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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Uni-Bio Science Group Limited ("**Company**"), you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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聯康生物科技集團有限公司*

Uni-Bio Science Group Limited

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 690)

**(1) VERY SUBSTANTIAL ACQUISITION
INVOLVING ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
FIGURES UP TRADING LIMITED**

**(2) CONNECTED TRANSACTION
(AS CONSTITUTED BY THE SUBSCRIPTION OF THE THREE-YEAR HK$114 MILLION
ZERO COUPON CONVERTIBLE BONDS)**

**(3) GRANT OF SPECIAL MANDATE**

**(4) REFRESHMENT OF THE ISSUE MANDATE AND THE REPURCHASE MANDATE**

**AND**

**(5) REFRESHMENT OF THE SCHEME MANDATE LIMIT
ON THE GRANT OF OPTIONS UNDER THE SHARE OPTION SCHEME**

**Financial Adviser to the Company**

**REXCAPITAL (Hong Kong) Limited**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders of the Company**

**ASIAVEST PARTNERS**

**AsiaVest Partners Limited**

A letter from the Independent Board Committee to the Independent Shareholders, containing its recommendation to the Independent Shareholders, is set out on page 40 of this circular. A letter of advice from AsiaVest Partners Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 41 to 65 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Room 2302, 23rd Floor, Lippo Centre Tower II, 89 Queensway, Admiralty, Hong Kong, on Tuesday, 6 June 2006 at 11:00 a.m. is set out on pages 155 to 161 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed. Whether or not you are able to attend and vote at the extraordinary general meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and deposit the same with the Company's Hong Kong branch share registrar and transfer office, Abacus Share Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the extraordinary general meeting.

* *For identification purposes only*

19 May 2006

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

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|---|---|
| "Acquisition" | The acquisition by the Purchaser from the Vendors of the Sale Shares pursuant to the Acquisition Agreement |
| "Acquisition Agreement" | the conditional sale and purchase agreement dated 13 April 2006 entered into between the Vendors and the Purchaser in relation to the Acquisition |
| "Acquisition Completion" | completion of the Acquisition Agreement |
| "Announcement" | the announcement of the Company dated 26 April 2006 in respect of, among other matters, the Acquisition Agreement, the Connected Transaction (as constituted by the Subscription Agreement), the grant of Special Mandate, the refreshment of the Issue Mandate and the Repurchase Mandate and the refreshment of the Scheme Mandate Limit |
| "Articles of Association" | the articles of association of the Company, as amended from time to time |
| "Automatic Result" or "Subscriber" | Automatic Result Limited, a company incorporated in the British Virgin Islands with limited liability, which is solely and beneficially owned by Mr Tong and of which Mr Liu is the sole director |
| "Board" | the board of Directors |
| "Bondholder(s)" | holder(s) of the Convertible Bonds from time to time |
| "Business Day" | A day, other than Saturday, on which banks in Hong Kong are open for business |
| "BVI" | the British Virgin Islands |
| "Company" | Uni-Bio Science Group Limited, an exempt company incorporated in the Cayman Islands and whose shares are listed on the main board of the Stock Exchange |
| "Connected Persons" | has the meaning ascribed thereto under the Listing Rules |

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| "CCIF" | CCIF CPA Limited, Certified Public Accountants |
| "Connected Transaction" | the Subscription Agreement together with all transactions contemplated thereunder which constitute connected transactions for the Company under Chapter 14A of the Listing Rules |
| "Consideration" | the consideration of HK$472 million payable by the Company to the Vendors for the Acquisition |
| "Consideration Shares" | 220 million new Shares to be allotted and issued by the Company to the Vendors, credited as fully paid, at an issue price of HK$0.90 per Share upon the Acquisition Completion, being part of the Consideration payable by the Purchaser to the respective Vendors pursuant to the Acquisition Agreement |
| "Convertible Bonds" | the three-year zero coupon convertible bonds (comprised of the Tranche 1 Convertible Bonds and the Tranche 2 Convertible Bonds) in the aggregate principal sum of HK$114 million to be issued by the Company to the Subscriber under the Subscription Agreement |
| "Conversion Price" | HK$0.95, being the conversion price at which each Share shall be issued upon exercise of the Conversion Right at the option of the converting Bondholder(s) (subject to adjustment for subdivision or consolidation of Shares, bonus issues, capital reduction and rights issue which have diluting effects on the issued share capital of the Company) |
| "Conversion Right" | the right of holder(s) of the Convertible Bonds to convert the whole or part of the principal amount of the Convertible Bonds into Shares subject to the terms and conditions thereof |
| "Conversion Shares" | new Shares which will fall to be allotted and issued upon exercise of the Conversion Right attaching to the Convertible Bonds |
| "DG-Pharmaceutical" | 東莞市博康健醫藥科技有限公司 (transliteration into English as Dongguan Shi Bo Kang Jian Pharmaceutical Technology Co., Ltd.), a limited liability company established in the PRC on 9 September 2002 |
| "Director(s)" | director(s) of the Company |
| "Dongguan-Tai Li" | 東莞太力綠色環保科技有限公司 (transliteration into English as Dongguan Tai Li Green Environmental Technology Company Limited), a wholly-owned foreign enterprise established in the PRC on 25 September 2002 |

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| "EGM" | an extraordinary general meeting of the Company to be convened and held on Tuesday, 6 June 2006 to approve, among other matters, (i) the Acquisition, (ii) the Connected Transaction (as constituted by the subscription of the Convertible Bonds), (iii) the grant of Special Mandate, (iv) the refreshment of the Issue Mandate and the Repurchase Mandate and (v) the refreshment of the Scheme Mandate Limit on the grant of options under the Share Option Scheme |
| "Enlarged Group" | the Group immediately upon completion of the Acquisition |
| "Existing General Mandate" | the general mandate granted to the Directors at the 2005 AGM to allot, issue or otherwise deal in up to 36,000,000 Shares |
| "Figures Up" | Figures Up Trading Limited, a company incorporated in the BVI with limited liability, which is solely and beneficially owned by the Vendors |
| "FUTL Group" | Figures Up and its subsidiaries |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | an independent committee of the Board comprising Messrs Zhou Yao Ming, Lin Jian and So Yin Wai, each being an independent non-executive Director |
| "Independent Financial Adviser" | AsiaVest Partners Limited, a licensed corporation to carry on business in types 4, 6 and 9 (advising on securities, advising on corporate finance and asset management) regulated activities under the SFO and the independent financial adviser to the Independent Shareholders and the Independent Board Committee |
| "Independent Third Party" | A party and, if applicable, the ultimate beneficial owner of the party who is independent of the Company and Connected Persons of the Company |
| "Independent Shareholders" | Shareholders (other than Automatic Result and its associates who are required under the Listing Rules to abstain from voting on the resolutions to be proposed at the EGM approving the Connected Transaction (as constituted by the Subscription Agreement and the grant of the Issue Mandate)) |
| "Issue Date" | the date of first issue of the Convertible Bonds |

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| "Issue Mandate" | the general and unconditional mandate to the Directors to exercise the power of the Company to allot, issue or otherwise deal with Shares up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant resolution approving the grant of such mandate |
| "Latest Practicable Date" | 17 May 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular |
| "Lelion" or "Purchaser" | Lelion Holdings Limited, a company incorporated in the BVI and a wholly owned subsidiary of the Company, whose principal activities is investment holding |
| "Listing Committee" | the listing sub-committee of the directors of the Stock Exchange elected or appointed in accordance with the Articles of Association of the Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities of the Stock Exchange |
| "Longstop Date" | 18 August 2006, being the latest date for the fulfillment or waiver of the conditions precedent to which the Acquisition Agreement is subject |
| "Maturity Date" | the third anniversary of the date of issue of the Convertible Bonds |
| "Mr Liu" | Mr Liu Guoyao, an executive Director and the sole director of Automatic Result |
| "Mr Tong" | Mr Tong Kit Shing, the chairman and an executive Director and the sole beneficial owner of Automatic Result |
| "NAV" | the unaudited consolidated net asset value of the FUTL Group as at 31 December 2005 as shown in the consolidated accounts of FUTL Group, adjusted in accordance with the provisions of the Acquisition Agreement |
| "PRC" | The People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "Repurchase Mandate" | The general and unconditional mandate to the Directors to exercise the power of the Company to repurchase Shares up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant resolution approving the grant of such mandate |

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| "REXCAPITAL" | REXCAPITAL (Hong Kong) Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO and the financial adviser to the Company |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Sale Shares" | the 100 ordinary shares of US$1 par value each in the issued share capital of Figures Up beneficially held by the Vendors, representing the entire issued share capital of Figures Up |
| "Scheme Mandate Limit" | the maximum number of new Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company, being 10% of the Company's issued share capital as at the date of adoption of the Share Option Scheme |
| "SFO" | Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| "Share(s)" | ordinary share(s) of nominal value of HK$0.10 each in the issued share capital of the Company |
| "Shareholder(s)" | holder(s) of Shares |
| "Share Option Scheme" | the existing share option scheme adopted by the Company on 22 October 2001 |
| "Special Mandate" | the special mandate to be sought from the Shareholders at the EGM for the allotment and issue of the Consideration Shares and the Conversion Shares |
| "Subscription Agreement" | the conditional subscription agreement dated 26 April 2006 made by the Company with the Subscriber in respect of the subscription of the Convertible Bonds |
| "Subscription Completion" | completion of the Subscription Agreement |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Takeovers Code" | the Code on Takeovers and Mergers, as amended from time to time |
| "Vendors" | Liu Cheng Hua, Wong Kim Kwan Kings, Hau Cheong Man, Li Kit Yuk, Chan Siu Ming and Leung Lai Kwan Susanna |

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| "2005 AGM" | the annual general meeting of the Company held on 30 August 2005 |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "%" | per cent |

*In this circular, translation of RMB into HK$ is based on the rate of (i) HK$1.00 to RMB1.06 for the years ended 31 December 2003 and 2004 and (ii) HK$1.00 to RMB1.04 for the year ended 31 December 2005. The exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.*

聯康生物科技集團有限公司*
**Uni-Bio Science Group Limited**
*(Incorporated in the Cayman Islands with limited liability)*
(Stock Code: 690)

*Executive Directors:*
Mr Tong Kit Shing *(Chairman)*
Mr Liu Guoyao *(Chief Executive Officer)*
Mr Cheng Wai Man

*Independent non-executive Directors:*
Mr Zhou Yao Ming
Mr Lin Jian
Mr So Yin Wai

*Registered office:*
Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
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Grand Cayman
British West Indies

*Head office and principal place of business in Hong Kong:*
Room 2302, 23rd Floor
Lippo Centre Tower II
89 Queensway, Admiralty
Hong Kong

19 May 2006

*To the Shareholders and, for information purpose only, the Optionholders*

Dear Sir/Madam

**(1) VERY SUBSTANTIAL ACQUISITION INVOLVING ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF FIGURES UP TRADING LIMITED**
**(2) CONNECTED TRANSACTION (AS CONSTITUTED BY THE PROPOSED SUBSCRIPTION OF THE THREE-YEAR HK$114 MILLION ZERO COUPON CONVERTIBLE BONDS)**
**(3) GRANT OF SPECIAL MANDATE**
**(4) REFRESHMENT OF THE ISSUE MANDATE AND REPURCHASE MANDATE**
**(5) REFRESHMENT OF THE SCHEME MANDATE LIMIT ON THE GRANT OF OPTIONS UNDER THE SHARE OPTION SCHEME**

## 1. INTRODUCTION

On 26 April 2006, the Company announced that Lelion, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the respective Vendors to acquire the Sale Shares, representing the entire issued share capital of Figures Up, from the respective Vendors at the consideration of HK$472 million.

* *For identification purposes only*

The Consideration payable by the Purchaser under the Acquisition Agreement will be allocated amongst the Vendors according to the ratio as specified in the Acquisition Agreement and will be settled as to (i) HK$274 million in cash and (ii) the balance of HK$198 million by the allotment and issue of the Consideration Shares, credited as fully paid, at an issue price of HK$0.90 each by the Company to the Vendors.

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is subject to the approval by Shareholders at the EGM under Rule 14.49 of the Listing Rules.

Of the cash portion of the Consideration in the amount of HK$274 million, a part of which in the amount of approximately HK$113.9 million will be financed by the creation and issue of the Convertible Bonds to Automatic Result, the controlling shareholder of the Company. The subscription of the Convertible Bonds by Automatic Result constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is required to be approved by the Independent Shareholders.

Since the Existing General Mandate granted to the Directors at the 2005 AGM is not sufficient to satisfy the Consideration Shares falling to be issued upon completion of the Acquisition and the Conversion Shares falling to be issued upon exercise of the Conversion Right attaching to the Convertible Bonds, the Company will at the EGM seek the grant of the Special Mandate from the Independent Shareholders for the allotment and issue of the Consideration Shares and the Conversion Shares.

In addition, resolutions will be proposed at the EGM to (i) grant to the Directors the Repurchase Mandate and the Issue Mandate, (ii) extend the Issue Mandate and (iii) refresh the Scheme Mandate Limit on the grant of options under the Share Option Scheme.

The purpose of this circular is to give you, among other things, further information on the Proposed Transactions and all matters of and incidental to each of them.

## 2. THE ACQUISITION

**Principal terms of the Acquisition Agreement**

| | | |
|---|---|---|
| **Date** | : | 13 April 2006 |
| **Vendors** | : | Liu Cheng Hua ("**Liu**"), Wong Kim Kwan Kings ("**Wong**"), Hau Cheong Man ("**Hau**"), Li Kit Yuk ("**Li**"), Chan Siu Ming ("**Chan**") and Leung Lai Kwan Susanna ("**Leung**") |
| **Purchaser** | : | Lelion, a wholly-owned subsidiary of the Company |

Pursuant to the Acquisition Agreement, the Vendors have conditionally agreed to sell and Lelion has conditionally agreed to purchase the Sale Shares.

**Information on the Vendors**

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries:

(i) each of the Vendors is an Independent Third Party and does not hold any position with the Company or its Connected Persons;

(ii) there is no relationship among the six individual Vendors otherwise than their shareholding in Figures Up;

(iii) none of the Vendors has any relationship with the Group or the substantial shareholder of the Company other than the business contacts and commercial relationship arising from the Acquisition; and

(iv) the Vendors have participated in the management of the FUTL Group since its establishment. Liu, Wong and Hau have become the shareholders of Figures Up since its establishment, Li has become the shareholder of Figures Up since April 2002 while Chan and Leung have become the shareholders of Figures Up since December 2005.

The substantial shareholder of the Company did not have any interest in the FUTL Group prior to the entering into of the Acquisition Agreement.

**Information on Figures Up and the FUTL Group**

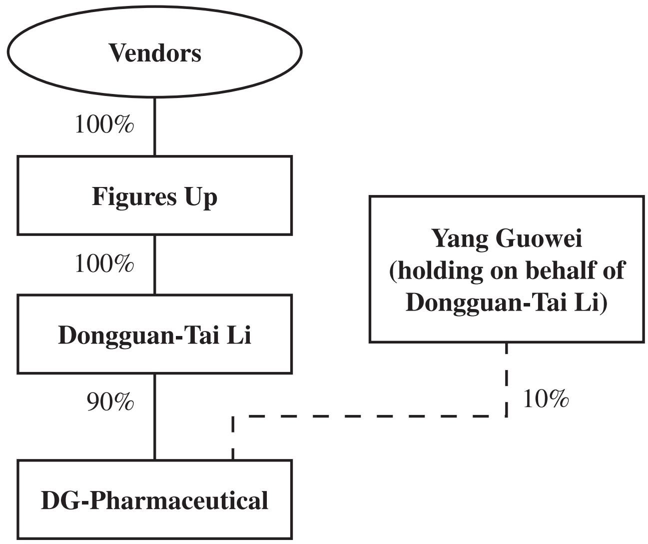
Figures Up was incorporated in the BVI on 12 April 2000. It is the holding company of the FUTL Group (comprising Dongguan-Tai Li and DG-Pharmaceutical), which is principally engaged in the sale and distribution of pharmaceutical and healthcare products in the PRC.

The sole and principal activity of Figures Up is the holding of the entire registered capital of Dongguan-Tai Li.

Dongguan-Tai Li is the beneficial owner of the entire registered capital of DG-Pharmaceutical (10% of the registered capital of DG-Pharmaceutical is held through Mr Yang Guowei on behalf Dongguan-Tai Li). Currently, Dongguan-Tai Li has not carried on any business except for the holding of its investment in DG-Pharmaceutical.

DG-Pharmaceutical is principally engaged in the sale and distribution of pharmaceutical, biological and biochemical (preventive biological products excepted) products, antibiotics material and its reagents in the PRC. It has entered into certain joint research agreements with a research institution which is an Independent Third Party for the research of certain pharmaceutical products.

The following diagram illustrates the existing corporate structure of the FUTL Group:




According to the audited consolidated accounts of the FUTL Group for the year ended 31 December 2004 as disclosed in Appendix III to this circular (which were prepared in accordance with the generally accepted accounting principles in Hong Kong), the FUTL Group's profit before and after taxation for the year was approximately RMB74,631,000 (or approximately HK$70,407,000) and RMB29,768,000 (or approximately HK$28,083,000) respectively.

According to the audited consolidated accounts of the FUTL Group for the year ended 31 December 2005 (which were prepared in accordance with the generally accepted accounting principles in Hong Kong), the FUTL Group's profit before and after taxation for the year was approximately RMB115 million (or approximately HK$111 million) and RMB48.5 million (or approximately HK$46.6 million) respectively. The audited consolidated net asset value of the FUTL Group as at 31 December 2005 was approximately RMB84.5 million (equivalent to approximately HK$81.2 million). The consideration for the Acquisition of HK$472 million represents a premium of approximately HK$390.8 million over the FUTL Group's consolidated net assets of approximately HK$81.2 million.

**Consideration for the Acquisition**

The consideration for the Acquisition is HK$472 million, which shall be allocated amongst the Vendors according to the ratio as specified in the Acquisition Agreement and shall be satisfied in the following manner upon completion of the Acquisition:

(i) as to HK$274 million in cash, of which

– a sum of HK$20 million as deposit has been paid by the Purchaser to the Vendors (in the proportion of their respective entitlements to the Consideration) within seven days of the signing of the Acquisition Agreement;

– a further sum of HK$40 million as further deposit has been paid by the Purchaser to the Vendors (in the proportion of their respective entitlements to the Consideration) within 14 days of the signing of the Acquisition Agreement; and

– the balance of HK$214 million is payable by the Purchaser to the Vendors (in the proportion of their respective entitlements to the Consideration) upon completion of the Acquisition;

(ii) as to the balance of HK$198 million by the allotment and issue of 220 million new Shares, credited as fully paid, at an issue price of HK$0.90 each by the Company to the Vendors.

If completion of the Acquisition Agreement fails to take place on or before the Completion Date or the Acquisition Agreement is terminated prior to the completion of the Acquisition Agreement for any reason other than the default of the Purchaser, the Vendors shall on the second business day following the Completion Date or the receipt by the Vendors of a notice from the Purchaser of such termination (as the case may be) return the deposits together with interest thereon (at the prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited) to the Purchaser.

**Basis of Consideration**

The Consideration has been agreed between the Vendors and the Purchaser based on arm's length negotiations with reference to the consolidated profit after taxation of the FUTL Group for the year ended 31 December 2005 of approximately RMB48.5 million (or approximately HK$46.6 million). As the future prospects of the FUTL Group lies in its ability to generate earnings, the Board considers the price earnings multiple is an appropriate yardstick in valuing the Acquisition than with reference to its net asset value as at 31 December 2005 which was about HK$81.2 million. The Consideration values the FUTL Group at HK$472 million, which represents a price earnings multiple of approximately 10.1 times of the consolidated profit after taxation of the FUTL Group for the year ended 31 December 2005.

In view of the fact that the future prospects of the FUTL Group lies mainly on its profit-generating capability, the Consideration has been arrived at with reference to the unaudited consolidated profit after taxation of the FUTL Group with the estimated price earnings multiple, rather than with reference to its net asset value as at 31 December 2005 which was about HK$81.2 million. As such, the premium of approximately HK$390.8 million represented by the Consideration of HK$472 million over the FUTL Group's consolidated net asset of approximately HK$81.2 million is therefore considered inevitable. Furthermore, when taking into account (amongst other things) the current profitability of the FUTL Group, the future prospects of the FUTL Group and the Profit Guarantee given by the Vendors to the Purchaser under the Acquisition Agreement, the Directors consider that the basis of arriving at the Consideration with reference to the consolidated profit after taxation of the FUTL Group with the estimated price earnings multiple, which in turn resulted in the premium over the net asset of FUTL Group, is commercially acceptable.

The price earning multiple of approximately 10.1 times is agreed by the Purchaser and the Vendors with reference to the average of prevailing price earning multiples of approximately 14 times (being the average of the price earnings multiples of the 17 comparable companies each of which being calculated from their respective closing prices as at 12 April 2006 over their respective latest published earnings per share figures; the respective market prices and earnings per share figures are available on the website of the Stock Exchange) of 17 comparable companies which were selected based on criteria including that the companies are (i) in the pharmaceutical and healthcare related industry; (ii) with operations in the PRC; (iii) currently listed in Hong Kong and (iv) profit making with price earnings multiple available, and excluding those with extreme price earnings multiples of over 300 times. To the best knowledge of the Directors, the 17 comparable companies represent all appropriate comparables that can be identified as fulfilling the above-mentioned criteria. On this above basis, the Board considers the terms of the Acquisition Agreement (including the consideration for the Acquisition at HK$472 million) are on normal commercial terms, fair and reasonable, and in the interest of the Company and its shareholders as a whole.

**Source of funds for the Acquisition**

The Company will finance part of the cash portion of the consideration for the Acquisition of approximately HK$160.1 million from the internal resources of the Group and the balance of approximately HK$113.9 million by issuing the Convertible Bonds (which is repayable upon the terms of repayment as set out under the paragraph headed "Principal terms of the Convertible Bonds" below) to Automatic Result, the controlling shareholder of the Company.

Before the signing of the Acquisition Agreement, there had been no progress or breakthrough with the negotiation by the Company with any of the possible targets that the Company considered had potential to provide synergies with the existing operation or allow the proposed diversification of the business of the Group to be implemented until the evening of 12 April 2006. It would therefore not be commercially viable to secure any external financing from banks, financial institutions or securities houses at such infant stage. Immediately after the signing of the Acquisition Agreement, the Company has considered various means to raise external financing for part of the cash portion of the consideration for the Acquisition. Having approached several banks and securities houses, the Company was not able to obtain finance at terms which were considered by the Board to be commercially more favaourable to the Company than the issue of the Convertible Bonds. Given that it would take time in processing the Company's loan application or for the Company to conduct other fund raising exercises (such as rights issue or open offer), the Company is of the view that the issue of the Convertible Bonds is an appropriate means of raising additional funds for the Company to finance the Acquisition. Further, having considered that (i) no interest expense will be incurred on the Company under the terms of the Convertible Bonds, (ii) the issue of the Convertible Bonds will not have an immediate dilution effect on the shareholding of the existing Shareholders and (iii) if the conversion rights attaching to the Convertible Bonds are exercised, the financial position of the Company will be strengthened, the independent Directors consider that the Company will be in a better position to implement its future development plan and/or to make investments with earnings potential, which would ultimately enhance the overall value of the Shares. After careful consideration, the Company resolved to raise funds for the Acquisition by the issuance of the Convertible Bonds to Automatic Result, the controlling shareholder of the Company.

