131,525 |
| Bonus issue | | – | (16,441) | – | (16,441) |
| Share issue expenses | | (8,253) | – | – | (8,253) |
| Profit for the year | | – | – | 3,100 | 3,100 |
| At 31 March 2002 | | 331,114 | 15,035 | 3,100 | 349,249 |

Notes to Financial Statements

31 March 2002

32. RESERVES (continued)

Notes:

- (i) Pursuant to a special resolution passed on 9 November 2001, the Company's share premium account was reduced by an amount of HK\$129,270,000, which was applied to offset the accumulated losses of the Company.
- (ii) The contributed surplus of the Company originally derived from the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Group reorganisation on 6 February 1995 and the par value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|------------------|------------------|
| Profit/(loss) from operating activities | 38,756 | (46,987) |
| Net holding gain on investments | (84) | (215) |
| Interest income from investments | (1,381) | (2,142) |
| Provision for impairment of investments | – | 20,715 |
| Interest income | (6,340) | (12,172) |
| Dividend income from investments | (10) | – |
| Gain on disposal of interests in subsidiaries | – | (1,060) |
| Gain on disposal of investments, net | (8,546) | (2,281) |
| Provision/(write-back) for doubtful debts | (903) | 4,544 |
| Increase/(decrease) in provision for onerous contracts | (5,689) | 22,126 |
| Depreciation | 15,813 | 10,904 |
| Amortisation of patents and trademarks | 2 | – |
| Amortisation of goodwill | 25 | – |
| Loss on disposal of fixed assets | 614 | 19 |
| Decrease/(increase) in trade receivables, prepayments deposits and other debtors | (26,494) | 16,043 |
| Decrease/(increase) in inventories | (7,293) | 250 |
| Decrease in amount due from a director | – | 61 |
| Decrease in properties held for re-sale | 466 | 589 |
| Increase/(decrease) in trade payables, other payables and accruals | 4,016 | (11,546) |
| Increase in deposits received and receipts in advance | 3,438 | 1,846 |
| Increase in deferred income | 428 | – |
| Net cash inflow from operating activities | 6,818 | 694 |

Notes to Financial Statements

31 March 2002

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Purchase of a subsidiary:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Net assets acquired: | | |
| Fixed assets | – | 7,231 |
| Investment properties | – | 1,550 |
| Inventories | – | 4,609 |
| Trade receivables, prepayments, deposits and other debtors | – | 4,408 |
| Cash and cash equivalents | 700 | 16,751 |
| Trade payables, other payables and accruals | – | (2,883) |
| Tax payable | – | (905) |
| Deferred tax | – | (64) |
| Minority interests | – | (60) |
| | 700 | 30,637 |
| Goodwill on acquisition | 100 | 98,239 |
| | 800 | 128,876 |
| Satisfied by: | | |
| Cash | 800 | 128,876 |

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of a subsidiary:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Cash consideration | 800 | 128,876 |
| Cash and cash equivalents acquired | (700) | (16,751) |
| Net outflow of cash and cash equivalents in respect of purchase of a subsidiary | 100 | 112,125 |

The subsidiary acquired during the year ended 31 March 2002 had no significant impact in respect of the cash flows of the Group. Also, the results of the subsidiary acquired during the year ended 31 March 2002 had no significant impact on the Group's consolidated turnover and profit after tax for the year.

Notes to Financial Statements

31 March 2002

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Purchase of a subsidiary *(continued)*:

The subsidiary acquired in the prior year contributed approximately HK\$5,020,000 to the Group's net operating cash flows, received approximately HK\$198,000 in respect of the net returns on investments and servicing of finance, paid approximately HK\$2,454,000 in respect of investing activities, but had no significant impact in respect of tax and financing activities. The subsidiary acquired in the prior year contributed turnover of approximately HK\$9,036,000 and profit after tax of approximately HK\$590,000 to the Group's turnover and loss after tax and before minority interests for the year ended 31 March 2001, respectively.