**Consideration Shares**

The total of 220 million Consideration Shares represents approximately 40.74% of the Company's existing issued share capital and approximately 28.95% of the Company's issued share capital as enlarged by the issue of the Consideration Shares.

The issue price of each Consideration Share is HK$0.90, which represents:

(a) a premium of approximately 74.1% to the closing price of HK$0.517 per Share as quoted on the Stock Exchange on 15 February 2006;

(b) a discount of approximately 52.6% to the closing price of HK$1.90 per Share as quoted on the Stock Exchange on 12 April 2006 (being the last trading day immediately prior to this announcement);

(c) a discount of 26.2% to the average closing price of HK$1.22 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including 12 April 2006 (being the last trading day immediately prior to this announcement);

(d) a premium of 2.3% over the average closing price of HK$0.88 per Share as quoted on the Stock Exchange for the 20 consecutive trading days up to and including 12 April 2006 (being the last trading day immediately prior to this announcement); and

(e) a premium of 3.4% over the average closing price of HK$0.87 per Share as quoted on the Stock Exchange for the 30 days up to and including 12 April 2006 (being the last trading day immediately prior to this announcement).

Despite the significant increase in Share price in the last three trading days immediately prior to the suspension of trading in Shares on 13 April 2006, daily closing price of Shares have been recorded in the range between approximately HK$0.517 to HK$0.850 since the publication of the Company's announcement dated 15 February 2006 regarding the letter of intent in relation to the possible investment and/ or business co-operation. The Vendors and the Company therefore consider it more reasonable to arrive at the issue price of the Consideration Shares with reference to the price performance in a longer period, in this case, the Share price performance since 15 February 2006, to avoid the distortion by the recent short-term price fluctuation immediately before the suspension. In addition, when compared with the average closing price of the Shares for the period from 15 February 2006 up to and including 12 April 2006 of approximately HK$0.736 per Share, the issue price of Consideration Shares of HK$0.90 represents a premium of approximately 22.28%. Based on the above, the Directors considered that such basis for arriving the issue price per Consideration Share is fair and reasonable.

Although there is a large discount on the issue price of the Consideration Shares by reference to the closing price of HK$1.90 per Share as quoted on the Stock Exchange on 12 April 2006, the Directors, having taken into account the performance of the market price of the Shares, the volatility of trading price and the trading volume of the Shares, consider that it is more appropriate to use average closing price of the Shares as quoted on the Stock Exchange of a longer period of time, as set out in (a), (d) and (e) above, for the determination of issue price of each Consideration Share.

The table below shows the number and the percentage of the Sale Shares to be sold by each Vendor and the consideration receivable by such Vendor under the Acquisition Agreement:

| Name of Vendor | Number and percentage of the Sale Shares to be sold | | Number of Consideration Shares | Value of Consideration Shares based on HK$0.90 per Share *(HK$)* | Cash Consideration *(HK$)* | Total Consideration *(HK$)* |
|---|---|---|---|---|---|---|
| Liu Cheng Hua | 17 | 17% | 37,400,000 | $33,660,000 | $46,580,000 | $80,240,000 |
| Wong Kim Kwan Kings | 17 | 17% | 37,400,000 | $33,660,000 | $46,580,000 | $80,240,000 |
| Hau Cheong Man | 17 | 17% | 37,400,000 | $33,660,000 | $46,580,000 | $80,240,000 |
| Li Kit Yuk | 17 | 17% | 37,400,000 | $33,660,000 | $46,580,000 | $80,240,000 |
| Chan Siu Ming | 16 | 16% | 35,200,000 | $31,680,000 | $43,840,000 | $75,520,000 |
| Leung Lai Kwan Susanna | 16 | 16% | 35,200,000 | $31,680,000 | $43,840,000 | $75,520,000 |
| **Total:** | **100** | **100%** | **220,000,000** | **$198,000,000** | **$274,000,000** | **$472,000,000** |

The Consideration Shares shall rank pari passu in all respects with the existing Shares then in issue on the relevant date of allotment.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

**Shareholding structure after completion of the Acquisition**

The following table sets out the existing shareholding structure of the Company and the shareholding structure immediately after completion of the Acquisition:

| | **Existing shareholding structure** | | **Shareholding structure upon completion of the Acquisition (assuming that the Conversion Shares are not allotted at all)** | |
|---|---|---|---|---|
| | *No. of shares* | *%* | *No. of shares* | *%* |
| Automatic Result *(Note)* | 292,058,248 | 54.08 | 292,058,248 | 38.43 |
| **Public Shareholders** | | | | |
| Liu Cheng Hua | – | – | 37,400,000 | 4.92 |
| Wong Kim Kwan Kings | – | – | 37,400,000 | 4.92 |
| Hau Cheong Man | – | – | 37,400,000 | 4.92 |
| Li Kit Yuk | – | – | 37,400,000 | 4.92 |
| Chan Siu Ming | – | – | 35,200,000 | 4.63 |
| Leung Lai Kwan Susanna | – | – | 35,200,000 | 4.63 |
| Other public Shareholders | 247,941,752 | 45.92 | 247,941,752 | 32.63 |
| **Sub-total of public Shareholders:** | 247,941,752 | 45.92 | 467,941,752 | 61.57 |
| **TOTAL:** | **540,000,000** | **100.00** | **760,000,000** | **100.00** |

*Note:* The entire issued share capital of Automatic Result is solely and beneficially owned by Mr Tong Kit Shing whereas Mr Liu Guoyao is the sole director of Automatic Result. Both Mr Tong and Mr Liu are deemed to be interested in all the interest in Shares held by Automatic Result by virtue of the SFO.

**Non-disposal undertaking**

Under the Acquisition Agreement, each of the Vendors has undertaken to the Company that, save with the prior written consent of the Company, he/she will not, during the period of 6 months from the Completion Date, sell or otherwise dispose of any of the Consideration Shares issued to him/her.

**Conditions for the Acquisition**

Completion shall be conditional upon, among other things, the fulfilment to the satisfaction of the Purchaser in its absolute discretion or, as the case may be, waiver of the following conditions:

(i) the delivery of a legal opinion addressed to the Company and the Purchaser in form and substance satisfactory to the Purchaser by a firm of lawyers qualified to practise in PRC law confirming, among other things, (a) the due establishment of the PRC members of the FUTL Group, (b) that the Acquisition shall not cause any of the current joint venture arrangements or ownership arrangements or other entitlements relating to any member of the FUTL Group or in relation to the FUTL Group's operation in the PRC to be cancelled, terminated, amended in any material manner nor to become illegal;

(ii) the delivery of a legal opinion addressed to the Company and the Purchaser in form and substance satisfactory to the Purchaser by a firm of lawyers qualified to advise on BVI law confirming the due establishment of Figures Up;

(iii) the carrying out of due diligence review by the Purchaser of all material respects in relation to the assets, liabilities, operations and affairs of the FUTL Group which the Purchaser deems necessary, desirable or appropriate and confirmation by the Purchaser that the results of such due diligence review are satisfactory in all respects;

(iv) the obtaining by the Purchaser of all necessary consents, authorisations or other approvals (or, as the case may be, the relevant waiver) of any kind in connection with the entering into and performance of the terms of the Acquisition Agreement which may be required under the Listing Rules, from the Stock Exchange or any governmental or regulatory authorities;

(v) approval by the Shareholders at the EGM of the allotment and issue of the Consideration Shares under the Acquisition Agreement, and

(vi) the obtaining of external financing from bank or financial institutions or the raising of funds by the Company through the issue of debt or other instruments for funding the Acquisition;

(vii) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Consideration Shares; and

(viii) none of the warranties given by the Vendors as contained in the Acquisition Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect.

The Purchaser may waive the conditions stated in (i), (ii), (iii) and (viii) above. None of the Conditions Precedents can be waived by the Vendors.

As mentioned under condition (vi) above, the obtaining of external financing from bank or financial institutions or the raising of funds by the Company through the issue of debt or other instruments (such as the Convertible Bonds mentioned below) for funding the Acquisition is one of the conditions precedent to completion of the Acquisition. Completion of the Subscription Agreement (as well as the creation and issue of the Convertible Bonds) is conditional upon completion of the Acquisition. In the unlikely event that the Convertible Bonds did not complete for whatever reasons and in order to provide flexibility to the Company, the Company would still have the option to resort to such other means of financing that the Directors consider expedient at the material time, which would be comparatively easier with a definitive agreement for the Acquisition having been entered into.

If any of the conditions for the Acquisition have not been fulfilled or waived by the Purchaser by the Longstop Date or such other date as the Vendors and the Purchaser may agree in writing, the provisions of the Acquisition Agreement (other than certain clauses as specified in the Acquisition Agreement) shall from such date have no effect and no party to the Acquisition Agreement shall have any claim against the others save for claim (if any) in respect of such continuing provisions or any antecedent breach of the Acquisition Agreement.

The Directors confirm that there is no agreement or understanding between the Vendors and the Company (whether under the Acquisition Agreement or otherwise) that any of the Vendors is entitled to nominate or appoint any person to the Board. The Company do not envisage any change in Directors or management of the Group except for the appointment of additional officers at the subsidiary level to accommodate business expansion needs.

**Acquisition Completion**

The Acquisition Completion shall take place on the fifth Business Day following the date of fulfilment or waiver (as the case may be) of the conditions of the Acquisition Agreement in full (or such other date as the parties to the Acquisition Agreement shall agree in writing).

Upon Completion, Figures Up will become a wholly-owned subsidiary of the Company and will be consolidated in the Company’s accounts.

**Profit Guarantee**

Pursuant to the Acquisition Agreement, the Vendors have jointly and severally guaranteed (“**Profit Guarantee**”) in favour of the Purchaser that the net consolidated profits after taxation but before extraordinary items of the FUTL Group for the fiscal period commencing from 1 January 2005 and ended on 31 December 2005 (“**Guaranteed Period**”) as shown by the audited financial statements (which will be prepared in accordance with the applicable Hong Kong Financial Reporting Standards) of the Company for the Guaranteed Period will not be less than HK$44,000,000 (“**Guaranteed Amount**”).

If the Profit Guarantee cannot be attained and the net profits of the FUTL Group for the Guaranteed Period falls short of the Guaranteed Amount, the Vendors shall pay to the Purchaser, by way of compensation, an additional cash amount equal to the shortfall multiplied by 10.1 times (being the price earnings multiple of the unaudited consolidated profit after taxation of the FUTL Group for the year ended 31 December 2005) (which shall be borne by the Vendors in the proportion which their respective entitlements bear to the Consideration) within 14 days after delivery to the Purchaser of copies of the audited financial statements for the Guaranteed Period and failing payment in full within the period of 14 days, the balance outstanding from time to time will bear interest (as well after as before judgment) from the date of delivery of the audited financial statements until actual payment at the rate of 5% per annum above the prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time.

The audited consolidated profit before and after taxation of the FUTL Group for the year ended 31 December 2005 was RMB115.2 million (or approximately HK$110.8 million) and RMB48.5 million (or approximately HK$46.6 million) respectively. The difference in the amount of the unaudited consolidated profit before and after taxation of the FUTL Group lies in the fact that:

(a) Figures Up includes two subsidiaries, namely DG-Pharmaceutical and Dongguan-Tai Li;

(b) Figures Up and Dongguan-Tai Li incurred respectively a loss of RMB87 million (or approximately HK$83.7 million) and RMB1 million (or approximately HK$1 million) for the year ended 31 December 2005 while DG-Pharmaceutical generated a profit before taxation of RMB203 million (or approximately HK$195.2 million) for the year ended 31 December 2005;

(c) accordingly, no provision for income tax has been made for Figures Up and Dongguan-Tai Li as they have no estimated assessable profits for the year under review, whereas a provision of income tax amounted to RMB67 million (or approximately HK$64.4 million) has been made for DG-Pharmaceutical, which was calculated based on the estimated assessable profits at the rate of 33%.

The Guaranteed Amount (being an estimate of consolidated profit after tax but before extraordinary items of the FUTL Group for the year ended 31 December 2005) was calculated on the basis of the unaudited management accounts of the FUTL Group for the year ended 31 December 2005 (which have been prepared in accordance with the applicable Hong Kong Financial Reporting Standards). The directors of Figures Up have represented to the Company that (i) they are not aware of any extraordinary items which have arisen or are likely to arise during the year ended 31 December 2005 and (ii) the estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the FUTL Group.

The auditors of the Company, CCIF CPA Limited, has confirmed that (i) they have reviewed the accounting policies and calculations for the estimate of the Guaranteed Amount, which has been properly complied with in accordance with the bases of preparation set out above and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the FUTL Group.

The Board has confirmed that the estimate of the Guaranteed Amount has been made by the Company after due and careful enquiry. According to the audited consolidated accounts of the FUTL Group for the year ended 31 December 2005 as set out in Appendix III, the audited consolidated net profit after taxation was RMB48,501,000 (or approximately HK$46,635,000). The Guaranteed Amount is therefore attained. Accordingly, the Vendors are not required to pay any compensation to the Purchaser under the terms of the Acquisition Agreement.

**Reasons and benefits for the Acquisition**

As mentioned in the announcement of the Company dated 7 November 2005, the Company is, in addition to optimizing its operation in the existing business, actively identifying investment opportunities with high growth potentials to improve the financial performance of the Group.

Given the rapid bio-technological advancement and increase in health conscious population generally, the Company is optimistic about the prospects of bio-science related business. In view of the rapid economic growth in the PRC in the recent decade, and the fact that the disposable income per capita in the PRC has been increased, the percentage of spending on health care to total expenditure or urban population per capita, according to the China Statistical Year Book 2005, has also shown a growth from 3.11% in 1995 to 7.35% in 2004. The Directors consider that such continuous increasing trend of spending by the urban population in the PRC on healthcare over the past decade has reflected a sustainable growing need, rather than a short-term fashionable demand, of the PRC population in pharmaceutical and health care products. Having regard to the increasing income and health awareness of the PRC population which are considered to be the principal growth drivers of the PRC pharmaceutical and health care market, the Company expects that, in the foreseeable future, the demand for pharmaceutical and healthcare products will continue to increase. The Directors believe that the Acquisition presents opportunities for growth and would enhance the Group's earnings and generate returns on investment for the Group.

Immediately following completion of the Acquisition, there will not be any change in control or the principal business activities of the Company. The Directors are of the view that the Acquisition, if implemented, will diversify the Group's operational structure and, with rapid pharmaceutical advancement and increase in health conscious population in the PRC generally, the Company is particularly optimistic about the prospects of pharmaceutical-related business in the PRC. The Directors believe that, through the Acquisition, the Company and the Shareholders as a whole will be better able to benefit from and capitalize on the potential upside of the pharmaceutical business in the PRC.

The Board believes that the existing management of the Company has the necessary qualification, knowledge and experience in exploring business opportunities and diversifying the Group's business in the pharmaceutical and healthcare related industry. In particular, Mr Cheng Wai Man, an executive Director, is currently engaged in the trading of bio-chemical products and Mr Lin Jian, an independent non-executive Director, is a professor in Biological Engineering.

**Financial effects of the Acquisition**

Following the Completion, Figures Up will become an indirect wholly owned subsidiary of the Company. The following sets out, for illustrative purposes only, the key financials of (i) the unaudited pro forma income statement for the year ended 31 March 2005 of the Enlarged Group after Completion assuming that the Acquisition had been completed on 1 April 2004; and (ii) the unaudited pro forma combined balance sheet as at 30 September 2005 of the Enlarged Group after Completion assuming that the Acquisition had been completed on 30 September 2005. Please refer to Appendix IV to this circular for the pro forma financial information of the Enlarged Group after Completion.

| *As at 30 September 2005* | **The Group** | **The Enlarged Group upon Completion** | **% change** |
|---|---|---|---|
| Total asset *(HK$' million)* | 178.5 | 709.0 | +297.2% |
| Total liabilities *(HK$' million)* | 116.4 | 426.7 | +266.6% |
| Net asset value *(HK$' million)* | 62.0 | 282.2 | +355.2% |

| *For the year ended 31 March 2005* | **The Group** | **The Enlarged Group upon Completion** | **% change** |
|---|---|---|---|
| Net profits *(HK$' 000)* | 576 | 40,329 | +6,901.6% |

**Management discussion and analysis of pro forma operations of the Enlarged Group**

The following discussion and analysis of the financial conditions and results of operations for each of the three financial years ended 31 March 2005 are prepared on the basis of the pro forma income statement of the Enlarged Group as set out in Appendix IV and should be read in conjunction with the financial information of the Group (as set out in Appendix II) and that of FUTL Group (as set out in Appendix III).

*For the year ended 31 March 2005*

During the year ended 31 March 2005, the Enlarged Group was principally engaged in the manufacture and trading of packaging products, paper gifts items and promotional products, and the sale and distribution of pharmaceutical and healthcare products in the PRC, and investment holding.

In 2005, the Enlarged Group's turnover amounted to approximately HK$413.4 million on a pro forma basis. Profits from operations amounted to approximately HK$115.9 million and profits attributable to Shareholders amounted to approximately HK$39.7 million on a pro forma basis for the Enlarged Group in 2005. During the financial year 31 March 2005, the Group recorded a consolidated turnover of approximately HK$134.3 million, representing a mild decrease of approximately 8.2% as compared to prior financial year. Net loss attributable to Shareholders was approximately HK$0.09 million. During the financial year 31 December 2005, the FUTL Group recorded a consolidated turnover of approximately RMB290.2 million, representing an increase of approximately 47.8% as compared to prior financial year. Net profit attributable to its shareholders was approximately RMB48.5 million.

As at 31 March 2005, the Group had net assets of approximately HK$76.5 million, including cash and bank balances and borrowings and financing from authorized financial institutions (including obligations under finance leases) totaling HK$8.1 million and HK$54.9 million respectively. The Group's borrowings, excluding bank overdrafts of approximately HK$12.7 million, of which HK$35.1 million were payable within one year. The remaining were repayable in the second to fifth years inclusive. As at 31 December 2005, the FUTL Group had consolidated net assets of approximately RMB84.5 million including cash and bank balances and an amount due to shareholders of approximately RMB152.0 million and approximately RMB3.1 million respectively.

The Group generally finances its operations by internal resources and external facilities or borrowings. As at 31 March 2005, the Group had aggregate credit facilities of approximately HK$47.8 million, out of which approximately HK$32.4 million had been utilized. The Group's gearing ratio, as calculated by its total debts over its total assets, was approximately 58.7%. For the financial year ended 31 March 2005, there was net increase in cash and cash equivalents of approximately HK$6.5 million of the Group which was principally resulted from operating activities and the sale of fixed assets by the Group during the financial year. Taking into account of the existing financial resources and facilities available to the Group under existing operating conditions, it is anticipated that the Group should have adequate financial resources to meet its ongoing operation.

The FUTL Group generally finances its operations by internal resources and external facilities or borrowings. As at 31 December 2005, save for the shareholders' loan totaling approximately RMB3.1 million and trade debts, the FUTL Group had no other bank borrowing as at 31 December 2005. The FUTL Group's gearing ratio as calculated by its total debts over its total assets was approximately 71.6% as at 31 December 2005. For the financial year ended 31 December 2005, there was net increase in cash and cash equivalents of approximately RMB40.1 million of the FUTL Group which was principally resulted from, amongst others, the increase in profit from ordinary activities before taxation of the FUTL Group during the financial year. Taking into account of the existing financial resources and shareholders' loan available to the FUTL Group under existing operating conditions, it is anticipated that the FUTL Group should have adequate financial resources to meet its ongoing operation.

The Group had a total of 440 employees and about 1,052 workers provided by a subcontractor in Sha Jing, the PRC as at 31 March 2005. The FUTL Group had a total of 47 employees in the PRC as at 31 December 2005.

As at 31 March 2005, the Group had a total outstanding capital commitment of approximately HK$2.0 million. The FUTL Group had no significant capital commitment as at 31 December 2005.

Most of the Group's operating transactions, assets and liabilities are primarily denominated in either US dollar, Renminbi or Hong Kong dollar, the Directors believes that US dollar and Renminbi will remain relatively stable against Hong Kong dollar in the forseeable future and therefore considered the Group's present exposure to exchange risk is relatively minimal. No financial arrangements have been implemented for hedging purpose for the financial year ended 31 March 2005. Nevertheless, the Directors will, from time to time, closely monitor and reassess the exchange risk exposures of the Group and will enter into non-speculative hedging arrangements as required. As most of the FUTL Group's assets and liabilities are denominated in Renminbi, and the FUTL Group conducted its business transactions principally in Renminbi, the exchange rate risk of the FUTL Group is not significant and the FUTL Group did not employ any financial instruments for hedging purposes.

As at 31 March 2005, the Company has provided guarantees to banks in respect of banking loans granted to and overdrafts of its subsidiaries amounting to approximately HK$30.5 million and guarantees for finance lease assets of subsidiaries to approximately HK$5.5 million. Save as disclosed above, the Group had no other material contingent liabilities as at 31 March 2005. As at 31 December 2005, the FUTL Group had no significant contingent liabilities.

There was no material acquisition or disposal of subsidiaries for each of the Group and the FUTL Group in 2005.

*For the year ended 31 March 2004*

During the year ended 31 March 2004, the Enlarged Group was principally engaged in the manufacture and trading of packaging products, paper gifts items and promotional products, and the sale and distribution of pharmaceutical and healthcare products in the PRC, and investment holding.

In 2004, the Enlarged Group's turnover amounted to approximately HK$335.0 million on a pro forma basis. Profits from operations amounted to approximately HK$63.8 million and profits attributable to Shareholders amounted to approximately HK$9.7 million on a pro forma basis for the Enlarged Group in 2004. During the financial year 31 March 2004, the Group recorded a consolidated turnover of approximately HK$146.2 million, representing a mild decrease of approximately 6.3% as compared to prior financial year. Net loss attributable to Shareholders was approximately HK$18.9 million. During the financial year 31 December 2004, the FUTL Group recorded a consolidated turnover of approximately RMB196.3 million, representing a significant increase of approximately 227.1% as compared to prior financial year. Net profit attributable to its shareholders was approximately RMB29.8 million.

As at 31 March 2004, the Group had net assets of approximately HK$77.1 million, including cash and bank balances and borrowings from authorised financial institutions (including obligations under finance leases) totaling HK$4.6 million and HK$73.0 million respectively. The Group's borrowings, excluding bank overdrafts of approximately HK$13.5 million, of which HK$36.6 million were payable within one year. The remaining were repayable in the second to fifth year inclusive. As at 31 December 2004, the FUTL Group had consolidated net assets of approximately RMB36.0 million including cash and bank balances and an amount due to shareholders of approximately RMB111.8 million and approximately RMB1.4 million respectively.

The Group generally finances its operations by internal resources and external facilities or borrowings. As at 31 March 2004, the Group had aggregate credit facilities of approximately HK$50.5 million, out of which approximately HK$46.3 million had been utilized. The Group's gearing ratio, as calculated by its total debts over its total assets, was approximately 64%. For the financial year ended 31 March 2004, there was net increase in cash and cash equivalents of approximately HK$4.8 million of the Group which was principally resulted from operating activities and the sale of fixed assets by the Group during the financial year. Taking into account of the existing financial resources and facilities available to the Group under existing operating conditions, it is anticipated that the Group should have adequate financial resources to meet its ongoing operation.