(c) Summary of the effects of purchase of additional shares in an associate which became a subsidiary as a result thereof:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Net assets acquired: | | |
| Fixed assets | – | 12,705 |
| Trade receivables, prepayments, deposits and other debtors | – | 9,977 |
| Due from the ultimate holding company | – | 3,200 |
| Due from fellow subsidiaries | – | 548 |
| Cash and cash equivalents | – | 3,591 |
| Trade payables, other payables and accruals | – | (3,001) |
| Deposits received and receipts in advance | – | (19,836) |
| Tax payable | – | (1,063) |
| Due to fellow subsidiaries | – | (3,611) |
| | – | 2,510 |
| Goodwill on acquisition | – | 18,439 |
| | – | 20,949 |
| Satisfied by: | | |
| Decrease in deposit paid | – | 19,507 |
| Cash | – | 159 |
| Reclassification from interest in an associate | – | 1,283 |
| | – | 20,949 |

Notes to Financial Statements

31 March 2002

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

- (c) Summary of the effects of purchase of additional shares in an associate which became a subsidiary as a result thereof *(continued)*:

Analysis of the net inflow of cash and cash equivalents in respect of the purchase of a subsidiary:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|------------------|------------------|
| Cash consideration | – | 159 |
| Cash and cash equivalents acquired | – | (3,591) |
| Net inflow of cash and cash equivalents in respect of purchase of a subsidiary | – | (3,432) |

The subsidiary acquired during the year ended 31 March 2001 contributed approximately HK\$4,712,000 to the Group's net operating cash flows for that year, received approximately HK\$133,000 in respect of the net returns on investments and servicing of finance, paid approximately HK\$128,000 in respect of investing activities, but had no significant impact in respect of tax and financing activities.

The subsidiary acquired during the year ended 31 March 2001 contributed turnover of approximately HK\$24,798,000 and profit after tax of approximately HK\$4,451,000 to the Group's turnover and loss after tax and before minority interests for the year ended 31 March 2001, respectively.

- (d) Disposal of subsidiaries:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|------------------------------------|------------------|------------------|
| Net assets disposed of: | | |
| Long term investments | – | 3,000 |
| Deposits and other debtors | – | 38 |
| Release of capital reserve | – | 166 |
| | – | 3,204 |
| Profit on disposal of subsidiaries | – | 1,768 |
| | – | 4,972 |
| Satisfied by: | | |
| Cash | – | 4,972 |

Notes to Financial Statements

31 March 2002

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Disposal of subsidiaries *(continued)*:

The subsidiaries disposed of during the year ended 31 March 2001 made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the Group's loss after tax and before minority interests for the year ended 31 March 2001.

(e) Disposal of interests in a subsidiary:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|------------------|------------------|
| Net assets disposed of: | | |
| Minority interests | – | 7,602 |
| Release of goodwill | – | 23,135 |
| | – | 30,737 |
| Loss on disposal of interests in a subsidiary | – | (708) |
| | – | 30,029 |
| Satisfied by: | | |
| Cash | – | 30,029 |

Notes to Financial Statements

31 March 2002

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(f) Analysis of changes in financing during the year:

| | Issued capital (including share premium account) | Bank loans | Finance lease obligations | Minority interests |
|--|---|-----------------------|--|-------------------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2000 | 225,813 | 16,987 | 163 | – |
| Issue by way of scrip dividend | 45 | – | – | – |
| Premium on shares issued by way of scrip dividend | 1,264 | – | – | – |
| Net cash inflow/(outflow) from financing activities | 38,371 | 26,334 | (81) | 287 |
| Purchases of subsidiaries | – | – | – | 7,829 |
| Share of losses for the year | – | – | – | (287) |
| Inception of finance lease contracts | – | – | 144 | – |
| At 31 March and 1 April 2001 | 265,493 | 43,321 | 226 | 7,829 |
| Transfer to retained profits | (129,270) | – | – | – |
| Transfer from retained profits | 16,441 | – | – | – |
| Net cash inflow/(outflow) from financing activities | 277,094 | 2,584 | (58) | 1,550 |
| Share of profits for the year | – | – | – | 2,790 |
| Dividends paid to minority shareholders | – | – | – | (1,600) |
| At 31 March 2002 | 429,758 | 45,905 | 168 | 10,569 |

(g) Major non-cash transactions:

During the year ended 31 March 2001, the Group paid dividends by way of scrip dividend of HK\$1,309,000.