The FUTL Group generally finances its operations by internal resources and external facilities or borrowings. As at 31 December 2004, in addition to the shareholders' loan totaling approximately RMB1.4 million, the FUTL Group had non-interest bearing borrowings of approximately RMB14.5 million as at 31 December 2004. The FUTL Group's gearing ratio as calculated by its total debts over its total assets was approximately 80.3% as at 31 December 2004. For the financial year ended 31 December 2004, there was net increase in cash and cash equivalents of approximately RMB89.3 million of the FUTL Group which was principally resulted from, amongst others, the increase in profit from ordinary activities before taxation of the FUTL Group during the financial year. Taking into account of the existing financial resources, the shareholders' loan and the facilities available to the FUTL Group under existing operating conditions, it is anticipated that the FUTL Group should have adequate financial resources to meet its ongoing operation.

The Group had a total of 438 employees and about 1,021 workers provided by a subcontractor in Sha Jing, the PRC as at 31 March 2004. The FUTL Group had a total of 43 employees in the PRC as at 31 December 2004.

As at 31 March 2004, the Group had a total outstanding capital commitment of approximately HK$2.0 million. The FUTL Group had no significant capital commitment as at 31 December 2004.

Most of the Group's operating transactions, assets and liabilities are primarily denominated in either US dollar, Renminbi or Hong Kong dollar, the Directors believes that US dollar and Renminbi will remain relatively stable against Hong Kong dollar in the forseeable future and therefore considered the Group's present exposure to exchange risk is relatively minimal. No financial arrangements have been implemented for hedging purpose for the financial year ended 31 March 2004. Nevertheless, the Directors will, from time to time, closely monitor and reassess the exchange risk exposures of the Group and will enter into non-speculative hedging arrangements as required. As most of the FUTL Group's assets and liabilities are denominated in Renminbi, and the FUTL Group conducted its business transactions principally in Renminbi, the exchange rate risk of the FUTL Group is not significant and the FUTL Group did not employ any financial instruments for hedging purposes.

As at 31 March 2004, the Company has provided guarantees to banks in respect of banking loans granted to and overdrafts of its subsidiaries amounting to approximately HK$38.6 million and guarantees for finance lease assets of subsidiaries to approximately HK$10.5 million. Save as disclosed above, the Group had no other material contingent liabilities as at 31 March 2004. As at 31 December 2004, the FUTL Group had no significant contingent liabilities.

There was no material acquisition or disposal of subsidiaries for each of the Group and the FUTL Group in 2004.

*For the year ended 31 March 2003*

During the year ended 31 March 2003, the Enlarged Group was principally engaged in the manufacture and trading of packaging products, paper gifts items and promotional products, and the sale and distribution of pharmaceutical and healthcare products in the PRC, and investment holding.

In 2003, the Enlarged Group's turnover amounted to approximately HK$213.8 million on a pro forma basis. Profits from operations amounted to approximately HK$11.1 million and losses attributable to Shareholders amounted to approximately HK$3.3 million on a pro forma basis for the Enlarged Group in 2003. During the financial year 31 March 2003, the Group recorded a consolidated turnover of approximately HK$156.0 million, representing a mild decrease of approximately 4.2% as compared to prior financial year. Net loss attributable to Shareholders was approximately HK$5.4 million. During the financial year 31 December 2003, the FUTL Group recorded a consolidated turnover of approximately RMB60.0 million and net profit attributable to its shareholders was approximately RMB2.2 million.

As at 31 March 2003, the Group had net assets of approximately HK$95.3 million including cash and bank balances of HK$5.6 million and bank and other borrowings of HK$80.4 million. As at 31 December 2003, the FUTL Group had consolidated net assets of approximately RMB6.2 million including cash and bank balances and an amount due to shareholders of approximately RMB22.5 million and approximately RMB0.9 million respectively.

The Group generally finances its operations with internally generated cash flow, finance leases and loan facilities from banks. As at 31 March 2003, the Group had aggregate composite banking facilities of approximately HK$134.9 million, out of which approximately HK$63.7 million had been utilized. The Group's gearing ratio as calculated by its total debts over its total assets was approximately 52.71%. For the financial year ended 31 March 2003, there was net decrease in cash and cash equivalents of approximately HK$23.9 million of the Group which was principally resulted from purchase of subsidiaries and fixed assets by the Group during the financial year. Taking into account of the existing financial resources and facilities available to the Group under existing operating conditions, it is anticipated that the Group should have adequate financial resources to meet its ongoing operation.

The FUTL Group generally finances its operations by internal resources and external facilities or borrowings. As at 31 December 2003, in addition to the shareholders' loan totaling approximately RMB899,000, the FUTL Group had non-interest bearing borrowings of approximately RMB24.5 million as at 31 December 2003. The FUTL Group's gearing ratio as calculated by its total debts over its total assets was approximately 91.5% as at 31 December 2003. For the financial year ended 31 December 2003, there was net decrease in cash and cash equivalents of approximately RMB4.6 million of the FUTL Group which was principally resulted from, amongst others, the purchase of fixed assets by the FUTL Group during the financial year. Taking into account of the existing financial resources and shareholders' loan available to the FUTL Group under existing operating conditions, it is anticipated that the FUTL Group should have adequate financial resources to meet its ongoing operation.

The Group had a total of 320 employees and about 1,140 workers provided by a sub-contractor in Sha Jing, the PRC as at 31 March 2003. The FUTL Group had a total of 39 employees in the PRC as at 31 December 2003.

As at 31 March 2003, the Group had a total outstanding capital commitment of approximately HK$10.5 million. The FUTL Group had no significant capital commitment as at 31 December 2003.

Most of the Group's operating transactions, assets and liabilities are primarily denominated in either US dollar, Renminbi or Hong Kong dollar, the Directors believes that US dollar and Renminbi will remain relatively stable against Hong Kong dollar in the forseeable future and therefore considered the Group's present exposure to exchange risk is relatively minimal. No financial arrangements have been implemented for hedging purpose for the financial year ended 31 March 2003. Nevertheless, the Directors will, from time to time, closely monitor and reassess the exchange risk exposures of the Group and will enter into non-speculative hedging arrangements as required. As most of the FUTL Group's assets and liabilities are denominated in Renminbi, and the FUTL Group conducted its business transactions principally in Renminbi, the exchange rate risk of the FUTL Group is not significant and the FUTL Group did not employ any financial instruments for hedging purposes.

As at 31 March 2003, the Company has provided guarantees to banks in respect of banking facilities granted to its subsidiaries amounting to approximately HK$56.6 million. Save as disclosed above, the Group had no material contingent liabilities as at 31 March 2003. As at 31 December 2003, the FUTL Group had no significant contingent liabilities.

During the year ended 31 March 2003, the Group acquired two subsidiaries, New Pearl Hot Stamping & Packaging Limited and Pronto Print Limited, at a total consideration of HK$14.8 million and goodwill arising from the acquisitions amounted to HK$13.1 million. Save as the above, there was no other material acquisition or disposal of subsidiaries for each of the Group and the FUTL Group in 2003.

**Management discussion on the future operations of the Enlarged Group**

The Company considers research and development as an essential component of its business strategy if the Company is to gain a market share and increase its competitiveness into the pharmaceutical and healthcare industry. Following the Acquisition Completion, the Company intends to adopt a market-oriented approach to research and development of new products to ensure that all products target specific market needs so as to maximise their economic value. The entering into of the research agreements by DG-Pharmaceutical will enable the Group to leverage on the resources, equipment, facilities and the expertise in the industry and develop pharmaceutical and healthcare products with commercial potential, as well as to test and adapt those products to ensure the medical and healthcare efficacy of such products. Currently, DG-Pharmaceutical is developing in the PRC two pharmaceutical products using recombinant DNA technology for possible treatment of diabetes and enhancing the immunity respectively. Both products are currently at the pre-clinical stage and, upon successful completion of entire development, should be regarded as "Newly Emerging First-in-class Medicine" (國家一類新葯).

The Company intends to allocate appropriate resources by stages with an aim to achieving an integrated process from research and development, commercialisation, marketing and sale of pharmaceutical and healthcare products in the long run. The objective of the Group is to maximise the value of the potential new business. The Company will continue to select a range of partnerships to test, certify, validate and/or assist in the development of its business in the pharmaceutical and healthcare industry. The Company considers that such collaborations would assist the Group in leveraging its research and development resources and help bring the products proposed to be researched and through the phases of commercialisation more quickly.

Notwithstanding the aforesaid, it is the current intention of the Company to continue the existing business of the Group. The Company will continue to build on the strength and expertise of its businesses and proactively identify new potential markets and other suitable investment opportunities and/or attractive business opportunities.

The Company will conduct regular review of the operations of the Group with a view to developing a corporate strategy to enhance its existing businesses, strengthen the asset based of the Group and broaden its income stream by various measures should appropriate opportunities arise to maximise shareholders' return.

Save as aforesaid, there is no intention to introduce major changes to the business of the Group as a result of the Acquisition.

**Working capital**

The Directors are of the opinion that, taking into consideration the financial resources available to the Company (including internally generated funds, the available banking facilities, the existing cash and bank balances and the present capability of the existing FUTL Group to generate income itself), the Enlarged Group will, following the completion of the Acquisition, have sufficient working capital for its present requirements (that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances).

**Implications of the Listing Rules**

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is subject to Shareholders' approval in general meeting of the Company pursuant to Rule 14.49 of the Listing Rules.

To the best knowledge of the Directors and other than the subscription of the Convertible Bonds by Automatic Result, no Shareholder has any material interest in the Acquisition. Automatic Result and its associates will abstain from voting at the EGM.

## 3. SUBSCRIPTION AGREEMENT AND THE PROPOSED ISSUE OF THE CONVERTIBLE BONDS TO AUTOMATIC RESULT

**Principal terms of the Subscription Agreement**

**Date** : 26 April 2006

**Issuer** : the Company

**Subscriber** : Automatic Result

**Amount of Convertible Bonds to be subscribed** : HK$114 million in aggregate, comprising tranche 1 of a total principal amount of HK$57 million ("**Tranche 1 Convertible Bonds**") and tranche 2 of a total principal amount of HK$57 million ("**Tranche 2 Convertible Bonds**")

**Principal terms of the Convertible Bonds**

**Principal amount** : HK$114 million
(if the conversion rights attaching to the Convertible Bonds are exercised in full at the Conversion Price of HK$0.95 per Share, it will result in the issue of 120,000,000 new Shares, and the impact on the shareholding structure of the Company are set out in the paragraph headed "Impact on the Shareholding Structure of the Company" below).

| | | |
|---|---|---|
| **Interest** | : | Nil |
| **Maturity Date** | : | The third anniversary of the date of issue of the Convertible Bonds |
| **Conversion Right** | : | Tranche 1 Convertible Bonds may be convertible in whole or in part into new Shares during the period commencing from the date falling six (6) months from the Issue Date and expiring on the Maturity Date up to 4:00 p.m. at the Conversion Price, subject to adjustment for subdivision or consolidation of Shares, bonus issues, capital reduction and rights issue. Any conversion shall be made in amounts of not less than a whole multiple of HK$500,000 and no fraction of a Share shall be issued on conversion.<br><br>Tranche 2 Convertible Bonds may be convertible in whole or in part into new Shares during the period commencing from the date falling 12 months from the Issue Date and expiring on the Maturity Date up to 4:00 p.m. at the Conversion Price, subject to adjustment for subdivision or consolidation of Shares, bonus issues, capital reduction and rights issue. Any conversion shall be made in amounts of not less than a whole multiple of HK$500,000 and no fraction of a Share shall be issued on conversion. |
| **Conversion Price** | : | HK$0.95 (being the conversion price at which each Share shall be issued upon exercise of the Conversion Right at the option of the converting Bondholder(s) (subject to adjustment for subdivision or consolidation of Shares, bonus issues, capital reduction and rights issue))<br><br>The Company undertakes to the Stock Exchange that it will not cause any of the above adjustment events to be occurred during the term of the Convertible Bonds, the effect of which would, in the opinion of a merchant bank or an auditor (which is instructed by the Company to make any determination under the Convertible Bonds), result in the Conversion Price to be reduced substantially or fall to the par value of the Share (that is, HK$0.10) and the interests of the Company being adversely affected thereby.<br><br>The Conversion Price was arrived at after arm's length negotiations between the relevant parties and with reference to the performance of the market price of the Shares. The Conversion Price of HK$0.95 represents:<br><br>(a) a discount of approximately 50.0% to the closing price of HK$1.90 per Share as quoted on the Stock Exchange on 12 April 2006 (being the last trading day immediately prior to the Announcement); |

(b) a discount of 22.1% to the average closing price of HK$1.22 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including 12 April 2006 (being the last trading day immediately prior to the Announcement);

(c) a premium of 7.9% over the average closing price of HK$0.88 per Share as quoted on the Stock Exchange for the 20 consecutive trading days up to and including 12 April 2006 (being the last trading day immediately prior to the Announcement); and

(d) a premium of 9.2% over the average closing price of HK$0.87 per Share as quoted on the Stock Exchange for the 30 days up to and including 12 April 2006 (being the last trading day immediately prior to the Announcement).

Despite the significant increase in Share price in the last three trading days immediately prior to the suspension of trading in Shares on 13 April 2006, daily closing price of Shares have been recorded in the range between approximately HK$ 0.517 to HK$0.850 since the publication of the Company's announcement dated 15 February 2006 regarding the letter of intent in relation to the possible investment and/ or business co-operation. The Directors therefore considered it more reasonable to arrive at the Conversion Price with reference to the Share price performance in a longer period, accordingly, the Share price performance since 15 February 2006, to avoid the distortion by the recent short-term price fluctuation immediately before the suspension. In addition to the fact that the Conversion Price represents a premium to the average closing price of the Shares for the 20 and 30 consecutive trading days up to and including 12 April 2006 respectively, the issue price of the Consideration Share of HK$0.90 represents a further premium of approximately 29.08% when compared with the average closing price of the Shares for the period from 15 February 2006 up to and including 12 April 2006 of approximately HK$0.736 per Share. Based on the above, the Directors considered that such basis for arriving the issue price per Consideration Share is fair and reasonable.

**Conversion Shares** : The Conversion Shares will be issued free from any encumbrances or third party rights of any kind and will rank pari passu, in all respects with the existing issued Shares together with all rights to dividends and other distributions declared, made or paid on or after the date of the exercise of the Conversion Right.

| | | |
|---|---|---|
| **Redemption** | : | The Company may redeem the Convertible Bonds, at any time during the period commencing from the Issue Date and expiring on the Maturity Date, by giving the Bondholder seven business days' prior notice at the redemption amount which is 110% of the principal amount of the outstanding Convertible Bonds<br><br>The Bondholder may, at any time during the period commencing from the Issue Date and expiring on the Maturity Date, request the Company to redeem the outstanding Convertible Bonds held by it, and the Company may (if considered appropriate) choose to redeem the outstanding Convertible Bonds at the principal amount of the outstanding Convertible Bonds |
| **Final redemption and repayment** | : | Unless the conversion rights attaching to the Convertible Bonds have been exercised during the Conversion Period in accordance with its terms, the Company is obliged to make any redemption, in cash, at the redemption amount which is the outstanding principal amount of the Convertible Bonds on the Maturity Date. |
| **Voting** | : | The Bondholder shall not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of its being a Bondholder. |
| **Transferability** | : | The Convertible Bonds may not be assigned or transferred in whole or in part to any connected persons of the Company nor any third party without the prior written consent of the Company (such consent not to be unreasonably withheld or delayed). |

The terms of the Convertible Bonds (including the non-interest bearing nature thereof) have been arrived at after arm's length negotiations between the Company and the Subscriber and are, as an indication of the controlling shareholder's support of and commitment to the Group, on commercial terms which are more favourable to the Company as a whole. The Directors (including the non-executive Directors) consider the terms of the Convertible Bonds to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company and its Directors undertake to the Stock Exchange that they will disclose to the Stock Exchange any dealings by Connected Persons in the Convertible Bonds from time to time immediately upon the Company becoming aware of it.

The Company and the Directors undertake to the Stock Exchange that the Company will or, if applicable, will procure the Subscriber to ensure that the exercise of the Conversion Right attaching to the Convertible Bonds will (a) be in compliance with the terms governing the issue of the Convertible Bonds as well as the applicable law, rules and regulations (including the Listing Rules) and (b) not cause the public float of the Shares to fall below the requirement as prescribed under Rule 8.08 of the Listing Rules.

**Conditions of the Subscription Agreement**

The Subscription Agreement shall be subject to the satisfaction of, among other matters, the following conditions:

(1) the passing of ordinary resolutions by the Shareholders at the EGM approving, among other matters, the creation and issue of the Convertible Bonds, authorising the Board to allot and issue the Shares upon the exercise of Conversion Right attaching to the Convertible Bonds;

(2) the Listing Committee of the Stock Exchange having granted listing of and permission to deal in the Shares to be issued upon the exercise of Conversion Right attaching to the Convertible Bonds;

(3) the Acquisition Agreement having become unconditional in accordance with the terms thereof (other than the condition in connection with the obtaining of financing or the raising of funds by the Company through the issue of debt or other instruments for funding the transactions contemplated under the Acquisition Agreement);

(4) none of the warranties contained in the Subscription Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect; and

(5) the Board approving and authorising the execution and completion of the Subscription Agreements and the instrument creating the Convertible Bonds, the creation and issue of the Convertible Bonds and the allotment and issue of Shares upon the exercise of the Conversion Rights attaching to the Convertible Bonds.

If any of the above conditions are not fulfilled or as to those conditions under (4) and (5) above, being waived by the Subscriber by 5:00 p.m. (Hong Kong time) on the Longstop Date or such other date as the Company and the Subscriber shall agree in writing, the Subscription Agreement shall terminate.

**Completion of the Subscription Agreement**

The Subscription Completion shall take place on the fifth Business Day following the date of fulfilment or waiver (as the case may be) of the conditions of the Subscription Agreement in full (or such other date as the parties shall agree in writing). The Subscription Completion shall take place simultaneously with the Acquisition Completion.

**Connected Transaction**

Automatic Result is a substantial shareholder of the Company. The Subscription Agreement, together with the transactions contemplated thereunder, thus constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is required to be approved by the Independent Shareholders by way of a poll at the EGM. Automatic Result and its associates are required to abstain from voting on the Connected Transaction.

The Independent Board Committee has been appointed to advise the Independent Shareholders on the fairness and reasonableness of the Connected Transaction. Independent Financial Adviser has been appointed to advise the Independent Board Committee in such connection.

**Reasons for the issue of the Convertible Bonds**

In addition to the reason stated under the heading "Source of funds for the Acquisition" above, the Directors consider that the issue of the Convertible Bonds is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing shareholders of the Company. Further, the obtaining of funding from Automatic Results could demonstrate, to a certain extent, the commitment and confidence of the controlling shareholder in the prospects of the Group. This is advantageous in maintaining the stability of the development of the Group.

The Directors, including the independent non-executive Directors, consider that the terms of the Subscription Agreement, which was arrived after arm's length negotiation between the Company and Automatic Result, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

**Use of proceeds**

The estimated net proceeds raised from the issue of the Convertible Bonds is approximately HK$113.9 million, after deducting professional fees and all related expenses. The Company will use the proceeds for the funding of the Acquisition.

**Impact on the shareholding structure of the Company**

As at the date of this circular, the issued ordinary share capital of the Company is HK$54,000,000 comprising 540,000,000 Shares. Immediately after the Acquisition Completion, the issued ordinary share capital of the Company will become HK$76,000,000 comprising 760,000,000 Shares. If the Convertible Bonds are then fully exercised, the issued ordinary share capital of the Company will become HK$88,000,000 comprising 880,000,000 Shares.

The effect on the shareholding structure of the Company upon the Acquisition Completion and the exercise in full of the Conversion Right attaching to the Convertible Bonds are as follow:

| | Shareholding structure upon completion of the Acquisition | | Shareholding structure upon full conversion of the Convertible Bonds | |
|---|---|---|---|---|
| | *No. of shares* | *%* | *No. of shares* | *%* |
| Automatic Result *(Note)* | 292,058,248 | 38.43 | 412,058,248 | 46.82 |
| Liu Cheng Hua | 37,400,000 | 4.92 | 37,400,000 | 4.25 |
| Wong Kim Kwan Kings | 37,400,000 | 4.92 | 37,400,000 | 4.25 |
| Hau Cheong Man | 37,400,000 | 4.92 | 37,400,000 | 4.25 |
| Li Kit Yuk | 37,400,000 | 4.92 | 37,400,000 | 4.25 |
| Chan Siu Ming | 35,200,000 | 4.63 | 35,200,000 | 4.00 |
| Leung Lai Kwan Susanna | 35,200,000 | 4.63 | 35,200,000 | 4.00 |
| Public shareholders | 247,941,752 | 32.62 | 247,941,752 | 28.18 |
| **Total** | **760,000,000** | **100.00** | **880,000,000** | **100.00** |

*Note:* The entire issued share capital of Automatic Result is solely and beneficially owned by Mr Tong Kit Shing whereas Mr Liu Guoyao is the sole director of Automatic Result. Both Mr Tong and Mr Liu are deemed to be interested in all the interest in Shares held by Automatic Result by virtue of the SFO.

To the best knowledge, information and belief of the Directors, the issue of the Convertible Bonds will not introduce any new substantial Shareholder assuming the Convertible Bonds are converted in full as at the Latest Practicable Date.

## 4. INFORMATION OF THE GROUP

The Group is principally engaged in the manufacture and trading of packaging products, paper gifts items and promotional products and investment holding.

As stated in the interim results of the Company for the six months ended 30 September 2005 and published by the Company on 28 October 2005, the Company recorded a net loss of approximately HK$14.7 million for the financial period under review.

In order to improve the financial performance and position of the Group and to maximize the returns to the Group and the Shareholders as a whole, the Board considers it necessary and appropriate to, in addition to optimizing its operation in the existing business, diversify its existing business into, and explore a broader range of investments and businesses in, industry of relatively high growth and yield such as applied science and technology. It remains the business objective and current intention of the Company to continue develop and strengthen its existing principal business and explore opportunities that have potential to generate returns to improve the financial position of the Group or are instrumental to the diversification of the business of the Group.

It remains the current intention of the Company to continue the existing business of the Group. The Company will continue to build on the strength and expertise of its businesses and proactively identify new potential markets and other suitable investment opportunities and/or attractive business opportunities.

## 5. FUND RAISING ACTIVITIES BY THE COMPANY DURING THE PAST 12 MONTHS

As disclosed in the Company's announcement dated 15 February 2006, the Company raised net proceeds of approximately HK$175.5 million by way of an open offer of 360,000,000 offer Shares at HK$0.50 per offer Share payable in full on acceptance on the basis of two offer Shares for every existing Share then held.

The Company intends to utilize HK$160.1 million out of the net proceeds from the open offer of approximately HK$175.5 million for the funding of the Acquisition.

Save as disclosed above, the Company has not undertaken any fund raising exercises in the 12 months immediately prior to the Latest Practicable Date.