Notes to Financial Statements

31 March 2002

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| (a) | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Guarantees in respect of performance bonds given to third parties | 20,230 | 24,458 | – | 24,458 |
| Guarantees given in lieu of utility and property rental deposits | 7,621 | 18,300 | – | 18,300 |
| Guarantees given to financial institutions in connection with facilities granted to subsidiaries and associates | – | – | 144,343 | 144,363 |
| | 27,851 | 42,758 | 144,343 | 187,121 |

(b) A corporate guarantee in the amount of approximately HK\$464,000 (2001: HK\$464,000) was given by the Company to a landlord in respect of the full rental payments of the office premises during the tenancy period.

(c) In the prior year, a sub-contractor claimed against a wholly-owned subsidiary of the Group (the "Subsidiary") for recovery of approximately HK\$900,000 for works performed. In turn, the Subsidiary instigated litigation against the main contractor for recovery of approximately HK\$6,000,000 on works performed. The main contractor then made a counter claim against the Subsidiary for overpayment of approximately HK\$4,900,000.

In the prior year, the Subsidiary also instigated litigation against another sub-contractor in the amount of approximately HK\$120,000 for delay in completion of works performed. The sub-contractor made a counter claim against the Subsidiary of approximately HK\$1,000,000 on works performed.

The directors, having reviewed the claims and obtained legal advice, consider that the alleged claims from the main and sub-contractors referred to above are without grounds, therefore, no provision had been made for the alleged claims in the financial statements at 31 March 2001 and 31 March 2002.

Notes to Financial Statements

31 March 2002

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group sub-leases Chinese wet markets, shopping centres and car parks under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 6 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2002 | Group |
|---|-----------------|------------------|
| | HK\$'000 | 2001 HK\$'000 |
| Within one year | 86,018 | 109,691 |
| In the second to fifth years, inclusive | 67,407 | 70,889 |
| | 153,425 | 180,580 |

(b) As lessee

The Group leases Chinese wet markets, shopping centres, car parks and certain of its office properties under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 9 years.

At 31 March 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2002 | Group |
|---|-----------------|--------------------------------|
| | HK\$'000 | 2001 HK\$'000 (Restated) |
| Within one year | 113,603 | 124,784 |
| In the second to fifth years, inclusive | 194,425 | 234,489 |
| After five years | 7,579 | – |
| | 315,607 | 359,273 |

Notes to Financial Statements

31 March 2002

35. OPERATING LEASE ARRANGEMENTS *(continued)*

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following commitments at the balance sheet date:

| | 2002 | Group |
|--|-----------------|------------------|
| | HK\$'000 | 2001 HK\$'000 |
| Capital commitments contracted, but not provided for | 39,891 | 3,616 |

At the balance sheet date, the Company had no significant commitments.

37. POST BALANCE SHEET EVENTS

As disclosed in a circular of the Company dated 17 June 2002, on 22 May 2002, the Group entered into an agreement with Town Health International Holdings Company Limited and Dailywin Group Limited, an associate of the Group at the balance sheet date, to dispose of the Group's interests in Wai Yuen Tong Medicine Company Limited, a 75.79% indirectly-owned subsidiary of the Company, to Dailywin Group Limited for an aggregate consideration of approximately HK\$167 million. The consideration comprised approximately HK\$103 million in new ordinary shares of Dailywin Group Limited, with the remainder comprising approximately HK\$64 million convertible notes convertible into ordinary shares of Dailywin Group Limited on or before 8 July 2005.

As a result of the Dailywin Group Limited's ordinary shares issued to the Group as part of the consideration for the transaction, the Group's interests in Dailywin Group Limited increased from 29.19% at the balance sheet date to 75.04%. Completion of the above transaction took place on 9 July 2002. On the same day, the Group placed down its equity interests in Dailywin Group Limited from 75.04% to 42.4% for a consideration of HK\$45 million.