## 6. APPLICATION FOR LISTING

No application will be made for the listing of, or permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares which may fall to be issued pursuant to the Convertible Bonds.

The Consideration Shares and the Conversion Shares, when issued, will rank pari passu in all respects with the existing issued Shares.

None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

Subject to the granting of the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares on the Stock Exchange, the Consideration Shares and the Conversion Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consideration Shares and the Conversion Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

## 7. PROPOSED GRANT OF SPECIAL MANDATE

The Board was granted the Existing General Mandate at the 2005 AGM to allot, issue and otherwise deal in up to 36,000,000 Shares, representing 20% of the share capital of the Company in issue on the date of the 2005 AGM (that is, 30 August 2005). The Existing General Mandate has not been refreshed or exercised since the date of the 2005 AGM and up to the Latest Practicable Date.

As the Existing General Mandate is insufficient to cover the allotment and issue of (i) the Consideration Shares to the Vendors upon completion of the Acquisition Agreement and (ii) the Conversion Shares upon exercise of the Conversion Right attaching to the Convertible Bonds, the Company will seek the grant of the Special Mandate to satisfy the allotment and issue of the Consideration Shares and the Conversion Shares from the Shareholders at the EGM.

## 8. GENERAL MANDATE TO ISSUE SHARES

At the EGM, the Directors will also seek the approval of the Independent Shareholders to the refreshment of the Existing General Mandate by the grant of a new Issue Mandate to the Directors to exercise the powers of the Company to allot, issue or otherwise deal with Shares up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant resolution approving the grant of such mandate. On the basis of a total of 540,000,000 Shares in issue as at the Latest Practicable Date and assuming that no Shares will be issued or repurchased between the Latest Practicable Date and the EGM, the Issue Mandate will empower the Directors to allot, issue or otherwise deal with up to a maximum of 108,000,000 new Shares.

### Reasons for and benefits of refreshing the Existing General Mandate

A new grant of the Issue Mandate would empower the Directors to issue new Shares under the refreshed limit speedily as and when necessary, and without seeking further approval from the Shareholders' approval. This could give the Company the flexibility and ability to capture any capital raising or related investment opportunity as and when it arises. Such ability is crucial in a competitive and rapidly changing investment environment. For these reasons the Directors believe that it is in the interests and for the benefits of the Company and its Shareholders as a whole if the Existing General Mandate is refreshed by the grant of the new Issue Mandate at the EGM.

Save for the Acquisition and the allotment and issue of the Conversion Shares upon exercise of the Conversion Right attaching to the Convertible Bonds, the Directors have no intention or plan for raising capital by issuing new securities of the Company as at the Latest Practicable Date. In the event there is any such issue, the Company will comply with the relevant requirements of the Listing Rules.

### Approval of the New Issue Mandate

Under the Listing Rules, if the Company seeks approval from the Shareholder for any refreshment of the Existing General Mandate before the next annual general meeting, the controlling Shareholders (as defined in the Listing Rules) and their associates are required to abstain from voting in favour of the resolution proposed for the approval of such refreshment. Automatic Result and its associates will abstain from voting at the EGM.

Under Rule 13.39(4)(b) of the Listing Rules, any vote of the Shareholders will be taken by poll.

**Period during which the new Issue Mandate will remain effective**

The new Issue Mandate will, if granted, remain effective until the earliest of (i) the date of the next annual general meeting of the Company; (ii) the date by which the next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Listing Rules; and (iii) the date upon which such authority is revoked or varied by an ordinary resolution of the Shareholders in a general meeting of the Company.

## 9. GENERAL MANDATE TO REPURCHASE SHARES

The Board was granted the existing Repurchase Mandate at the 2005 AGM to allot, issue and otherwise deal in up to 18,000,000 Shares, representing 10% of the share capital of the Company in issue on the date of the 2005 AGM (that is, 30 August 2005). The existing Repurchase Mandate has not been refreshed nor exercised since the date of the 2005 AGM and up to the Latest Practicable Date.

At the EGM, an ordinary resolution will be proposed to revoke the existing Repurchase Mandate and to grant to the Directors a new Repurchase Mandate to exercise all powers of the Company to repurchase Shares in the share capital of the Company up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of such resolution. On the basis of a total of 540,000,000 Shares in issue as at the Latest Practicable Date and assuming that no Shares will be issued or repurchased between the Latest Practicable Date and the EGM, the new Repurchase Mandate will empower the Directors to repurchase up to 54,000,000 Shares.

The new Repurchase Mandate will remain in effect until the earliest of (i) the date of the next annual general meeting of the Company; (ii) the date by which the next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Listing Rules; and (iii) the date upon which such authority is revoked or varied by an ordinary resolution of the Shareholders in a general meeting of the Company.

Under the Listing Rules, the Company is required to give its Shareholders all information which is reasonably necessary to enable its Shareholders to make an informed decision as to whether to vote for or against the resolution to grant to the Directors of the Repurchase Mandate. The explanatory statement required by the Listing Rules is set out in Appendix I to this circular.

## 10. EXTEND GENERAL MANDATE TO REPURCHASE SHARES

An ordinary resolution will be proposed at the EGM to extend the Issue Mandate by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the new Repurchase Mandate provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the issued share capital of the Company in issue on the date of passing the resolution approving the new Issue Mandate.

## 11. SHARE OPTION SCHEME – RENEWAL OF SCHEME MANDATE LIMIT

In addition, the Board also proposes to seek the approval of the Shareholders to refresh the 10% limit on the grant of options under the Share Option Scheme. Under the existing Scheme Mandate Limit, the Directors were only authorised to grant options to subscribe for up to 18,000,000 Shares (that is, 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme).

As at the Latest Practicable Date, the Board has fully utilised the Scheme Mandate Limit and granted options entitling the grantees thereof to subscribe for in aggregate 18,000,000 Shares. All these outstanding options were granted on 6 April 2006 to 15 grantees who fall within the category of eligible participants under the Share Option Scheme and may be exercised during the period from 7 April 2006 to 21 October 2011. None of these options was exercised, lapsed or cancelled as at the Latest Practicable Date. The Directors confirm that the granting of options was in line with the rules of the Share Option Scheme and the relevant requirements of the Listing Rules.

In order to provide the Company with greater flexibility in granting options to eligible persons under the Share Option Scheme as incentive or reward for their contribution to the Group, recruit and retain high-calibre employees, attract human resources that are valuable to the Group and/or foster and secure better business relationship and support, the Board decides to seek the approval of the Shareholders at the EGM to refresh the Scheme Mandate Limit. The Directors consider that the refreshment of the Scheme Mandate Limit is in the interest of the Company and Shareholders as a whole.

Based on the 540,000,000 Shares in issue as at the Latest Practicable Date (assuming that no Shares are issued, whether upon exercise of options under the Share Option Scheme or otherwise or repurchased by the Company prior to the EGM), the Directors will be able to grant options to subscribe for up to 54,000,000 Shares, representing 10% of the existing issued share capital of the Company, upon approval of the refreshment of the Scheme Mandate Limit at the EGM.

The Company undertakes to the Stock Exchange that, if there is any alteration in the capital structure of the Company, the necessary adjustment will be made to the number or the nominal amount or the subscription price of any option to which the Share Option Scheme or any option granted thereunder relates in compliance with Rule 17.03(13) of the Listing Rules and the supplementary guidance published by the Stock Exchange under its letter dated 5 September 2005 to all listed issuers concerning Rule 17.03(13) of the Listing Rules and the note immediately after such rule.

## 12. EGM

An EGM will be convened and held for the purpose of considering and, if thought fit, approving:

(1) the Acquisition;

(2) the creation and issue of the Convertible Bonds;

(3) the Connected Transaction (as constituted by the Subscription Agreement and the transactions contemplated thereunder);

(4) the grant of the Special Mandate for the allotment issue of additional Shares that are required to satisfy the (i) the Consideration Shares to be allotted and issued upon completion of the Acquisition Agreement and (ii) the Conversion Shares which may fall to be allotted and issued upon exercise of the Conversion Right in full attaching to the Convertible Bonds (or to the extent necessary);

(5) the refreshment of the Existing General Mandate by the grant of a new Issue Mandate to the Directors;

(6) the refreshment of the Repurchase Mandate by the grant of a new Repurchase Mandate to the Directors;

(7) the extension of the Issue Mandate by the addition thereto the number of Shares repurchased pursuant to the new Repurchase mandate; and

(8) the renewal of the Scheme Mandate Limit.

Automatic Result will abstain from voting in respect of the above resolutions proposed at the EGM.

An announcement will be made by the Company on the business day immediately following the conclusion of the EGM to inform the Shareholders and the public of the results of the EGM.

Notice of the EGM is set out on pages 155 to 161 of this circular.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer offer in Hong Kong, Abacus Share Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM in person should you so wish.

## 13. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Article 66 of the Articles of Association sets out the following procedure by which Shareholders may demand a poll.

At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

(i) the chairman of the meeting; or

(ii) at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or

(v) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five per cent. (5%) or more of the total voting rights at such meeting.

## 14. RECOMMENDATION

The Directors (except for Mr Tong Kit Shing and Mr Liu Guoyao who abstained from voting on the resolutions for approving the Acquisition pursuant to the terms of the Acquisition Agreement, the creation and issue of the Convertible Bonds, the Connected Transaction (as constituted by the Subscription Agreement relating to the subscription of the Convertible Bonds), the grant of the Special Mandate and the refreshment of the Existing General Mandate by the grant of a new Issue Mandate to allot and issue Shares at the relevant board meeting of the Company), having considered the principal factors and reasons referred to above, are of the opinion that:

(a) the terms and conditions of the Acquisition pursuant to the terms of the Acquisition Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM for approving the Acquisition pursuant to the terms of the Acquisition Agreement and the grant of the Special Mandate for the allotment and issue of the Consideration Shares;

(b) the creation and issue of the Convertible Bonds and the terms and conditions of the Connected Transaction (as constituted by the Subscription Agreement relating to the subscription of the Convertible Bonds) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of all the relevant ordinary resolutions to be proposed at the EGM for approving the creation and issue of the Convertible Bonds, the Connected Transaction and the grant of the Special Mandate for the allotment and issue of the Conversion Shares;

(c) the proposed refreshment of the Existing General Mandate by the grant of a new Issue Mandate, the proposed refreshment of the existing Repurchase Mandate by the grant of a new Repurchase Mandate, the extension of the Issue Mandate and the renewal of the Scheme Mandate Limited are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders or, as the case may be, the Independent Shareholders to vote in favour of all the relevant ordinary resolutions to be proposed at the EGM for approving these matters.

AsiaVest has been appointed as the independent financial adviser to advise the Independent Board Committee with regard to (i) the Connected Transaction (as constituted by the Subscription Agreement), and (ii) the refreshment of the Existing General Mandate by the grant of a new Issue Mandate to allot and issue Shares. The text of the letter of advice from AsiaVest containing their recommendations and the principal factors they have taken into account in arriving at it recommendation is set out on pages 41 to 65 of the circular.

The full text of the letter from the Independent Board Committee is set out on page 40 of this circular. Independent Shareholders are advised to read the letter of advice from the Independent Board Committee before considering their actions in relation to (i) the Connected Transaction (as constituted by the Subscription Agreement) and (ii) the refreshment of the Existing General Mandate by the grant of a new Issue Mandate to allot and issue Shares.

**15. ADDITIONAL INFORMATION**

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully
By Order of the Board
**Uni-Bio Science Group Limited**
**Tong Kit Shing**
*Chairman*

聯康生物科技集團有限公司*

Uni-Bio Science Group Limited

*(Incorporated in the Cayman Islands with limited liability)*
(Stock Code: 690)

19 May 2006

*To the Independent Shareholders*

Dear Sir/Madam

**(1) PROPOSED CREATION AND ISSUE OF THE CONVERTIBLE BONDS AND THE CONNECTED TRANSACTION (AS CONSTITUTED BY THE SUBSCRIPTION AGREEMENT FOR THE SUBSCRIPTION OF THE CONVERTIBLE BONDS)**
**(2) PROPOSED REFRESHMENT OF EXISTING GENERAL MANDATE BY THE GRANT OF A NEW ISSUE MANDATE TO ALLOT AND ISSUE SHARES**
**(COLLECTIVELY, THE "PROPOSED TRANSACTIONS")**

We refer to the circular of the Company despatched to its shareholders dated 19 May 2006 (the "**Circular**") of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We, being all the independent non-executive Directors constituting the Independent Board Committee, have been appointed by the Board to advise you in connection with the Proposed Transactions. Details of the Proposed Transactions are set out in the letter from the Board contained in the Circular.

AsiaVest has been appointed as the independent financial adviser to advise the Independent Board Committee in this respect. Details of its recommendation and principal factors taken into consideration in arriving at its recommendation are set out in the letter from the Independent Financial Adviser on pages 41 to 65 of the Circular.

Having considered the Proposed Transactions and the advice from AsiaVest in relation thereto, we take the view that the Proposed Transactions are in the interests of the Company and the Shareholders as a whole and the respective terms of the Proposed Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions to be proposed at the EGM to approve the Proposed Transactions.

Yours faithfully
**Zhou Yao Ming Lin Jian So Yin Wai**
**Independent Board Committee**
**of**
**Uni-Bio Science Group Limited**

* *for identification purposes only*

*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from AsiaVest Partners Limited setting out their opinion regarding the Proposed Transactions for the purpose of inclusion in this circular.*

**AsiaVest Partners Limited**
**南亞投資管理有限公司**

AsiaVest Partners Limited
Floor 19, Crocodile House I
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Hong Kong

19 May 2006

To the Independent Board Committee
and the Independent Shareholders of
Uni-Bio Science Group Limited

Dear Sirs/Madam,

**PROPOSED TRANSACTIONS**

**(A) CONNECTED TRANSACTION**
**(AS CONSTITUTED BY THE SUBSCRIPTION OF THE THREE-YEAR HK$114 MILLION ZERO COUPON CONVERTIBLE BONDS)**
**and**
**(B) REFRESHMENT OF ISSUE MANDATE**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the terms of the Connected Transaction and the refreshment of Issue Mandate (the "Proposed Transactions"), details of which are set out in the circular of the Company to the Shareholders dated 19 May 2006 (the "**circular**"), of which this letter forms a part. Terms used in this letter have the same meanings as defined in the circular unless the context requires otherwise.

The Company proposes to acquire the entire issued share capital of Figures Up, which is principally engaged in the sale and distribution of pharmaceutical and health care products in the People's Republic of China. To finance the Acquisition, the Company proposed issuing the three-year HK$114 million zero coupon Convertible Bonds to Automatic Result, the controlling Shareholder of the Company ("**Connected Transaction**"). In addition, the Company proposed to seek Independent Shareholders' approval on the refreshment of Issue Mandate (the "**new Issue Mandate**").

We have been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to give our recommendation as to whether the terms of the Proposed Transactions are fair and reasonable so far as the Shareholders are concerned and whether the Proposed Transactions are in the interest of the Company and the Shareholders as a whole, and to provide an independent view to the Independent Shareholders to facilitate the decision of their voting.

An Independent Board Committee has been formed, comprising the independent non-executive Directors, to advise the Independent Shareholders. The Independent Board Committee has members, including Messrs. Zhou Yao Ming, Lin Jian and So Yin Wai, and shall advise the Independent Shareholders in relation to the Proposed Transactions.

**BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on the information and facts contained or referred to in the circular as well as the representations made or provided by the Directors and senior management of the Company. The Directors have declared in a responsibility statement set out in Appendix V to the circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the circular. We have also assumed that the information and the Directors' representations made in the circular are complete. We have also assumed that the information and the Directors' representations contained or referred to in the circular were true and accurate at the time they were made and continue to be so at the date of the dispatch of the circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been withheld or omitted from the circular.

We consider that we have reviewed sufficient information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to satisfy ourselves that we have a reasonable basis to assess the fairness and reasonableness of the terms of the Proposed Transactions in order to reach an informed view, to justify reliance on the accuracy of the information contained in the circular and to provide a reasonable basis for our recommendation. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the circular. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the acquired businesses or companies or any of the respective subsidiaries or associates of both the Company and the acquired businesses.

We have not considered the taxation implications on the Shareholders nor the Convertible Bonds holder(s) in relation to the subscription for, holding or disposal of the offered or converted Shares resulting from the proposed considerations by way of Shares issued or otherwise, since these are unique to their individual circumstances. It is emphasized that we will not accept responsibility for any tax effects on, and liabilities of any person resulting from the holding or disposal of the offered, the converted Shares or otherwise. In particular, Shareholders subject to Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### (I) VERY SUBSTANTIAL ACQUISITION INVOLVING ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF FIGURES UP

### BACKGROUND INFORMATION AND REASON FOR THE CONNECTED TRANSACTION

**The Acquisition Agreement**

Further to the Company's announcements dated 15 February 2006 and 12 April 2006 regarding the letters of intent in relation to possible investment and/or business co-operation entered into by Lelion, the Company announced on 26 April 2006 (the "Announcement") that Lelion and the Vendors have entered into the conditional Acquisition Agreement for the sale and purchase of the entire issued share capital of Figures Up.

**Parties**

| | | |
|---|---|---|
| Vendors | : | Liu Cheng Hua, Wong Kim Kwan Kings, Hau Cheong Man, Li Kit Yuk, Chan Siu Ming and Leung Kai Kwan Susanna<br><br>To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors are Independent Third Parties, and that there is no relationship among the six individual Vendors otherwise than their shareholding in FUTL Group and their entering into the Acquisition Agreement |
| Purchaser | : | Lelion Holdings Limited, a wholly-owned subsidiary of the Company |

**Assets to be acquired**

The entire issued share capital of Figures Up, which comprises of the Sale Shares.

Figures Up is the holding company of its subsidiaries in the PRC, namely Dongguan-Tai Li and DG-Pharmaceutical (collectively, the "FUTL Group"). The FUTL Group is principally engaged in the sale and distribution of pharmaceutical and healthcare products in the PRC. The Company has also entered into certain joint research agreements with a research institution for the research of certain pharmaceutical products. Information of FUTL Group is set out in the paragraph headed "Information on Figures Up and the FUTL Group" in the circular.

The unaudited consolidated net asset value of the FUTL Group as at 31 December 2005 was approximately HK$82,900,000.

**Consideration for the Acquisition**

The consideration for the Acquisition is HK$472 million, which shall be allocated amongst the Vendors according to the ratio as specified in the Acquisition Agreement and shall be satisfied in the following manner upon Completion:

(i) as to HK$274 million in cash of which HK$114 million shall be financed by Automatic Result by subscribing to the Convertible Bonds, being a Connected Transaction; and

(ii) as to the balance of HK$198 million by the allotment and issue of 220 million new Shares, credited as fully paid, at an issue price of HK$0.90 each by the Company to the Vendors.

The consideration for the Acquisition has been agreed between the Vendors and the Purchaser based on arm's length negotiations with reference to the consolidated profit after taxation of the FUTL Group for the year ended 31 December 2005 of approximately RMB 48.5 million (or approximately HK$46.6 million). As the future prospects of the FUTL Group lies in its ability to generate earnings, the Board considers the price earnings multiple is an appropriate yardstick in valuing the Acquisition than with reference to its net asset value as at 31 December 2005 which was about HK$81.2 million. The consideration for the Acquisition values the FUTL Group at approximately HK$472 million, which represents a price earnings multiple of approximately 10.1 times of the consolidated profit after taxation of the FUTL Group for the year ended 31 December 2005.

**Key assumptions**

We have relied on information as disclosed in the context of this circular under Sections (a) Information on Figures Up and the FUTL Group (b) Basis of consideration (c) Sources of funds for the Acquisition.

As stated under the basis of our opinion in this letter, we have assumed that the information and the Directors' representations made in the circular are complete.

**Industry analysis**

PriceWaterhouse Coopers (PwC) issued a report in March, 2006 on the subject of "Investing in China's Pharmaceutical Industry". It was reported that total sales of pharmaceutical products in China, excluding traditional Chinese medicine, reached an estimated US$19.2 billion in 2005. According to analyst predictions on the report, China is expected to become the world's fifth-largest pharmaceuticals market by 2010, and the world's largest by 2050.

The Chinese central government is encouraging the development of retail pharmacies in a bid to separate the functions of prescribing and dispensing, so as to limit over-prescription of drugs (notably antibiotics) and the often exorbitant mark-ups on drug prices by hospitals, since 2003, and these efforts have been more effective in some markets than others. In Shenzhen, for example, up to 40% of all pharmaceutical products sales are now thought to be taken place via pharmacies-more than twice the national average and Chinese pharmaceutical manufacturers are acquiring interests in retails channels and have become a major factor in a consolidation trend. The PwC report also stated that the Ministry of Health estimates that the country's health insurance network now covers just 10% of the national population. Urban insurance reform is one of the most significant issues facing the national government and the pharmaceutical industry, with 118 million people enrolled in the urban health insurance scheme by 2004, and 300 million optimistically forecast to join by end-2006. Patient choice of drugs is driven by affordability and access, including whether the drugs are included on the reimbursement lists which the Chinese government uses to regulate drug pricing.

The Chinese government is attempting to address these issues in its Eleventh Five-Year Plan (2006-2010), which was considered at the annual session of the National People's Congress (NPC-China's parliament) in March 2006. The Plan calls for the creation of an effective healthcare system and a reduction in medical costs for rural residents – the vast majority of whom have no health insurance. China's Minister for Health, Gao Qiang, has pledged to increase pressure on local health authorities to offer more affordable care for lower-income patients such as farmers and the unemployed.

The Directors consider that the possible investment or business co-operation with FUTL Group represents a good opportunity for the Company to further diversify the scope of its business and the revenue base, and in view of the losses experienced in the past three financial years ended 31 March 2003, 2004, 2005, the plan is in line with the business strategy formulated.

**View on the Very Substantial Acquisition**

We are not retained by the Company to undertake due diligence or purchase review. We are therefore in no position to express an opinion of the merits of the very substantial acquisition. The Directors had represented to us that the consideration for the Acquisition was arrived at, based on a price earning multiple of approximately 10.1 times of the unaudited consolidated profit after taxation of the FUTL Company for the year ended 31 December 2005. The price earning multiple of approximately 10.1 times is agreed by the Purchaser and the Vendors with reference to the average of prevailing price earning multiples of approximately 14 times (being the average of the price earnings multiples of the 17 comparable companies each of which is being calculated from their respective closing prices as at 12 April 2006 over their respective latest published earnings per Share figures; the respective market prices and earnings per Share figures are available on the website of the Stock Exchange) of 17 comparable companies which were selected based on criteria including that the companies are (i) in the pharmaceutical and healthcare related industry; (ii) with operations in the PRC; (iii) currently listed in Hong Kong and (iv) profit making with price earnings multiple available, and excluding those with extreme price earnings multiples of over 300 times. Based on the market analysis summarized as above, the information supports the Company's strategic decision to invest into this growing market potential. We consider that the diversification and investment plan into FUTL which was negotiated on arm's length, and included a profit guarantee of HK$44 million by the Vendors, is a fair and reasonable proposal for the Company and the Shareholders.