Notes to Financial Statements

31 March 2002

38. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|--|-------|------------------|------------------|
| Rental income received from Mr. Tang Ching Ho | (a) | 978 | 1,080 |
| Income from associates: | (b) | | |
| – Consultancy fee | | – | 372 |
| – Repairs and maintenance | | – | 64 |
| – Management fee | | 560 | 743 |
| – Rental | | 96 | 1,187 |
| – Interest income | | 1,955 | – |
| Cleaning expenses paid to an associate | (b) | 5,896 | 2,902 |
| Non-refundable initial franchise fee received from a related party | (b) | 450 | – |
| Sales to a related party | (b) | 4,694 | – |

(a) An investment property of the Group was leased to Mr. Tang Ching Ho for a period of two years from 20 December 1999 at an agreed monthly rental of HK\$90,000. The lease was renewed and extended for further 2 years at an agreed monthly rental of HK\$60,000. The rentals were determined with reference to prevailing market rates.

(b) The transactions were based on terms as agreed between the Group and the related party.

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 July 2002.

Particulars of Properties

INVESTMENT PROPERTIES AND PROPERTIES HELD FOR RE-SALE

| Locations | Uses | Tenure | Attributable interest of the Group |
|--|------------------------------------|----------------------|------------------------------------|
| House No. 15 Greenery Villas Phase II, No. 3 Ma Lok Path, Kau To Shatin, New Territories | Residential premises for rental | Medium term lease | 100% |
| Factory on 11th Floor and Roof and Car Parking Space no. 7 on Ground Floor, Well Town Industrial Building, No. 13 Ko Fai Road, Yau Tong, Kowloon | Industrial premises for rental | Medium term lease | 100% |
| Shops Numbers 40, 44 and 46 on Ground Floor and Shops Numbers 101, 148 and 172 on First Floor of Commercial Centre, Fullview Garden, No. 18 Siu Sai Wan Road, Siu Sai Wan, Chai Wan, Hong Kong. | Commercial premises for rental | Medium term lease | 100% |

Five Year Financial Summary

A summary of the results and of the 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 below. The amounts for the year ended 31 March 1998, 1999 and 2000 have been adjusted for the retrospective change in accounting policy affecting dividends, as detailed in note 2 to the financial statements.

RESULTS

| | | Year ended 31 March | | | |
|--|------------------|---------------------|------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 | 1998 HK\$'000 |
| TURNOVER | 320,047 | 211,998 | 342,646 | 882,882 | 929,175 |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES AFTER FINANCE COSTS | 35,274 | (48,837) | 15,067 | (120,813) | (54,538) |
| Share of profits and losses of associates | 3,331 | 899 | 5,595 | 4,002 | 3,794 |
| Amortisation of goodwill of associates | (4,482) | – | – | – | – |
| PROFIT/(LOSS) BEFORE TAX | 34,123 | (47,938) | 20,662 | (116,811) | (50,744) |
| Tax | (3,634) | 138 | 389 | 1,568 | (16,942) |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS | 30,489 | (47,800) | 21,051 | (115,243) | (67,686) |
| Minority interests | (2,789) | 287 | – | (870) | – |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 27,700 | (47,513) | 21,051 | (116,113) | (67,686) |

ASSETS, LIABILITIES AND MINORITY INTERESTS

| | | 31 March | | | |
|--------------------|------------------|------------------|--------------------------------|--------------------------------|--------------------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 (Restated) | 1999 HK\$'000 (Restated) | 1998 HK\$'000 (Restated) |
| TOTAL ASSETS | 646,981 | 331,295 | 368,598 | 291,233 | 929,836 |
| TOTAL LIABILITIES | (168,413) | (163,550) | (95,063) | (236,128) | (703,166) |
| MINORITY INTERESTS | (10,569) | (7,829) | – | – | (10,595) |
| | 467,999 | 159,916 | 273,535 | 55,105 | 216,075 |