## (II) FINANCING ALTERNATIVES FOR THE ACQUISITION:

### (i) Recent financial performance of the Company

**Consolidated profit and loss account published by the Company**

| | Unaudited For the six months ended 30 September | Audited For the year ended 31 March | | |
|---|---|---|---|---|
| | **2005** | **2005** | **2004** | **2003** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 58,606 | 134,270 | 146,239 | 156,042 |
| Operating profit/(loss) | (12,478) | 5,146 | (7,929) | (556) |
| Finance costs | (2,220) | (4,483) | (5,799) | (3,474) |
| Profit/(loss) before taxation | (14,698) | 663 | (13,728) | (4,030) |
| Taxation | 0 | (87) | (4,495) | (1,231) |
| Profit/(loss) after taxation | (14,698) | 576 | (18,223) | (5,261) |
| Minority interests | (2) | (663) | (657) | (123) |
| Loss attributable to Shareholders of the Company | (14,700) | (87) | (18,880) | (5,384) |

### (ii) Recent fund raising exercise

The Company has not undertaken any fund raising activities within the 12 months immediately prior to the date of the circular other than the open offer of 360,000,000 offer shares at HK$0.50 per offer share payable in full on acceptance on the basis of two offer shares for every existing share then held, as announced by the Company on 17 March 2006 and completed in April 2006. Approximately HK$160 million from the proceeds of this open offer will be used for the funding of the Acquisition, representing 91% of the funds raised.

**(iii) Fund raising alternatives**

(a) Bank financing alternative

The Directors consider that it is difficult for the Company to secure additional bank loan to finance the Acquisition, given the Company's unfavourable financial position and past operating results as stated above. Having reviewed the Company's audited financial position as at 31 March 2005 whereby the Company had net current asset of HK$6 million only. The financial statements also revealed that the Company had a secured overdraft liability of HK$12.7 million and a pledged cash at bank balance of HK$6 million. In addition, the inherent risk associated with any acquisition preposition comprising of management risk, intercultural synergy and differences which might affect operations and results, together with lead time and costs associated with the implementation of a cohesive merger plan as a result, we are in support of the Directors' view. We were informed by the Company that it has approached bankers to obtain additional bank financing but was unsuccessful in doing so because most banks are reluctant to finance for pure purchase of new business reason. In any event, obtaining further bank loan will inevitably result in additional interest expense to be borne by the Company. According to the terms of the Convertible Bonds they shall bear no interest, which is indeed more favorable than to finance by way of loan which normally priced at a rate of at least 300 to 400 basis points above the best lending rate offered by banks in Hong Kong as advised by the bankers of AsiaVest. Furthermore, the Company will be required to repay such loan upon its maturity should the financing be by way of bank loans, whereas the Convertible Bonds may not require any repayment from the Company if they are fully converted into Conversion Shares. Lastly, bank loans are often of a short-term nature which is not the best alternatives to finance long-term investment project and business diversification. Other financing methods other than equity financing are in fact similar to loans in characteristics and natures, and shall be more expensive than conventional loans from banks and financial institutions.

(b) Equity financing alternative

As for placement of new Shares to existing Shareholder(s), the Directors are of the view that it is difficult to draw sufficient interest from existing Shareholders, particularly those Independent Shareholders who had subscribed to the offered Shares proposed by the Company in March 2006, through an open offer. We are of the opinion that further fund raising by the Company from the existing Independent Shareholders at HK$0.95 which is 90% higher than the open offer price per share as publised in April 2006, is not going to be well received by the Independent Shareholders. However, the Directors had successfully negotiated with Automatic Result, the controlling Shareholder, to subscribe to the zero-coupon Convertible Bonds as part financing for the Acquisition and we believe that it is in the interests of the Independent Shareholders. Other methods of shares issue (i.e. rights issues, open offer or placement to unrelated investors) would either dilute heavily the existing Shareholders' interest, including Automatic Result or be priced less favourable since the latest fund raising exercise was priced at HK$0.50 per share only.

Given the above discussions, we are of the view that the Conversion Price per Share of HK$0.95 offered to Automatic Result and the Consideration Share of HK$0.90 each offered to the Vendors of Figure Up, who are independent parties not associated with the Company, which are priced at a premium of 90% and 80% respectively over the last fund raising exercise of HK$0.50 per share offered, are amongst the best fund-raising alternatives available to the Company for financing the acquisition.

## (III) CONNECTED TRANSACTION, PROPOSED ISSUE OF THE THREE-YEAR HK$114 MILLION ZERO COUPON CONVERTIBLE BONDS TO FINANCE THE CASH PORTION OF THE ACQUISITION:

**Terms of the Convertible Bonds**

Principal terms of the Convertible Bonds are:

| | | |
|---|---|---|
| Principal amount | : | HK$114 million |
| Interest | : | nil |
| Maturity Date | : | The third anniversary of the date of issue of the Convertible Bonds |
| Conversion Right | : | Tranche 1 Convertible Bonds may be convertible in whole or in part into new Shares during the period commencing from the date falling six (6) months from the Issue Date and expiring on the Maturity Date up to 4:00 p.m. at the Conversion Price, subject to adjustment for, among other matters, subdivision or consolidation of Shares, bonus issues, capital reduction and rights issue. Any conversion shall be made in amounts of not less than a whole multiple of HK$500,000 and no fraction of a Share shall be issued on conversion.<br><br>Tranche 2 Convertible Bonds may be convertible in whole or in part into new Shares during the period commencing from the date falling 12 months from the Issue Date and expiring on the Maturity Date up to 4:00 p.m. at the Conversion Price, subject to adjustment for, among other matters, subdivision or consolidation of Shares, bonus issues, capital reduction, rights issue. Any conversion shall be made in amounts of not less than a whole multiple of HK$500,000 and no fraction of Shares shall be issued on conversion. |

| | | |
|---|---|---|
| Conversion Price | : | HK$0.95 (being the conversion price at which each Shares shall be issued upon exercise of the Conversion Right, at the option of the converting Bondholder (subject to adjustment) |
| Conversion Shares | : | The Conversion Shares will be issued free from any encumbrances or third party rights of any kind and will rank pari passu, in all respects with the existing issued Shares together with all rights to dividends and other distributions declared, made or paid on or after the date of the exercise of the Conversion Right. |
| Redemption | : | The Company may redeem the Convertible Bonds, at any time during the period commencing from the Issue Date and expiring on the Maturity Date, by giving the Bondholder seven business days' prior notice at the redemption amount which is 110% of the principal amount of the outstanding Convertible Bonds.<br><br>The Bondholder may, at any time during the period commencing from the Issue Date and expiring on the Maturity Date, request the Company to redeem the outstanding Convertible Bonds held by it, and the Company may (if considered appropriate) choose to redeem the outstanding Convertible Bonds at the principal amount of the outstanding Convertible Bonds. |
| Final redemption and repayment | : | Unless the conversion rights attaching to the Convertible Bonds have been exercised during the Conversion Period in accordance with its terms, the Company is obliged to make any redemption, in cash, of the outstanding principal amount of the Convertible Bonds on the Maturity Date. |
| Voting | : | The Bondholder shall not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of its being a Bondholder. |
| Transferability | : | The Convertible Bonds may not be assigned or transferred in whole or in part to any third party without the prior written consent of the Company (such consent not to be unreasonably withheld or delayed). |

The terms of the Convertible Bonds have been arrived at after arm's length negotiations and are on normal commercial terms.

Automatic Result is a substantial shareholder of the Company. The Subscription Agreement, together with the transactions contemplated thereunder, thus constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is required to be approved by the Independent Shareholders by way of a poll at the EGM. Automatic Result and its associates are required to abstain from voting on the Connected Transaction.

Independent Board Committee has been appointed to advise the Independent Shareholders on the fairness and reasonableness of the Connected Transaction. Independent financial adviser was also being appointed to advise the Independent Board Committee.

**(i) Reference Information:**

*(a) Comparison with market:*

To the best of our knowledge and based on the information from the Stock Exchange website, we understand that there is no company listed on the Main Board of the Stock Exchange that has issued convertible bonds or bond recently and also engages in business identical to the existing business of the Company or the business of FUTL Group with the exception of Wai Yuen Tong Medicine Holdings Limited, which in fact, is diversifying as well into apparel business, therefore, we consider to use also other recent convertible bonds announced by companies listed on the Main Board of the Stock Exchange for comparison. Although we consider that the comparable companies set out below are not identical to the Company in term of the business and financial position, the purpose of showing the comparison is to provide additional information to the Shareholders about other convertible bonds or bonds issued by companies listed on the Main Board of the Stock Exchange recently. In order to illustrate the most recent convertible bonds, we have identified and reviewed all unlisted convertible bonds/notes with fixed initial conversion price and fixed interest rate announced by companies listed on the Main Board of the Stock Exchange for the period from 10 October 2005 to 26 April 2006, being approximately a six-month period immediately before the date of the Announcement. We consider the adoption of such a six-month period in our analysis is appropriate as it provides an insight on the principal terms of the convertible bonds for the past 6 months issued by other listed companies under similar market environment and having a close reference to the interest rates applicable to corporate financing. The following tables sets out the key terms of these market comparables (the “CB Market Comparables”):

**CB Market Comparables (summary)**

| Date of announcement | Company name | Principal business | Principal amount HK$ (in million) | Interest rate Per Annum | Premium/ (Discount) of conversion price over (to) the respective audited net asset value per share | Premium/ (Discount) of conversion price over (to) closing price of the last trading day immediately prior to the date of the respective announcement/ suspension of trading | Premium/ (Discount) of conversion price over (to) average closing price of the last five trading days up to and including the last trading day immediately prior to the date of the respective announcement |
|---|---|---|---|---|---|---|---|
| 13 October 2005 | Get Nice Holdings Limited (Stock code: 64) | Provision of a range of financial services including brokerage services for securities, futures and options and margin financing, and advisory service in corporate finance in Hong Kong | 300 | 2.00% | (20.93%) | 3.0% | (1.50%) |
| 14 October 2005 | Interchina Holdings Limited (Stock code: 202) | Development of environmental protection and water treatment operation, city development and investment operation, property investment, securities and financial operation | 90 | 4.50% | (52.38%) | 212.5% | 220.51% |

| Date of announcement | Company name | Principal business | Principal amount HK$ (in million) | Interest rate Per Annum | Premium/ (Discount) of conversion price over (to) the respective audited net asset value per share | Premium/ (Discount) of conversion price over (to) closing price of the last trading day immediately prior to the date of the respective announcement/ suspension of trading | Premium/ (Discount) of conversion price over (to) average closing price of the last five trading days up to and including the last trading day immediately prior to the date of the respective announcement |
|---|---|---|---|---|---|---|---|
| 20 October 2005 | Orient Industries Holdings Limited (Stock code: 353) | Design, manufacture and sale of a wide range of carpets under its own brand name Jackley, and trading of carpets with renowned bran names such as Interface, Bentley and Toli | 7 | Zero | 66.67% | 2.0% | 12.36% |
| 31 October 2005 | Shanghai Real Estate Limited (Stock code: 1207) | Property development and technology investment and operation Shanghai | 386 | 3.50% | 22.72% | 18.4% | 18.42% |
| 10 November 2005 | Imagi International Holdings Limited (Stock code: 585) | Production and licensing of 3D computer graphics animation and provision of management consultancy services | 20 | 3% | 95.35% | 17.5% | 15.7% |
| 14 November 2005 | Signal Media and Communications Holdings Limited (Stock code: 2362) | Development and distribution of solvent pesticides and property investment | 51 | Zero | 88.80% | (17.8%) | 9.4% |

| Date of announcement | Company name | Principal business | Principal amount HK$ (in million) | Interest rate Per Annum | Premium/ (Discount) of conversion price over (to) the respective audited net asset value per share | Premium/ (Discount) of conversion price over (to) closing price of the last trading day immediately prior to the date of the respective announcement/ suspension of trading | Premium/ (Discount) of conversion price over (to) average closing price of the last five trading days up to and including the last trading day immediately prior to the date of the respective announcement |
|---|---|---|---|---|---|---|---|
| 9 December 2005 | Starbow Holdings Limited (Stock code: 397) | Manufacture and sales of garment in the PRC | 60 | 1% | 72.72% | (12.77%) | (5.53%) |
| 6 January 2006 | MAE Holdings Limited (Stock code: 851) | Manufacturing and sales of professional audios musical instruments, home appliance | 44.8 | 4.5% | Net liability (N/A) | (51%) | (53.1%) |
| 24 February 2006 | Wai Yuen Tong Medicine Holdings Limited (Stock code: 897) | Engaged in the manufacturing processing and retailing of Chinese Medicine | 10 | 6.5% | 100.14 | (42.03%) | (41.35%) |
| 27 February 2006 | Shanghai Zendai Property Limited (Stock code: 755) | Engaged in property development business and travel related services | 150 | 4% | 33% | 20% | 18.9% |

| Date of announcement | Company name | Principal business | Principal amount HK$ (in million) | Interest rate Per Annum | Premium/ (Discount) of conversion price over (to) the respective audited net asset value per share | Premium/ (Discount) of conversion price over (to) closing price of the last trading day immediately prior to the date of the respective announcement/ suspension of trading | Premium/ (Discount) of conversion price over (to) average closing price of the last five trading days up to and including the last trading day immediately prior to the date of the respective announcement |
|---|---|---|---|---|---|---|---|
| 26 April 2006 | SEEC Media Company Limited (Stock code 205) | Engaged in the provision of advertising agency services in the PRC | 78 | 2% | 122% | 14.1% | 9.6% |
| 26 April 2006 | Solartech International Holdings Limited (Stock code: 1166) | Manufacturing and trading of power card and cables | 78 | Zero | (66%) | 2.8% | 7.84% |
| **26 April 2006** | **The Company** | **Manufacturing and trading of packaging products and investment holdings** | **114** | **Zero** | **116.9%** | **(50%) 7.9% Basis: over 20 consecutive trading days** | **(22.1%) 9.2% Basis: over 30 days up to and including 12 April 2006** |

*Sources: website of the Stock Exchange* *(b) Shares price performance of the Company*

We set out below the average closing price per share, the highest closing price per share and the lowest closing price per share as quoted on the Stock Exchange for each of the months during the twelve months ended on 13 April 2006 on which the suspension took place pending on the Announcement (the "Review Period"):

| **Period** | **Average daily closing price per share for the month (app. HK$)** | **The Conversion Price of HK$ 0.95/share being a premium/ (discount) over/to the Adjusted average daily closing price per share in the period (%)** | **Highest closing price per share in the period (HK$)** | **Lowest closing price per share in the period (HK$)** |
|---|---|---|---|---|
| **2005** | | | | |
| April | 0.5026A | 89.02 | 0.5030A | 0.5000A |
| May | 0.5053A | 88.01 | 0.5070A | 0.4930A |
| June | 0.4937A | 92.42 | 0.5000A | 0.4670A |
| July | 0.5000A | 90.00 | 0.5000A | 0.5000A |
| August | 0.4993A | 90.27 | 0.5000A | 0.4970A |
| September | 0.5845A | 65.53 | 0.7330A | 0.5300A |
| October | 0.5318A | 78.64 | 0.5370A | 0.5200A |
| November | 0.5420A | 75.28 | 0.5670A | 0.5200A |
| December | 0.5444A | 74.50 | 0.6030A | 0.5200A |
| **2006** | | | | |
| January | 0.5325A | 78.40 | 0.5330A | 0.5270A |
| February | 0.5551A | 71.14 | 0.5900A | 0.5170A |
| March | 0.7049A | 34.77 | 0.8200A | 0.5630A |
| April *(Note 1)* | 1.0757 | (11.68) | 1.9000 | 0.7000 |

*Source: website of the Stock Exchange*

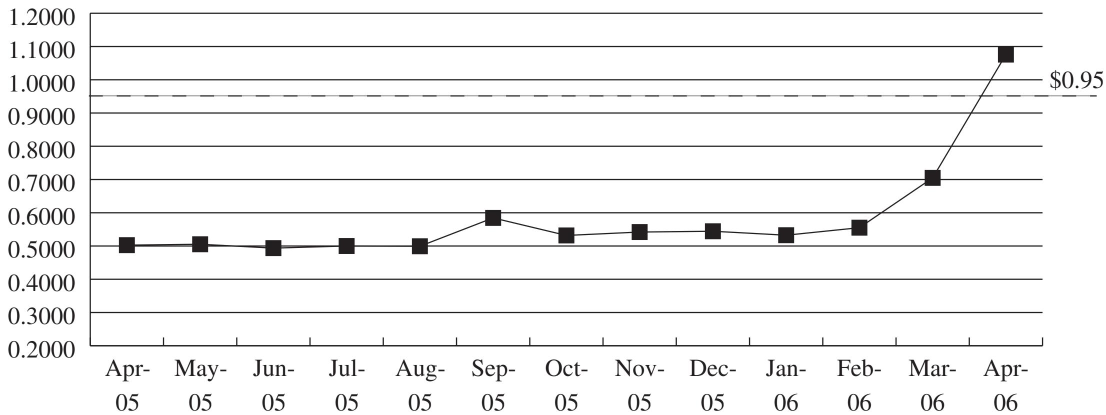
*Note 1* : Up to and including the 13 April 2006 date on which the suspension took place pending on the Announcement

A = Price adjusted for previous open offer of the Company as per Company's announcement dated 17 March 2006

Price adjusted up to 10 March 2006

The following chart illustrates the closing price of the Share on the Stock Exchange verses the Conversion Price:

**Average Daily Closing Price**




*Sources: website of the Stock Exchange*

As computed above, the average daily closing price of the Shares remained at a level lower than HK$ 0.7049 per share from April 2005 until the end of March, 2006. The Company only recently experienced an upward trend in April, 2006 and a significant increase in Shares price in the last three days immediately prior to the suspension of trading in Shares on 13 April 2006.

**(ii) Analysis:**

Comparison between the terms of the convertible bonds and the terms of the reference information are stated as follows:

Limitation:

Considering the nature and reasons using convertible bonds/ notes as a form of financing for each company is so complex and different, the premium and discount represented by the conversion prices of the respective convertible bonds/notes respectively issued by the Company was somewhat dissimilar from those issued during the 6-month period immediately before the date of the Announcement as listed above, we have chosen not to rely the "CB Market Comparables" as the sole factor for substantiating our recommendation, but draw reference to them for the following analysis.

**(1) Interest rate analysis:**

The interest rate range of the CB Market Comparables is from zero to 6.50% per annum, with an average interest rate of approximately 2.58% per annum. As advised by the Directors, the banking facilities available to the Company as at the Latest Practicable Date bear annual interest rates ranging from 8.25% to 15%. Besides, according to the information provided in the website of The Hongkong and Shanghai Banking Corporation Limited, the prevailing best lending rate as at the date of the Announcement was 8% per annum. After taking into account that there shall be no coupon rate for the Convertible Bonds which made the instrument (i) fall within the lowest interest rate range of the CB Market Comparables; (ii) lower than the average interest rate of the CB Market Comparables; (iii) lower than the borrowing cost of the Company on its existing banking facilities; and (iv) lower than the prevailing best lending rate (as quoted by The Hongkong and Shanghai Banking Corporation Limited) as at the date of the Announcement, we are of the view that a zero-coupon rate Convertible Bonds offered to Automatic Result is for the interest of the Company.

**(2) Conversion price analysis**

The conversion prices of the CB Market Comparables ranged from (i) a discount of approximately 51% to a premium of approximately 212.5% over the respective closing price of the last trading day immediately prior to the date of the respective announcement ("Last Trading Day Range"), (ii) a discount of approximately 53.1% to a premium of approximately 220.5% over the respective average closing price for the last 5 trading days up to and including the last trading day immediately prior to the date of the respective announcement ("5-day Average Range"); and (iii) a discount of approximately 66% to a premium of approximately 100% to the respective net assets per share ("NTA Range").

The Conversion Price of HK$0.95 represents:

(a) a discount of approximately 50.0% to the closing price of HK$1.90 per Share as quoted on the Stock Exchange on 12 April 2006 (being the last trading day immediately prior to the announcement);

(b) a discount of 22.1% to the average closing price of HK$1.22 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including 12 April 2006 (being the last trading day immediately prior to the Announcement;

(c) a premium of 7.9% over the average closing price of HK$0.88 per Share as quoted on the Stock Exchange for the 20 consecutive trading days up to and including 12 April 2006 (being the last trading day immediately prior to the Announcement); and

(d) a premium of 9.2% over the average closing price of HK$0.87 per Share as quoted on the Stock Exchange for the 30 days up to and including 12 April 2006 (being the last trading day immediately prior to the Announcement).

Despite the significant increase in share price in the last three trading days immediately prior to the suspension of trading in share on 13 April 2006, daily closing price of share other than in those three trading days referred to above have been recorded in the range between approximately HK$0.517 to HK$0.850 since the publication of the Company's announcement dated 15 February 2006 regarding the letter of intent in relation to the possible investment and/or business co-operation. The Directors therefore considered it more reasonable to arrive at the Conversion Price with reference to the share price performance in a longer period, being the 20 days and the 30 days period, which gives a premium over the market price of 7.9% and 9.2%. Based on the huge range of difference by referencing the conversion price to the last trading day price as demonstrated in the CB Market Comparables, we concur with the consideration of the Directors in excluding the unusual movement of prices immediately prior to the suspension of trading in Shares on 13 April 2006.

We have made reference to a much longer period in order to demonstrate the trend of the market value of the Shares. The closing price of the Shares have been at most time for the last 12 months period, consistently and significantly lower than the initial conversion price of the Convertible Bonds of HK$0.95. The Share price performance table registered a premium of a high of 92.42% as compared to June 2005 average daily closing price for the one month period, and a low of 34.77% to March 2006 closing average. It registered a discount of 11.68% when compared to April, 2006 average closing and the calculation covered up to and including the 13 of April 2006 being the date on which the suspension took place pending on announcement. Given the range of discount and premium from other comparables covered a wide ratio between a discount of 53% to a premium of 212%, the initial conversion price at the initial date as informed, was negotiated between the parties at arm's length, which included (a) discussion of the dilution effect on the shareholding of the existing Shareholders, (b) the view that obtaining of funding from Automatic Results could demonstrate the commitment and confidence of the controlling Shareholder in respect of the Group, (c) it was stated that the price was arrived with due reference to the performance of the market price of the share by the relevant parties and did not appear to deviate substantially from the CB Market Comparables range.

To serve as an additional indicator for our opinion, we also draw our analysis to comparing the Conversion Price against the net asset value of the Company before and after the conversion of the Convertible Bonds. We also look reference to the open offer made in Mach 2006, whereby the price of the offer was determined at HK$0.50. Up to the announcement of the Proposed Transactions, the operation of the Company remained stable and no substantial change to the net asset value per share was recognised as compared to the financial position of the Company after the open offer.

We calculated the net asset value per share of the Company prior to and after the issuance of the Consideration Shares and Conversion Share for the Acquisition and illustrated as follows:

| | **Immediately before the Acquisition** | **After the issuance of Consideration Shares at HK$0.90** | **After issuance in full of the Conversion Shares at HK$0.95** |
|---|---|---|---|
| Net asset value Per share | HK$0.439 | HK$0.371 | HK$0.425 |

*Note:* Based on the Unaudited Pro-Forma Financial Information of the Enlarged Group per Appendix IV and adjusted for the Company's previous open offer as per the Company's announcement dated 17 March 2006

In summary, the Conversion Price is fixed at (i) a premium of 116.40% above the net asset value per share of the Company before the proposed acquisition, (ii) a premium of 90% over the open offer price for the subscribed Shares, issued on 27 March 2006 and (iii) a premium of 124% over the net asset value of the Enlarged Group after issuance in full of the convertible shares at HK$0.95 per share. We therefore consider that the conversion price of the Convertible Bonds of HK$ 0.95 is fair and reasonable, particularly after taking into account of the premiums as illustrated above.

**(3) Redemption clause analysis:**

Subject to and in accordance with the terms and conditions of the Convertible Bonds, the Company may redeem the Convertible Bonds at any time during the period commencing from the Issue Date and expiring on the Maturity Date. Since the Convertible Bonds are a zero-coupon instrument, the Company is able to finance the Acquisition for a period of 3 years without incurring extra cost. The Company is only required to redeem these Convertible Bonds when suitable alternative financing is secured and the overall costs of which, even when including the redemption premium of 10%, still rendered the replacing costs of the Convertible Bonds attractive to the Company. Therefore, we are of the view that the redemption rate of 110% of the principal amount outstanding, which is a risk management technique for the Company to avoid immediate dilution of Shareholders' interest and to give maximum flexibility to the Company to seek attractive funding alternatives in the future, is in the interests of the Company and the Independent Shareholders as a whole.

**(4) Grant of the Special Mandate:**

The Board was granted the Existing Issue Mandate at the 2005 AGM to allot, issue and otherwise deal in up to 36,000,000 Shares, representing 20% of the share capital of the Company in issue on the date of the 2005 AGM.

As Existing Issue Mandate is insufficient to cover the allotment and issue of (i) the Consideration Shares to the Vendors upon completion of the Acquisition Agreement and (ii) the Conversion Shares upon exercise of the Conversion Right attaching to the Convertible Bonds, both transactions are proposed for the shareholders' approval independently at the EGM. The Company now seeks the grant of the Special Mandate which is specific and is respect of fulfilling the requirements of the two transactions specified above. In order to satisfy the allotment and issue of the Consideration Shares and the Conversion Shares resulting from the approval of the Proposed Transactions by the shareholders at the EGM, the granting of the Special Mandate to enable the Company to complete the approved transactions is in our opinion, for the interest of the independent shareholders and also in the interest of the Company as a whole.

**Conclusion and Recommendation to the terms of the Convertible Bonds:**

Given the Company's (a) loss making operations, (b) unsatisfactory financial performance, (c) premium of the Conversion Price to net asset value per share, (d) possible enhancement of the per share net asset value of the Company upon the conversion of the Convertible Bonds into share of the Company, we are of the view that the terms of the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the issue of the Convertible Bonds to be proposed at the EGM.

## (IV) DILUTION EFFECTS OF THE CONVERTIBLE BONDS

The following analysis is for illustration purposes only:

The effect on the shareholding structure of the Company upon the Completion of the Acquisition and full conversion of the Convertible Bonds are as follows:

| | Existing shareholding structure | | Shareholding structure upon completion of the Acquisition | | Shareholding structure upon full conversion of the Convertible Bonds | |
|---|---|---|---|---|---|---|
| | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| Automatic Result | 292,058,248 | 54.00 | 292,058,248 | 38.429 | 412,058,248 | 46.82 |
| Vendors: | | | | | | |
| Liu Cheng Hua | | | 37,400,000 | 4.921 | 37,400,000 | 4.25 |
| Wong Kim Kwan Kings | | | 37,400,000 | 4.921 | 37,400,000 | 4.25 |
| Hau Cheong Man | | | 37,400,000 | 4.921 | 37,400,000 | 4.25 |
| Li Kit Yuk | | | 37,400,000 | 4.921 | 37,400,000 | 4.25 |
| Chan Siu Ming | | | 35,200,000 | 4.632 | 35,200,000 | 4.00 |
| Leung Lai Kwan Susanna | | | 35,200,000 | 4.632 | 35,200,000 | 4.00 |
| Public shareholders | 247,941,752 | 46.00 | 247,941,752 | 32.624 | 247,941,752 | 28.18 |
| Total | 540,000,000 | 100.00 | 760,000,000 | 100.00 | 880,000,000 | 100.00 |

To the best knowledge, information and belief of the Directors, the issue of the Convertible Bonds will not introduce any new substantial Shareholder assuming the Convertible Bonds are converted in full as at the date of the Circular.

## (V) REFRESHMENT OF ISSUE MANDATE

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the refreshment of the 20% Issue Mandate, we have taken the following principal factors and reasons into consideration.

### (a) Background

The Company is principally engaged in the manufacturing and trading of packaging products, paper gifts items and promotional products and investment holding. A proposed diversification into the pharmaceutical business as stated in the circular under "Very Substantial Acquisition" is in progress.

The grant to the Directors of the Existing General Mandate was approved at the annual general meeting of the Company held on 30 August 2005 (the "AGM") pursuant to Rule 13.36(2)(b) of the Listing Rules (the "Existing General Mandate") and as at the approval date, the Company had an aggregate of 180,000,000 Shares in issue and 20% of which, being 36,000,000 Shares were granted to the Directors to allot and issue under the Existing General Mandate. The Existing General Mandate has not been utilized since the date of grant and there has been no history of refreshment of the general mandate as at the Latest Practicable Date.

It is stated in the circular that as the Existing General Mandate is insufficient to cover the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds, the Conversion Shares will be allotted and issue under the Special Mandate to be granted by Shareholders at the EGM.

**(b) General Mandate to Issue Shares**

At the EGM, the Directors will seek the approval of the Independent Shareholders to the refreshment of the Issue Mandate by the grant of a new Issue Mandate to the Directors to exercise the powers of the Company to allot, issue or otherwise deal with Shares up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant resolution approving the grant of such mandate. On the basis of a total of 540,000,000 Shares in issue as at the Latest Practicable Date and assuming that no Shares will be issued or repurchased between the Latest Practicable Date and the EGM, the Issue Mandate will empower the Directors to allot issue of otherwise deal with up to a maximum of 108,000,000 new Shares.

**(c) Reasons for Refreshment of Existing General Mandate ("new Issue Mandate")**

Given the Directors consider that the refreshment of the new Issue Mandate will provide the Company a source of fund with the maximum flexibility without outflow of interest payment for future in investment and/or acquisitions when new prospective investment opportunities arise, the Directors will seek for the approval of the Independent Shareholders at the EGM for the refreshment of the new Issue Mandate to allot, issue and deal with Shares not exceeding 20% respectively of the aggregate nominal amount of the Share capital of the Company as at the date of passing the relevant resolution in the EGM.

Since Automatic Result is the controlling Shareholder, the Directors (excluding independent non-executive Directors), the chief executive and the controlling Shareholder of the Company and their respective associates shall abstain from voting of the relevant resolutions for the new Issue Mandate at the EGM. The relevant resolution for the new Issue Mandate will be voted by way of poll.

In arriving at our opinion in respect of the fairness and reasonableness of the new Issue Mandate, we have considered the following factors:

*(1) Diversification of the Company's business*

As stated in the circular of the Company dated 17 March 2006 related to the open offer, the Company has been taking the strategy of diversification to broaden its income base and balance its exposure to risks in different markets. The Company has been actively acquiring new business and the Directors consider allotment and issuance of new Shares will provide additional working capital so as to enable the Company to develop its newly acquired business.

The Company is opened to investment opportunities with growth potential. As the Directors are optimistic of the future of pharmaceutical market, the acquisition of FUTL Group is in line with the expanded business activities of the Company and allows the Company to enlarge its investment portfolio with high quality operations which will bring the Shareholders reasonable returns. The Directors advise that the Company will continue to acquire potential investments if such investments are in line with the business development of the Company and/or considered to be beneficial to the Company.

Having considered the various fund raising alternatives such as bank financing and debt issuance which will result in the Company incurring financing costs, the Directors consider that equity financing such as issuance of new Shares for cash or equity swaps will be a more appropriate means to fund such acquisitions and provide additional working capital to develop its newly acquired business despite the dilution effect of the utilization of the new Issue Mandate on the Shareholding interests of the existing public Shareholders. To this end, we are of the view that issuance of new Shares for cash or equity swaps will be a more appropriate means to fund such acquisitions comparing to bank financing and debt issuance which require outflow of interest payment and the new Issue Mandate will enhance the flexibility of the Company to raise capital as discussed below.

*(2) Financial position of the Company based on the unaudited proforma statements of the Listed Group as disclosed in the circular*

Owing to the success of the open offer of the Company in March 2006, the Company was able to operate under a more healthy environment with a significant reduction of financial burden, We noted from the recent proposed Acquisition that 91% of the funds raised through the Open Offer shall be utilized to finance the purchase of FUTL Group.

Furthermore, the Board has been proactively identifying suitable investment opportunities to develop and to diversify the Company's business. The unaudited proforma financial information of the Enlarged Group revealed that the reported cash on hand after the FUTL Group acquisition would be approximately HK$20 million and the total asset value of the Company shall improve from $62 million before the Acquisition to HK$282 million after the Acquisition, an increase of 355%. The Board considers that the existing financial resources are sufficient for ongoing operation. However, additional funding may still be needed for facilitating further business development as well as financing future investments should suitable investment opportunities arise. Save as the Acquisition disclosed in this circular and according to the Directors, no other particular investment target has been identified by the Company as at the Latest Practicable Day.

*(3) Financial flexibility in terms of time required for raising capital*

Despite the fact that the Company has not concluded agreement of any transaction which requires to use the proposed new Issue Mandate, the Directors believe that appropriate investment opportunities may arise at any time and investment decisions may have to be made within a short period of time. If such investment opportunity arises which would exceed the Existing Issue Mandate, the Directors are uncertain whether the Company is able to obtain Independent Shareholders' approval for the refreshment of new Issue Mandate in a timely manner. In view of this, the Directors consider that it is in the interests of the Company to obtain Independent Shareholders' approval to refresh the new Issue Mandate as soon as practicable. The Directors consider that the new Issue Mandate will provide the Company with the maximum flexibility for future investment and/or acquisitions when new prospective investment opportunities arise.

As share placement exercises are dependent, to a large extent, on market conditions (which can be volatile) and such opportunities may not always arise. To this end, we believe that the new Issue Mandate is reasonable as it would provide the Company with the flexibility to allot and issue new Shares as consideration for or to raise capital through placing of new Shares to fund such potential acquisitions in the future as and when such opportunities arise and capture any business opportunity which are beneficial to the Company within a short period of time.

*(4) Other financing alternatives*

Other than raising fund by way of issuing equity capital, the Board indicates that the Company will consider other financing methods such as bank financing, debt financing and funding through internal resources in order to meet its financing requirements arising from future development of the Company, depending on the then financial position, capital structure and cost of funding of the Company as well as the market condition. The Directors believe that the Company will be able to obtain financing should it requires additional funding to capture business opportunities, but is uncertain of the terms for the rates and duration covered. Moreover, the new Issue Mandate will serve as one of the alternatives for the Company to finance the Company's businesses and the Directors will use the method that serves the best interests of the Company. We consider that it is sensible to make reference to the then financial position, capital structure and cost of funding of the Company as well as the then market condition in order to decide a suitable financing method for the future development or investment of the Company.

*(5) Potential dilution to shareholdings of the Independent Shareholders*

We set out below a table depicting the shareholding structure of the Company as at the Latest Practicable Date and, for illustrative purpose, the shareholding structure of the Company upon full utilization of the new Issue Mandate:

| | Number of issued Shares upon completion of the Acquisition of FUTL Group | Approximate percentage | Number of issued Shares after the issuance in full of the new Shares pursuant to the Issue Mandate | Approximate percentage | Number of issued Shares after the issuance in full of the new Shares pursuant to the Issue Mandate and the full conversion of the Convertible Bonds into Shares of the Company | Approximate percentage |
|---|---|---|---|---|---|---|
| Automatic Result | 292,058,248 | 38.43 | 292,058,248 | 33.65 | 412,058,248 | 41.71 |
| Public Shareholders | 467,941,752 | 61.57 | 467,941,752 | 53.91 | 467,941,752 | 47.36 |
| Shares issued under the new Issue Mandate | | | 108,000,000 | 12.44 | 108,000,000 | 10.93 |
| **Total** | **760,000,000** | **100.00** | **868,000,000** | **100.00** | **988,000,000** | **100** |

Shareholders should be aware that the Existing General Mandate will be revoked upon approval at the EGM of the new Issue Mandate which will be and continue to be in force until the earliest of (i) the conclusion of the Company's next annual general meeting; (ii) the expiration of period within which the next annual general meeting of the Company is required by the Company's memorandum and articles or association or any applicable law to be held; and (iii) the revocation or variation of the authority given under the relevant resolution to be proposed at the special general meeting of the Company by ordinary resolution of the Independent Shareholders in general meeting. Such duration is in compliance with Rule 13.63(3) of the Listing Rules.

The aggregate shareholding of the existing public Shareholders will decrease from approximately 61.57% to approximately 53.91% upon full utilization of the new Issue Mandate assuming no Shares are issued for the acquisition and no Shares will be issued during the period between the Latest Practicable Date and the date of the EGM. There will be a potential maximum dilution of approximately 7.66% when full utilization of the new Issue Mandate. Taking into account that the new Issue Mandate will increase the amount of capital which may be raised provides more options of financing to the Company for further development of its business as well as in other potential future acquisitions as and when such opportunities arise and the fact that the shareholding of all the Shareholders will be diluted to the same extent upon any utilization of the new Issue Mandate, we consider such dilution or potential dilution of shareholding of the Independent Shareholders acceptable.

Accordingly, the Directors consider that the new Issue Mandate is in the interests of the Company and its Independent Shareholders as a whole and the terms of the new Issue Mandate are fair and reasonable as far as the Independent Shareholders are concerned. Based on the reasons discussed above, we are of the view that the new Issue Mandate is fair and reasonable as far as the Independent Shareholders are concerned. Independent Shareholders are, however, advised to note the dilution effect of the utilization of the new Issue Mandate on their shareholding interests in the Company.

**Conclusion and opinion on the Issue Mandate**

Having considered the above principal factors and reasons, in particular (i) equity financing such as issuance of new Shares for cash or equity swaps will be a more appropriate means to fund acquisitions of potential business comparing to bank financing and debt issuance; (ii) the new Issue Mandate will provide financial flexibility for raising capital for the Company as the Directors consider appropriate for future investment and/or acquisitions when new prospective investment opportunities arise or for general working capital purpose as the amount of capital that may be raised will increase and the Company is allowed to raise capital within a short period of time, we are of the opinion that the new Issue Mandate is in the interests of the Company and the Independent Shareholders as a whole and the terms of the new Issue Mandate is fair and reasonable as far as the Independent Shareholders are concerned, Independent Shareholders are, however, advised to note the dilution effect of the utilization of the new Issue Mandate on their Shareholding interests in the Company. On balance, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the new Issue Mandate to be proposed at the EGM.

Yours faithfully,
For and on behalf of
**AsiaVest Partners Limited**
**Raymond Lo CF**
*Executive Director*

The following explanatory statement contains all the information required pursuant to Rule 10.06(1)(b) of the Listing Rules to be given to the Shareholders relating to a resolution to be proposed at the forthcoming EGM authorizing the Repurchase Mandate.

## 1. EXERCISE OF THE REPURCHASE MANDATE

Exercise in full of the Repurchase Mandate, on the basis of 540,000,000 Shares in issue as at the Latest Practicable Date and no further Shares are issued or repurchased prior to the EGM, could accordingly result in up to 54,000,000 Shares, 10% of the Shares in issue, being repurchased by the Company during the period ending on the earliest of the date of the next annual general meeting, the date by which the next annual general meeting of the Company is required to be held by any applicable laws of the Cayman Islands or the date upon which such authority is revoked or varied by an ordinary resolution of the Shareholders in a general meeting of the Company.

## 2. REASONS FOR REPURCHASE

The Directors have no present intention to repurchase any Shares but consider that the mandate will provide the Company the flexibility to make such repurchase when appropriate and beneficial to the Company and the Shareholders as a whole. Such repurchase may enhance the net assets value per Share and/or earnings per Share.

## 3. GENERAL

As compared with the financial position of the Company as at 31 March 2005 (being the date of its latest published audited financial statements), the Directors consider that there would be a material adverse impact on the working capital and on the gearing position of the Company in the event that the proposed purchases were to be carried out in full during the proposed purchase period. No purchase would be made in circumstances that would have a material adverse impact on the working capital or gearing position of the Company.

## 4. FUNDING OF REPURCHASE

Repurchases must be made of the funds legally available for the purpose in accordance with the memorandum and articles of association of the Company and the applicable laws and regulations of the Cayman Islands and the Listing Rules. The Companies laws (2004 Revision) of the Cayman Islands ("Laws") provide that a share repurchase by the Company may only be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose or, if so authorized by the articles of association of the Company and subject to the provisions of the Laws, out of capital. Any premium payable on a repurchase over the par value of the Shares repurchased or conditionally or unconditionally to be purchased must be provided for out of profits of the Company or out of the Company's share premium account or, if so authorized by the articles of association of the Company and subject to the provisions of the Laws, out of capital.

Taking into account, as compared with the financial position of the Company as at 31 March 2005 (being the date of its latest audited financial statements), the Directors consider that there would be a material adverse impact on the working capital and on the gearing position of the Company in the event that the proposed Repurchase Mandate were to be exercised in full during the proposed repurchase period. However, the Directors confirm that none of them have any intention to make any repurchase in circumstances that would have a material adverse impact on the working capital or gearing position of the Company from time to time.

**5. DIRECTORS, THEIR ASSOCIATES AND CONNECTED PERSONS**

None of the Directors nor, to the best of their knowledge and belief having made all reasonable enquiries, any of their associates (as defined in the Listing Rules), has any present intention, in the event that the Repurchase Mandate is approved by Shareholders, to sell Shares to the Company.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he/she neither has a present intention to sell any Shares to the Company nor has he/she undertaken not to do so in the event that the Company is authorized to make repurchases of Shares.

**6. UNDERTAKING OF THE DIRECTORS**

The Directors have undertaken to the Stock Exchange to exercise the power of the Company to make purchases pursuant to the Repurchase Mandate in accordance with the Listing Rules and all applicable laws of the Cayman Islands, and in accordance with the regulations set out in the memorandum and articles of association of the Company.

**7. EFFECT OF TAKEOVERS CODE**

If on exercise of the power to repurchase Shares pursuant to Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert could, depending on the level of increase of Shareholders' interest, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeovers Code. The Directors are not aware of any Shareholders, or a group of Shareholders acting in concert, who may become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeovers Code in the event that the Directors exercise the power to repurchase Shares pursuant to the Repurchase Mandate.

As at the Latest Practicable Date, based on disclosures made under Part XV of the SFO and to the best of the knowledge and belief of the Company, information on the substantial shareholder of the Company is as follows:

| Name of Shareholder | Capacity | Number of issued Shares held | Interest in underlying Shares | Total Interest | Percentage of the issued share capital of the Company |
|---|---|---|---|---|---|
| Automatic Result *(Note 1)* | Beneficial owner | 292,058,248 | 120,000,000 *(Note 2)* | 412,058,248 | 76.30% |

*Notes:*

1. The entire issued share capital of Automatic Result is solely and beneficially owned by Mr Tong Kit Shing where Mr Liu Guoyao is the sole director of Automatic Result. Both Mr Tong and Mr Liu are deemed to be interested in all the interest in Shares held by Automatic Result by virtue of the SFO.

2. The Shares under the column "derivative interest" refer to the maximum number of Shares which may be issued to Automatic Result upon exercise of the Conversion Right attaching to the Convertible Bonds agreed to be subscribe for by Automatic Result pursuant to the Subscription Agreement (subject to the approval by the Independent Shareholders at the EGM) at the conversion price of HK$0.95 per Share.

If the Directors should exercise in full the powers to repurchase Shares pursuant to the Repurchase Mandate, the shareholding of Automatic Result would increase to approximately 84.79% of the total issued share capital of the Company. Such amount of increase would not give rise to an obligation on the part of Automatic Result to make a mandatory offer under Rules 26 and 32 of the Takeovers Code.

Save as disclosed above, the Directors are not aware of any consequence which would arise under the Takeovers Code as a result of any repurchases pursuant to the Repurchase Mandate.

The Directors have no intention to exercise the Repurchase Mandate to such an extent that will result in the number of Shares in the hands of public falling below the prescribed minimum percentage of 25%.

## 8. SHARE REPURCHASE MADE BY THE COMPANY

During the period of six months preceding the Latest Practicable Date, no Shares have been repurchased by the Company.

## 9. SHARE PRICES

During the previous twelve months before the Latest Practicable Date, the highest and lowest traded prices for Shares on the Stock Exchange were as follows:

| | Traded Market Price (HK$) | |
|---|---|---|
| | **Lowest** | **Highest** |
| **2005** | | |
| May | 0.4930 | 0.5070 |
| June | 0.4670 | 0.5000 |
| July | 0.5000 | 0.5000 |
| August | 0.4970 | 0.5000 |
| September | 0.5270 | 0.7730 |
| October | 0.5200 | 0.5430 |
| November | 0.5200 | 0.5830 |
| December | 0.5170 | 0.6030 |
| **2006** | | |
| January | 0.5230 | 0.5330 |
| February | 0.4850 | 0.6170 |
| March | 0.5300 | 0.8500 |
| April | 0.7000 | 2.0000 |
| May (up to the Latest Practicable Date) | 1.7300 | 2.3000 |

## 1. SHARE CAPITAL

The authorised and issued share capital of the Company at the Latest Practicable Date were as follows:

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 2,000,000,000 | Shares as at the Latest Practicable Date | 200,000,000 |
| *Issued and fully paid:* | | |
| 540,000,000 | Shares as at the Latest Practicable Date | 54,000,000 |

All the Shares in issue rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

As at the Latest Practicable Date and save for the share options granted as disclosed in this circular, the Company had no derivatives, options, warrants and conversion rights or other similar rights which are convertible into Shares.

Save for the Convertible Bonds as disclosed in this circular, no share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

## 2. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following tables summarise the results, assets, liabilities and minority interests of the Group for the last three financial years, as extracted from the published audited financial statements for the three years ended 31 March 2005.

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | For the year ended 31 March | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 134,270 | 146,239 | 156,042 |
| Cost of sales | (102,610) | (121,221) | (120,224) |
| Gross profit | 31,660 | 25,018 | 35,818 |
| Other revenues | 2,345 | 4,294 | 1,959 |
| Distribution costs | (5,592) | (7,110) | (7,981) |
| Administrative expenses | (23,267) | (30,131) | (30,352) |
| Operating profit/(loss) | 5,146 | (7,929) | (556) |
| Finance costs | (4,483) | (5,799) | (3,474) |
| Profit/(loss) before taxation | 663 | (13,728) | (4,030) |
| Taxation | (87) | (4,495) | (1,231) |
| Profit/(loss) after taxation | 576 | (18,223) | (5,261) |
| Minority interests | (663) | (657) | (123) |
| Loss attributable to shareholders | (87) | (18,880) | (5,384) |
| Dividends | – | – | – |
| | *HK cents* | *HK cents* | *HK cents* |
| Basic loss per share | (0.05) | (10.5) | (3.0) |

## CONSOLIDATED BALANCE SHEET

| | As at 31 March | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current assets** | | | |
| Deferred tax assets | 139 | 315 | – |
| Goodwill | 6,538 | 9,154 | 11,899 |
| Fixed assets | 80,839 | 100,432 | 104,069 |
| | 87,516 | 109,901 | 115,968 |
| **Current assets** | | | |
| Inventories | 19,824 | 24,147 | 22,738 |
| Trade receivables | 31,996 | 35,553 | 41,914 |
| Other receivables, deposits and prepayments | 35,594 | 38,367 | 24,003 |
| Taxation recoverable | 103 | 104 | 1,768 |
| Pledged bank deposits | 6,170 | 3,600 | 3,500 |
| Bank balances and cash | 1,911 | 1,032 | 2,072 |
| | 95,598 | 102,803 | 95,995 |
| **Current liabilities** | | | |
| Trade payables | 33,357 | 42,196 | 21,183 |
| Accrued charges and other payables | 7,826 | 8,857 | 8,834 |
| Due to a related company | – | 999 | 276 |
| Taxation payable | 539 | 349 | 1,060 |
| Current portion of non-current liabilities | 33,117 | 29,800 | 35,671 |
| Trust receipt loans | 1,960 | 6,844 | 10,191 |
| Bank overdrafts, secured | 12,748 | 13,471 | 15,997 |
| | 89,547 | 102,516 | 93,212 |
| **Net current assets** | 6,051 | 287 | 2,783 |
| **Total assets less current liabilities** | 93,567 | 110,188 | 118,751 |
| **Non-current liabilities** | | | |
| Borrowings | 7,076 | 22,912 | 18,514 |
| Deferred tax liabilities | 9,961 | 10,149 | 4,894 |
| | 17,037 | 33,061 | 23,408 |
| **Total assets and liabilities** | 76,530 | 77,127 | 95,343 |
| **Capital and reserves:** | | | |
| Share capital | 18,000 | 18,000 | 18,000 |
| Reserves | 57,555 | 58,515 | 77,388 |
| Shareholders' funds | 75,555 | 76,515 | 95,388 |
| Minority interests | 975 | 612 | (45) |
| | 76,530 | 77,127 | 95,343 |

## 3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the financial statements for the Group for the year ended 31 March 2005 and 31 March 2004, together with the accompany notes as extracted from the annual report of the Company for the year ended 31 March 2005.

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the year ended 31st March 2005*

| | Note | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Turnover | 3 | 134,270 | 146,239 |
| Cost of sales | | (102,610) | (121,221) |
| Gross profit | | 31,660 | 25,018 |
| Other revenues | 3 | 2,345 | 4,294 |
| Distribution costs | | (5,592) | (7,110) |
| Administrative expenses | | (23,267) | (30,131) |
| Operating profit/(loss) | 4 | 5,146 | (7,929) |
| Finance costs | 5 | (4,483) | (5,799) |
| Profit/(loss) before taxation | | 663 | (13,728) |
| Taxation | 6 | (87) | (4,495) |
| Profit/(loss) after taxation | | 576 | (18,223) |
| Minority interests | | (663) | (657) |
| Loss attributable to shareholders | 7 | (87) | (18,880) |
| Dividends | 8 | – | – |
| Basic loss per share | 9 | (0.05 cents) | (10.5 cents) |

**CONSOLIDATED BALANCE SHEET**
*For the year ended 31st March 2005*

| | *Note* | **2005** *HK$'000* | **2004** *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Deferred tax assets | 24 | 139 | 315 |
| Goodwill | 12 | 6,538 | 9,154 |
| Fixed assets | 13 | 80,839 | 100,432 |
| | | 87,516 | 109,901 |
| **Current assets** | | | |
| Inventories | 15 | 19,824 | 24,147 |
| Trade receivables | 16 | 31,996 | 35,553 |
| Other receivables, deposits and prepayments | | 35,594 | 38,367 |
| Taxation recoverable | | 103 | 104 |
| Pledged bank deposits | 26 | 6,170 | 3,600 |
| Bank balances and cash | 17 | 1,911 | 1,032 |
| | | 95,598 | 102,803 |
| **Current liabilities** | | | |
| Trade payables | 18 | 33,357 | 42,196 |
| Accrued charges and other payables | | 7,826 | 8,857 |
| Due to a related company | 19 | – | 999 |
| Taxation payable | | 539 | 349 |
| Current portion of non-current liabilities | 20 | 33,117 | 29,800 |
| Trust receipt loans | | 1,960 | 6,844 |
| Bank overdrafts, secured | 26 | 12,748 | 13,471 |
| | | 89,547 | 102,516 |
| **Net current assets** | | 6,051 | 287 |
| **Total assets less current liabilities** | | 93,567 | 110,188 |
| Financed by: | | | |
| Share capital | 21 | 18,000 | 18,000 |
| Reserves | 23 | 57,555 | 58,515 |
| Shareholders' funds | | 75,555 | 76,515 |
| Minority interests | | 975 | 612 |
| Non-current liabilities | 20 | 7,076 | 22,912 |
| Deferred tax liabilities | 24 | 9,961 | 10,149 |
| | | 93,567 | 110,188 |

**BALANCE SHEET**

*For the year ended 31 March 2005*

| | Note | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | 14 | 106,627 | 100,770 |
| **Current assets** | | | |
| Dividend receivable | | – | 2,000 |
| Other receivables | | 181 | 5 |
| Bank balances and cash | | 1,052 | 1,044 |
| | | 1,233 | 3,049 |
| **Current liabilities** | | | |
| Other loan, secured | 20 | 6,000 | – |
| Other payables | | 691 | 1,268 |
| | | 6,691 | 1,268 |
| **Net current (liabilities)/assets** | | (5,458) | 1,781 |
| **Total assets less current liabilities** | | 101,169 | 102,551 |
| Financed by: | | | |
| Share capital | 21 | 18,000 | 18,000 |
| Reserves | 23 | 83,169 | 84,551 |
| Shareholders' funds | | 101,169 | 102,551 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*For the year ended 31 March 2005*

| | *Note* | **2005** *HK$'000* | **2004** *HK$'000* |
|---|---|---|---|
| Total equity at the beginning of year | | 76,515 | 95,388 |
| Exchange differences arising on translation of the financial statements of overseas subsidiaries | 23 | – | 7 |
| Net gain not recognized in the profit and loss account | | – | 7 |
| Valuation released upon disposal of leasehold land and building and plant and machinery | | (873) | – |
| Loss attributable to shareholders | 23 | (87) | (18,880) |
| Total equity at the end of year | | 75,555 | 76,515 |

## CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 March 2005*

| | Note | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|---|
| Operating activities | | | |
| Net cash inflow generated from operations | 25(a) | 19,401 | 18,762 |
| Interest paid | | (3,388) | (4,826) |
| Hong Kong profits tax refund | | 574 | 2,310 |
| Hong Kong profits tax paid | | (482) | (912) |
| Net cash inflow from operating activities | | 16,105 | 15,334 |
| Investing activities | | | |
| Purchase of fixed assets | | (5,246) | (3,159) |
| Sales of fixed assets | | 12,573 | 4,426 |
| Interest received | | 72 | 86 |
| Net cash inflow from investing activities | | 7,399 | 1,353 |
| Financing activities | | | |
| Bank deposits pledged | | (2,570) | (100) |
| New bank and other loans | 25(b) | 21,509 | 48,015 |
| Repayment of bank and other loans | 25(b) | (23,309) | (50,252) |
| Capital elements of finance lease rental payments | 25(b) | (11,253) | (8,551) |
| Interest elements of finance lease rental payments | | (1,095) | (973) |
| Dividends paid to minority shareholders by a subsidiary | 25(b) | (300) | – |
| Net cash outflow from financing activities | | (17,018) | (11,861) |
| Net increase in cash and cash equivalents | | 6,486 | 4,826 |
| Cash and cash equivalents at the beginning of year | | (19,283) | (24,116) |
| Effect of foreign exchange rate changes | 23 | – | 7 |
| Cash and cash equivalents at the end of year | | (12,797) | (19,283) |
| Analysis of balances of cash and cash equivalents | | | |
| Bank balances and cash | | 1,911 | 1,032 |
| Bank overdrafts | | (12,748) | (13,471) |
| Trust receipt loans | | (1,960) | (6,844) |
| | | (12,797) | (19,283) |

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2005*

**1. Principal Accounting Policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

*(a) Basis of preparation*

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain leasehold land and buildings and plant and machinery are stated at open market valuation.

*(b) Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March 2005.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortized goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets/liabilities of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

*(c) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition.

In accordance with Statement of Standard Accounting Practice ("SSAP") 30, goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life but not exceeding 20 years. Goodwill on acquisitions, which occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantages of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However, any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

Where an indication of impairments exists, the carrying amount of any goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

*(d) Fixed assets*

Leasehold land and buildings and plant and machinery are stated at valuation less accumulated depreciation and accumulated impairment losses. The valuations of leasehold land and buildings are on an open market basis related to individual properties and separate values are not attributed to land and buildings. Independent valuations are performed every three years. In the intervening years, the directors review the carrying value of these fixed assets and adjustments are made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decrease in valuation are first offset against increases on earlier valuations in respect of the same asset and thereafter debited to the operating result. Any subsequent increases are credited to the operating result up to the amount previously debited.

In current year, the revaluation of plant and machinery, which was previously performed by independent valuer for every three years, are performed by the directors of the Company. This is a change in accounting policy that has been applied retrospectively and the comparative figures have been restated, where required. The adoption of this new accounting policy had no material effect on the Group's previous years' results.

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost/valuation less accumulated impairment losses over their estimated useful lives on a straight-line basis.

The principal annual rates are as follows:

| | |
|---|---|
| Buildings | 2.5% |
| Plant and machinery | 6.6-20% |
| Furniture, fixtures and equipment | 10-20% |
| Leasehold improvements | 15-18% |
| Motor vehicles | 15-20% |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment loss is recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings/ accumulated losses and is shown as a movement in reserves.

*(e) Assets under leases*

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalized at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their lease terms and their estimated useful lives or their estimated useful lives if there is reasonable certainty that the assets held under finance leases will be owned by the Group by the end of the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

*(f) Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realizable value is determined on the basis of anticipated sale proceeds less estimated selling expenses.

*(g) Trade receivables*

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

*(h) Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

*(i) Provisions*

Provisions are recognised when the Group has a present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

*(j) Employee benefits*

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pensions obligations

The group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basis salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the funds.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

*(k) Deferred taxation*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets should be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, and also should be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

*(l) Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

*(m) Revenue recognition*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating lease rental income is recognised on a straight-line basis.

*(n) Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rate of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as movements in reserves. Upon disposal of an overseas subsidiary, the related cumulated exchange difference is included in the profit and loss account as part of the gain or loss on disposal.

(p) *Segment reporting*

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

(q) *Dividends*

Dividends proposed or declared after the balance sheet date are not recognized as a liability at the balance sheet date.

**2. Impact of Recently Issued Accounting Standards**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

**3. Turnover, Revenue and Segment Information**

The Group is principally engaged in manufacturing and trading of packaging products, paper gifts items and promotional products. Revenues recognised during the year are as follows:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Turnover | | |
| Sales of goods at invoiced value to customers, net of discounts and returns | 134,270 | 146,239 |
| Other revenues | | |
| Interest income | 72 | 86 |
| Rental income from land and buildings | – | 14 |
| General provision for doubtful debts written back | – | 1,000 |
| Sundry income | 2,273 | 3,194 |
| | 2,345 | 4,294 |
| Total revenues | 136,615 | 150,533 |

**Primary reporting format – business segments**

| | Year ended 31 March 2005 | | | |
|---|---|---|---|---|
| | **Packaging products** | **Paper gifts items** | **Promotional products** | **Group** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 67,360 | 9,710 | 57,200 | 134,270 |
| Segment results | 13,593 | 3,163 | 14,904 | 31,660 |
| Unallocated income | | | | 2,345 |
| Unallocated costs | | | | (28,859) |
| Operating profit | | | | 5,146 |
| Finance costs | | | | (4,483) |
| Profit before taxation | | | | 663 |
| Taxation | | | | (87) |
| Profit after taxation | | | | 576 |
| Minority interests | | | | (663) |
| Loss attributable to shareholders | | | | (87) |
| Segment assets | 95,524 | 20,977 | 59,861 | 176,362 |
| Unallocated assets | | | | 6,752 |
| Total assets | | | | 183,114 |
| Segment liabilities | 28,074 | 6,668 | 17,823 | 52,565 |
| Unallocated liabilities | | | | 54,994 |
| Total liabilities | | | | 107,559 |
| Capital expenditure | 2,242 | 954 | 2,584 | 5,780 |
| Depreciation of fixed assets | 4,495 | 1,753 | 4,547 | 10,795 |
| Amortisation of goodwill (unallocated) | | | | 2,616 |
| Impairment of goodwill (unallocation) | | | | – |

| | Year ended 31 March 2004 | | | |
|---|---|---|---|---|
| | **Packaging products** | **Paper gifts items** | **Promotional products** | **Group** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 75,606 | 29,660 | 40,973 | 146,239 |
| Segment results | 12,412 | 5,190 | 7,416 | 25,018 |
| Unallocated income | | | | 4,294 |
| Unallocated costs | | | | (37,241) |
| Operating loss | | | | (7,929) |
| Finance costs | | | | (5,799) |
| Loss before taxation | | | | (13,728) |
| Taxation | | | | (4,495) |
| Loss after taxation | | | | (18,223) |
| Minority interests | | | | (657) |
| Loss attributable to shareholders | | | | (18,880) |
| Segment assets | 81,289 | 25,640 | 48,604 | 155,533 |
| Unallocated assets | | | | 57,171 |
| Total assets | | | | 212,704 |
| Segment liabilities | 61,286 | 15,396 | 22,774 | 99,456 |
| Unallocated liabilities | | | | 36,733 |
| Total liabilities | | | | 136,189 |
| Capital expenditure | 7,401 | 1,967 | 3,106 | 12,474 |
| Depreciation of fixed assets | 5,709 | 2,240 | 3,094 | 11,043 |
| Amortisation of goodwill (unallocated) | | | | 2,650 |
| Impairment of goodwill (unallocation) | | | | 95 |

**Secondary reporting format – geographical segments**

| | Year ended 31 March 2005 | | | |
|---|---|---|---|---|
| | **Turnover** | **Segment results** | **Total assets** | **Capital expenditure** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | 93,662 | 22,085 | 46,512 | 757 |
| Mainland China | 38,620 | 9,106 | 136,603 | 5,023 |
| Other countries | 1,988 | 469 | – | – |
| | 134,270 | 31,660 | 183,115 | 5,780 |
| Unallocated income | | 2,345 | | |
| Unallocated costs | | (28,859) | | |
| Operating profit | | 5,146 | | |

| | Year ended 31 March 2004 | | | |
|---|---|---|---|---|
| | **Turnover** | **Segment results** | **Total assets** | **Capital expenditure** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | 97,940 | 16,755 | 74,341 | 124 |
| Mainland China | 39,114 | 6,692 | 138,363 | 12,350 |
| Other countries | 9,185 | 1,571 | – | – |
| | 146,239 | 25,018 | 212,704 | 12,474 |
| Unallocated income | | 4,294 | | |
| Unallocated costs | | (37,241) | | |
| Operating loss | | (7,929) | | |

**4. Operating Profit/(Loss)**

Operating profit/(loss) was stated after charging the following:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Auditors' remuneration | | |
| – Current year | 398 | 300 |
| – Overprovision in prior year | – | (25) |
| | 398 | 275 |
| Cost of inventories sold | 102,610 | 121,221 |
| Provision for and write off of bad debts | 1,337 | 2,035 |
| Provision for and write off of obsolete inventories | 1,197 | 3,348 |
| Amortisation of goodwill | 2,616 | 2,650 |
| Impairment of goodwill | – | 95 |
| Depreciation of fixed assets | | |
| – owned assets | 7,272 | 8,834 |
| – assets held under finance leases | 3,523 | 2,209 |
| Operating lease rentals in respect of land and buildings | 1,371 | 1,375 |
| Loss on fixed assets written off | – | 366 |
| Loss on disposal of fixed assets | 1,132 | 276 |
| Investment written off | – | 60 |
| Staff costs, including directors' emoluments *(note 10)* | 12,679 | 13,005 |
| Exchange loss | 13 | 42 |

**5. Finance Costs**

| | 2005<br>*HK$'000* | 2004<br>*HK$'000* |
|---|---|---|
| Interests on bank loans and overdrafts | 2,377 | 2,857 |
| Interests element of finance leases | 1,095 | 973 |
| Other interests | 1,011 | 1,969 |
| | 4,483 | 5,799 |

**6. Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the group operates.

Subsidiaries of the Company established in the People's Republic of China (the "PRC") is subject to the PRC Enterprise Income Tax ("EIT") on the taxable income as reported in its PRC statutory financial statements adjusted in accordance with relevant income tax laws. The applicable EIT rate is 33%. However, the subsidiaries have tax privileges granted by the PRC Government that they are entitled to full exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous years.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

| | 2005<br>*HK$'000* | 2004<br>*HK$'000* |
|---|---|---|
| Hong Kong profits tax | | |
| – Current | 83 | 165 |
| – Under/(Over) provision in prior years | 16 | (610) |
| Deferred taxation *(note 24)* | (12) | 4,940 |
| Taxation charge | 87 | 4,495 |

Reconciliation between accounting profit/(loss) and tax expense at applicable tax rate is as follows:

| | 2005<br>*HK$'000* | 2004<br>*HK$'000* |
|---|---|---|
| Profit/(loss) before taxation | 663 | (13,728) |
| Calculated at the taxation rate of 17.5% (2004: 17.5%) | 116 | (2,402) |
| Net effect of income and expense items which are not assessable/deductible for income tax purpose | (279) | 3,920 |
| Utilization of previously unrecognized tax losses | (88) | (123) |
| Effect of tax loss not recognized in current year | 322 | 3,710 |
| Under/(Over) provision in prior years | 16 | (610) |
| Tax expense | 87 | 4,495 |

**7. Loss Attributable to Shareholders**

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK$1,382,000 (2004: loss of HK$740,000).

**8. Dividends**

No dividend was proposed or paid by the Company during the year. (2004: Nil).

**9. Basic Loss Per Share**

The calculation of basic loss per share (2004: loss per share) is based on the Group's loss attributable to shareholders of HK$87,000 (2004: loss of HK$18,880,000) and of 180,000,000 shares (2004: 180,000,000 shares) in issue during the year.

Diluted loss per share was not presented for both years as there were no dilutive potential ordinary shares at year end.

**10. Staff Costs (including Directors' Remuneration)**

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Wages and salaries | 12,188 | 12,595 |
| Redundancy costs | 200 | – |
| Retirement benefits costs | | |
| – defined contribution benefit schemes | 291 | 410 |
| | 12,679 | 13,005 |

**11. Directors' and Senior Management's Emoluments**

*(a) Directors' emoluments*

The aggregate amounts of emoluments payable to the directors of the Company during the year are as follows:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Fees | 30 | 40 |
| Other emoluments | 1,560 | 2,204 |
| Bonus | 16 | – |
| Retirement benefit costs | 26 | 36 |
| | 1,632 | 2,280 |

No directors waived any emoluments and no incentive payment or compensation for loss of office was paid or payable to any director during the year.

The emoluments of the directors fell within the following bands:

| | **Number of directors** | |
|---|---|---|
| **Emoluments bands** | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Nil – HK$1,000,000 | 6 | 6 |
| HK$1,000,001 – HK$1,500,000 | – | – |

Directors' emoluments disclosed above include HK$120,000 (2004: HK$120,000) paid to independent non-executive directors.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include two (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: two) individuals during the year are as follows:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Basic salaries and allowances | 1,957 | 934 |
| Retirement benefit costs | 36 | 24 |
| | 1,993 | 958 |

**12. Goodwill**

| | **Group** |
|---|---|
| | *HK$'000* |
| Year ended 31 March 2005 | |
| Opening net book amount | 9,154 |
| Amortisation charge | (2,616) |
| Closing net book amount | 6,538 |
| At 31 March 2005 | |
| Cost | 13,250 |
| Accumulated amortisation | (6,617) |
| Accumulated impairment | (95) |
| Net book amount | 6,538 |
| At 31 March 2004 | |
| Cost | 13,250 |
| Accumulated amortization | (4,001) |
| Accumulated impairment | (95) |
| Net book amount | 9,154 |

**13. Fixed Assets**

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **Leasehold land and buildings** | **Plant and machinery** | **Furniture, fixtures and equipment** | **Leasehold improvements** | **Motor vehicles** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost or valuation | | | | | | |
| At 1st April 2004 | 3,956 | 110,795 | 8,332 | 18,885 | 2,220 | 144,188 |
| Additions | – | 5,023 | 10 | – | 747 | 5,780 |
| Disposals | (3,956) | (21,154) | – | – | (1,280) | (26,390) |
| At 31 March 2005 | – | 94,664 | 8,342 | 18,885 | 1,687 | 123,578 |
| Accumulated depreciation | | | | | | |
| At 1st April 2004 | 897 | 30,232 | 4,726 | 6,364 | 1,537 | 43,756 |
| Charge for the year | 69 | 6,853 | 818 | 2,776 | 279 | 10,795 |
| Disposals | (966) | (9,848) | – | – | (998) | (11,812) |
| At 31 March 2005 | – | 27,237 | 5,544 | 9,140 | 818 | 42,739 |
| Net book value | | | | | | |
| At 31 March 2005 | – | 67,427 | 2,798 | 9,745 | 869 | 80,839 |
| At 31 March 2004 | 3,059 | 80,563 | 3,606 | 12,521 | 683 | 100,432 |

The analysis of the cost or valuation of the above assets at 31 March 2005 is as follows:

| | **Leasehold land and buildings** | **Plant and machinery** | **Furniture, fixtures and equipment** | **Leasehold improvements** | **Motor vehicles** | **Total** |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At cost | – | 50,569 | 8,342 | 18,885 | 1,687 | 79,483 |
| At valuation *(note (a))* | – | 44,095 | – | – | – | 44,095 |
| | – | 94,664 | 8,342 | 18,885 | 1,687 | 123,578 |

The analysis of the cost or valuation of the above assets at 31 March 2004 is as follows:

| | **Leasehold land and buildings** | **Plant and machinery** | **Furniture, fixtures and equipment** | **Leasehold improvements** | **Motor vehicles** | **Total** |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At cost | – | 46,862 | 8,332 | 18,885 | 2,220 | 76,299 |
| At valuation *(note (a))* | 3,956 | 63,933 | – | – | – | 67,889 |
| | 3,956 | 110,795 | 8,332 | 18,885 | 2,220 | 144,188 |
| Net book value of lease assets | | | | | | |
| At 31 March 2005 | – | 41,804 | 31 | – | 180 | 42,015 |
| At 31 March 2004 | – | 47,382 | 35 | – | 343 | 47,760 |

(a) The leasehold land and buildings and plant and machinery were revalued by Knight Frank and Sallmanns (Far East) Limited, independent firms of professional valuers, at 31 August 2001 on the basis of open market value. The leasehold land and buildings were disposed to third parties during the year. In previous years, the revaluation of plant and machinery was performed by independent valuer for every three years. This is a change in the accounting policy that, in the opinion of the directors, the amount of plant and machinery at 1st April 2004 is not restated on the balance sheet as the valuation is not materially different from the carrying amount in previous years.

The directors of the Company was undertaken a review on the carrying value of plant and machinery at 31 March 2005 and are of the opinion that the valuation is not materially different from the above carrying amount.

The revaluations of the Group's plant and machinery do not constitute temporary difference (2004: timing difference) for tax purposes.

(b) The carrying amount of revalued land and buildings and plant and machinery held by the Group would have been HK$Nil (2004: HK$2,827,000) and HK$27,084,000 (2004: HK$38,354,000) respectively had they been stated at cost less accumulated depreciation and impairment losses.

(c) At 31 March 2005, the net book values of leasehold land and buildings and plant and machinery pledged for the Group's facilities were approximately HK$Nil (2004: HK$3,059,000) and HK$547,000 (2004: HK$590,000).

## 14. Interests in Subsidiaries

| | Company | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 71,870 | 71,870 |
| Amounts due from subsidiaries | 35,607 | 29,750 |
| Amount due to a subsidiary | (850) | (850) |
| | 106,627 | 100,770 |

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of principal subsidiaries as at 31 March 2005:

| Name | Country/place of incorporation or establishment | Issued and fully paid up share capital/registered capital | Attributable equity interest 2005 | Attributable equity interest 2004 | Principal activities and place of operation |
|---|---|---|---|---|---|
| **Direct subsidiary:** | | | | | |
| New Master Group Limited | British Virgin Islands | 200 Ordinary shares of US$1 each | 100% | 100% | Investment holding in Hong Kong |
| **Indirect subsidiaries:** | | | | | |
| New Spring Group Company Limited | Hong Kong | 2 Ordinary shares of HK$1 each and 10,000 Non-voting deferred shares of HK$1 each | 100% | 100% | Manufacturing and trading of gift and toy boxes and other paper products in Hong Kong and the PRC |
| Sun Hip Fung (JF) Printing Products Company Limited | Hong Kong | 2 Ordinary shares of HK$1 each and 20,000 Non-voting deferred shares of HK$1 each | 100% | 100% | Trading of paper products in Hong Kong |

| Name | Country/place of incorporation or establishment | Issued and fully paid up share capital/registered capital | Attributable equity interest 2005 | Attributable equity interest 2004 | Principal activities and place of operation |
|---|---|---|---|---|---|
| Today Graphic Company Limited | Hong Kong | 2 Ordinary shares of HK$1 each and 20,000 Non-voting deferred shares of HK$1 each | 100% | 100% | Trading of packaging products in Hong Kong |
| Today Advertising Products Company Limited | Hong Kong | 2 Ordinary shares of HK$1 each and 200,000 Non-voting deferred shares of HK$1 each | 100% | 100% | Investment holding in Hong Kong |
| New Richest Holdings Limited | Hong Kong | 10,000 Ordinary shares of HK$1 each | 63% | 63% | Investment holding in Hong Kong |
| 力新時紙製品(深圳)有限公司* | The PRC | Registered capital of HK$3,000,000 | 100% | 100% | Manufacturing and sale of paper products in the PRC |
| Anson Printing Group Limited | Hong Kong | 10,000 Ordinary shares of HK$1 each | 51% | 51% | Provision of printing and colour separation services in Hong Kong |
| Visual Products Limited | Hong Kong | 10,000 Ordinary shares of HK$1 each | 100% | 100% | Manufacturing and trading of lenticular plastic products in Hong Kong |
| Pronto Print Limited | Hong Kong | 50,000 Ordinary shares of HK$10 each | 99.2% | 99.2% | Provision of printing and colour separation services and trading of lenticular plastic products in Hong Kong |
| Great Tech Trading Limited | Hong Kong | 10,000 Ordinary shares of HK$1 each | 100% | 100% | Trading of lenticular plastic products in Hong Kong |
| New Spring Label & Packaging Limited | Hong Kong | 10,000 Ordinary shares of HK$1 each | 34.65% | 34.65% | Production and trading of label and packaging products in Hong Kong |
| New Pearl Hot Stamping & Packaging Limited | Hong Kong | 10,000 Ordinary shares of HK$1 each | 100% | 100% | Provision of hot stamping and packaging services in Hong Kong |

* *foreign wholly-owned enterprise*

**15. Inventories**

| | Group 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Raw materials | 6,665 | 11,759 |
| Work in progress | 2,285 | 3,819 |
| Finished goods | 10,874 | 8,569 |
| | 19,824 | 24,147 |

At 31 March 2004 and 2005, all inventories were carried at cost.

**16. Trade Receivables**

At 31 March 2005, the ageing analysis of the trade receivables are as follows:

| | Group 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current to 30 days | 11,731 | 8,424 |
| 31 days to 60 days | 2,567 | 6,009 |
| 61 days to 90 days | 3,335 | 3,104 |
| 91 days to 180 days | 5,669 | 3,304 |
| Over 180 days | 8,694 | 14,712 |
| | 31,996 | 35,553 |

Customers are generally granted with credit terms of 30 to 90 days. Longer payment terms are granted to those customers which have good payment history and long-term business relationship with the Group. Among debts due over 180 days, HK$6,575,000 approximately had been received up to the date of this report.

**17. Bank Balances and Cash**

Included in the balance of the Group is an amount of approximately HK$1,150,000 (2004: HK$26,000) denominated in Renminbi in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

**18. Trade Payables**

At 31 March 2005, the ageing analysis of the trade payables are as follows:

| | Group 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current to 30 days | 4,669 | 5,002 |
| 31 days to 60 days | 2,023 | 4,180 |
| 61 days to 90 days | 2,206 | 2,053 |
| Over 90 days | 24,459 | 30,961 |
| | 33,357 | 42,196 |

**19. Due to A Related Company**

The amount due to a related company is unsecured, interest free and has no fixed terms of repayment.

**20. Non-current Liabilities**

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Bank loans, secured | 17,712 | 26,012 |
| Other loans, secured | 9,000 | 2,500 |
| Obligations under finance leases | 13,481 | 24,200 |
| | 40,193 | 52,712 |
| Current portion of non-current liabilities | (33,117) | (29,800) |
| | 7,076 | 22,912 |

At 31 March 2005, the Group's bank loans are repayable as follows:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Within one year | 13,613 | 16,325 |
| In the second year | 2,238 | 3,541 |
| In the third to fifth years | 1,861 | 4,920 |
| Over fifth year | – | 1,226 |
| | 17,712 | 26,012 |

At 31 March 2005, the Group's other loans are repayable as follows:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Within one year | 9,000 | 2,500 |

At 31 March 2005, the Group's finance lease liabilities are repayable as follows:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Within one year | 10,848 | 11,738 |
| In the second year | 2,818 | 10,629 |
| In the third to fifth year | 228 | 2,964 |
| | 13,894 | 25,331 |
| Future finance charges on finance leases | (413) | (1,131) |
| Present value of finance lease liabilities | 13,481 | 24,200 |

The present value of finance lease liabilities is as follows:

| | | |
|---|---|---|
| Within one year | 10,504 | 10,975 |
| In the second year | 2,774 | 10,295 |
| In the third to fifth years | 203 | 2,930 |
| | 13,481 | 24,200 |

At 31 March 2005, the Company's other loan is repayable as follows:

| | Company | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Within one year | 6,000 | – |

**21. Share Capital**

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| *Authorised:* | | |
| 2,000,000,000 (2004: 2,000,000,000) ordinary shares of HK$0.1 each | 200,000 | 200,000 |
| *Issued and fully paid:* | | |
| 180,000,000 (2004: 180,000,000) ordinary shares of HK$0.1 each | 18,000 | 18,000 |

**22. Share Options**

Under the share option scheme (the "Scheme") approved by the shareholders on 22nd October 2001, the directors of the Company may, at its discretion, invite directors and employees of the Group to take up options to subscribe for shares in the Company representing up to a maximum of 30 per cent of the issued share capital of the Company from time to time.

The subscription price for the shares in relation to options to be granted under the Scheme shall be determined by the board and shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares on the date of grant (the "Offer Date"); and (iii) the average closing price of the shares for the five business days immediately preceding the Offer Date. The options are exercisable within 10 years from the Offer Date.

No options have been granted since the establishment of the Scheme.

**23. Reserves**

| | Share premium | Capital reserve | Statutory reserve | Group Revaluation reserve | Exchange reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st April 2003 | 12,667 | (243) | 534 | 2,203 | 13 | 62,214 | 77,388 |
| Exchange differences arising on translation of the financial statements of the overseas subsidiaries | – | – | – | – | 7 | – | 7 |
| Loss attributable to shareholders | – | – | – | – | – | (18,880) | (18,880) |
| At 31 March 2004 | 12,667 | (243) | 534 | 2,203 | 20 | 43,334 | 58,515 |
| Representing: | | | | | | | |
| Reserves | | | | | | | 58,515 |
| At 1st April 2004 | 12,667 | (243) | 534 | 2,203 | 20 | 43,334 | 58,515 |
| Valuation released upon disposal of leasehold land and buildings and plant and machinery | – | – | – | (873) | – | – | (873) |
| Loss attributable to shareholders | – | – | – | – | – | (87) | (87) |
| At 31 March 2005 | 12,667 | (243) | 534 | 1,330 | 20 | 43,247 | 57,555 |
| Representing: | | | | | | | |
| Reserves | | | | | | | 57,555 |

| | Company | | |
|---|---|---|---|
| | Share premium | Retained earnings/ (Accumulated losses) | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st April 2003 | 84,270 | 1,021 | 85,291 |
| Loss attributable to shareholders | – | (740) | (740) |
| At 31 March 2004 | 84,270 | 281 | 84,551 |
| Representing: | | | |
| Reserves | | | 84,551 |
| At 1st April 2004 | 84,270 | 281 | 84,551 |
| Loss attributable to shareholders | – | (1,382) | (1,382) |
| At 31 March 2005 | 84,270 | (1,101) | 83,169 |
| Representing: | | | |
| Reserves | | | 83,169 |

At 31 March 2005, goodwill written off against the Group's retained earnings as a result of the acquisition of subsidiaries prior to 1st April 2001 amounted to HK$293,000 (2004: HK$293,000).

**24. Deferred Taxation**

The major components of the deferred tax liability/(asset) provided for at the balance sheet date and for the year then ended are as follows:

**Deferred tax liabilities**

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **Accelerated tax depreciation** | | **Tax losses** | | **Total** | |
| | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| In April | 11,949 | 6,027 | (1,800) | (1,133) | 10,149 | 4,894 |
| Charged/(credited) to consolidated profit and loss account *(note 6)* | (686) | 5,922 | 498 | (667) | (188) | 5,255 |
| In March | 11,263 | 11,949 | (1,302) | (1,800) | 9,961 | 10,149 |

The major components of the deferred tax asset provided for at the balance sheet date and for the year then ended are as follows:

**Deferred tax assets**

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **Accelerated tax depreciation** | | **Tax losses** | | **Total** | |
| | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| In April | (8) | – | (307) | – | (315) | – |
| Charged/(credited) to consolidated profit and loss account *(note 6)* | 8 | (8) | 168 | (307) | 176 | (315) |
| In March | – | (8) | (139) | (307) | (139) | (315) |

**25. Notes to Consolidated Cash Flow Statement**

*(a) Reconciliation of profit/(loss) before taxation to net cash inflow generated from operations*

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit/(loss) before taxation | 663 | (13,728) |
| Depreciation | 10,795 | 11,043 |
| Impairment of goodwill | – | 95 |
| Loss on fixed assets written off | – | 366 |
| Loss on disposal of fixed assets | 1,132 | 276 |
| Interest income | (72) | (86) |
| Interest expenses | 3,388 | 4,826 |
| Interest element of finance leases | 1,095 | 973 |
| Amortisation of goodwill | 2,616 | 2,650 |
| Decrease/(increase) in inventories | 4,323 | (1,409) |
| Decrease/(increase) in trade receivables, other receivables, deposits and prepayments | 6,330 | (8,003) |
| (Decrease)/increase in trade payables, accrued charges and other payables | (9,870) | 21,036 |
| (Decrease)/increase in amount due to a related company | (999) | 723 |
| Net cash inflow generated from operations | 19,401 | 18,762 |

(b) *Analysis of changes in financing during the year*

| | Share capital including share premium | | Minority interests | | Loans and obligations under finance leases | |
|---|---|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At the beginning of the year | 30,667 | 30,667 | 612 | (45) | 52,712 | 54,185 |
| Minority interests in share of profits in subsidiaries | – | – | 663 | 657 | – | – |
| Dividends paid to minority shareholders by a subsidiary | – | – | (300) | – | – | – |
| New bank and other loans | – | – | – | – | 21,509 | 48,015 |
| Repayment of bank and other loans | – | – | – | – | (23,309) | (50,252) |
| Capital elements of finance lease rental payments | – | – | – | – | (11,253) | (8,551) |
| Inception of finance leases | – | – | – | – | 534 | 9,315 |
| At the end of the year | 30,667 | 30,667 | 975 | 612 | 40,193 | 52,712 |

(c) *Major non-cash transactions*

During the year, the Group had the following major non-cash transactions:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Finance lease arrangements in respect of assets with total capital values at the inception of leases | 534 | 9,315 |

**26. Banking Facilities**

As at 31 March 2005, the Group's banking facilities were secured by the followings:

(i) corporate guarantees given by the Company and its subsidiaries;

(ii) bank deposits of HK$6,170,000;

(iii) personal guarantees of the Company's directors; and

(iv) certain leasehold land and buildings of related party and related companies.

**27. Contingent Liabilities**

| | Company | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Guarantees for bank loans and overdrafts of subsidiaries | 30,461 | 38,622 |
| Guarantees for finance lease assets of subsidiaries | 5,528 | 10,497 |
| | 35,989 | 49,119 |

**28. Commitments**

*(a) Capital commitments*

At 31 March 2005, the Group had capital commitments contracted but not provided for in respect of machineries of approximately HK$2,050,000 (2004: HK$1,980,000).

*(b) Commitments under operating leases*

At 31 March 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings which expire as follows:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Not later than one year | 1,205 | 928 |
| Later than one year and not later than five years | 532 | 402 |
| | 1,737 | 1,330 |

**29. Related Party Transactions**

Save as disclosed in other notes to the financial statements, other significant related party transactions, which were carried out in the normal course of the Group's business and were charged at prices mutually agreed, are as follows:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income | | |
| Beautiking Investments Limited (i) | 62 | 55 |
| Rental paid | | |
| Beaumax Company Limited (ii) | 228 | 338 |
| Beautiking Investments Limited ((iii), (iv) & (v)) | 504 | 544 |
| Glory Motion Company Limited (iii) | 276 | 276 |

(i) During the year, the amount due from Beautiking Investments Limited was unsecured and interest-bearing at 12% per annum which was charged at market rates.

(ii) One of the subsidiaries, Sun Hip Fung (JF) Printing Products Company Limited, has entered into a lease agreement with a related company, Beaumax Company Limited, to lease office space for a period of two years commencing 1st February 2003 at a monthly rental of HK$19,000. The lease agreement was renewed for a period of two years commencing 1st February 2005 at a monthly rental of HK$19,000. Certain executive directors of the Company have beneficial interests in Beaumax Company Limited. The lease was entered into on normal commercial terms.

(iii) One of the subsidiaries, New Spring Group Company Limited, has entered into lease agreements with related companies, Beautiking Investments Limited and Glory Motion Company Limited, to lease office spaces for a period of two years commencing 1st February 2003 and 1st July 2003 at a monthly rental of HK$22,000 and HK$23,000 respectively. The lease agreement with Beautiking Investments Limited was renewed for a period of two years commencing 1st February 2005 at a monthly rental of HK$22,000. The leases were entered into on normal commercial terms.

(iv) One of the subsidiaries, Visual Products Limited, has entered into a lease agreement with Beautiking Investments Limited to lease office space for a period of two years commencing 1st April 2004 at a monthly rental of HK$10,000. The lease was entered into on normal commercial terms.

(v) One of the subsidiaries, New Spring Label and Packaging Limited has entered into a lease agreement with Beautiking Investments Limited to lease office space for a period of two years commencing 1st April 2004 at monthly rental of HK$10,000. The lease was entered into on normal commercial terms.

**30. Ultimate Holding Company**

The directors regard Fortune Gold Developments Limited, a company incorporated in British Virgin Islands, as being the ultimate holding company.

**31. Approval of Financial Statements**

The financial statements were approved by the board of directors on 27th July 2005.

## 4. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Set out below is the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2005 and 30 September 2004 extracted from the 2005 Interim Report.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*For the six months ended 30 September 2005*

| | | Unaudited Six months ended 30 September | |
|---|---|---|---|
| | | **2005** | **2004** |
| | *Note* | *HK$'000* | *HK$'000* |
| Turnover | 4 | 58,606 | 83,473 |
| Cost of sales | | (47,029) | (66,352) |
| Gross profit | | 11,577 | 17,121 |
| Other revenues | | 832 | 1,244 |
| Profit on disposal of a subsidiary | | 1,095 | – |
| Distribution costs | | (357) | (3,037) |
| Administrative expenses | | (25,625) | (11,862) |
| Operating (loss)/profit | 5 | (12,478) | 3,466 |
| Finance costs | | (2,220) | (2,656) |
| (Loss)/Profit before taxation | | (14,698) | 810 |
| Taxation | 7 | 0 | (43) |
| (Loss)/Profit for the period | | (14,698) | 767 |
| Attributable to: | | | |
| Equity holders of the Company | | (14,700) | 442 |
| Minority interests | | 2 | 325 |
| | | (14,698) | 767 |
| | | *HK cents* | *HK cents* |
| (Loss)/Earnings per share | 8 | | |
| Basic | | (8.17) | 0.25 |
| Diluted | | N/A | N/A |

**Condensed Consolidated Balance Sheet**
*At 30 September 2005*

| | Note | Unaudited 30 September 2005 HK$'000 | Audited 31 March 2005 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Deferred tax assets | 14 | 139 | 139 |
| Goodwill | 9 | 6,538 | 6,538 |
| Property, plant and equipment | 9 | 71,504 | 80,839 |
| | | 78,181 | 87,516 |
| **Current assets** | | | |
| Inventories | | 13,359 | 19,824 |
| Trade receivables | 10 | 34,022 | 31,996 |
| Other receivables, deposits and prepayments | | 31,307 | 35,594 |
| Taxation recoverable | | 1 | 103 |
| Dividend receivable | | 1,100 | 0 |
| Pledged bank deposits | | 20,178 | 6,170 |
| Bank balances and cash | | 305 | 1,911 |
| | | 100,272 | 95,598 |
| **Current liabilities** | | | |
| Trade payables | 11 | 29,044 | 33,357 |
| Accrued charges and other payables | | 18,878 | 7,826 |
| Taxation payable | | 98 | 539 |
| Borrowings | 12 | 26,053 | 35,077 |
| Bank overdrafts, secured | | 6,860 | 12,748 |
| | | 80,933 | 89,547 |
| **Net current assets** | | 19,339 | 6,051 |
| **Total assets less current liabilities** | | 97,520 | 93,567 |
| **Non-current liabilities** | | | |
| Borrowings | 12 | 25,901 | 7,076 |
| Deferred tax liability | 14 | 9,611 | 9,961 |
| | | 35,512 | 17,037 |
| **Total assets and liabilities** | | 62,008 | 76,530 |
| **Capital and reserves:** | | | |
| Share capital | 13 | 18,000 | 18,000 |
| Reserves | | 43,058 | 57,555 |
| **Equity attributable to shareholders of the Company** | | 61,058 | 75,555 |
| **Minority interests** | | 950 | 975 |
| **Total equity** | | 62,008 | 76,530 |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended 30 September 2005*

| | Unaudited Six months ended 30 September 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Net cash inflow from operating activities | 5,979 | 17,428 |
| Net cash from/(used in) investing activities | 2,736 | (1,436) |
| Net cash used in financing activities | (4,306) | (11,945) |
| Increase in cash and cash equivalents | 4,409 | 4,047 |
| Cash and cash equivalents at 1 April | (12,797) | (19,283) |
| Cash and cash equivalents at 30 September | (8,388) | (15,236) |
| Analysis of balances of cash and cash equivalents: | | |
| Bank balances and cash | 305 | 656 |
| Bank overdrafts, secured | (6,860) | (14,004) |
| Trust receipts loans | (1,833) | (1,888) |
| | (8,388) | (15,236) |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2005*

| | Unaudited | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve | Statutory surplus reserve | Exchange reserve | Revaluation reserve | Retained earnings | Sub-total | Minority interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2005 | 18,000 | 12,667 | (243) | 534 | 20 | 1,330 | 43,247 | 75,555 | 975 | 76,530 |
| Disposal of a subsidiary | – | – | – | – | – | – | 201 | 201 | (879) | (678) |
| (Loss)/profit for the period | – | – | – | – | – | – | (14,698) | (14,698) | 854 | (13,844) |
| At 30 September 2005 | 18,000 | 12,667 | (243) | 534 | 20 | 1,330 | 28,750 | 61,058 | 950 | 62,008 |
| *For the six months ended 30 September 2004* | | | | | | | | | | |
| At 1 April 2004 | 18,000 | 12,667 | (243) | 534 | 20 | 2,203 | 43,334 | 76,515 | 612 | 77,127 |
| Profit for the period | – | – | – | – | – | – | 442 | 442 | 325 | 767 |
| At 30 September 2004 | 18,000 | 12,667 | (243) | 534 | 20 | 2,203 | 43,776 | 76,957 | 937 | 77,894 |

## NOTES TO CONDENSED ACCOUNTS

### 1. Organisation

New Spring Holdings Limited (the "Company") was incorporated in the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 25 August 2005, Automatic Result Limited ("Automatic Result") entered into a sale and purchase agreement with Mr. Ng Man Chan ("Mr. Ng") (the then controlling shareholder and chairman of the Company) and Fortune Gold Developments Limited (the then ultimate holding company of the Company which is beneficially owned by Mr. Ng). Pursuant to the aforesaid sale and purchase agreement, which was completed on 13 September 2005, Automatic Result becomes the holder of 95,000,000 shares of the Company, representing approximately 52.78% of the total issued share capital of the Company.

Pursuant to the Hong Kong Code on Takeovers and Mergers, Automatic Result made an unconditional cash offer to acquire all the issued shares of the Company not already owned by Automatic Result and parties acting in convert with it. Upon the close of the cash offer on 13 October 2005, Automatic Result held in aggregate 95,000,000 shares in the Company, representing approximately 52.78% of the issued share capital of the Company.

Accordingly, Automatic Result, which is beneficially owned by Mr. Tong Kit Shing ("Mr. Tong"), thereafter becomes the ultimate holding company of the Company. Mr. Tong was appointed as an executive director on 22 September 2005, and was elected as Chairman on 14 October 2005 and assumed effective control of the Company's management with effect from that date.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and trading of paper gift items, packaging and promotional products in Hong Kong and in the People's Republic of China ("PRC").

### 2. Basis of preparation and principal accounting policies

The unaudited condensed consolidated financial statements have been prepared in compliance with Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005 except as described in note 3 below.

**3. Impact of new Hong Kong Financial Reporting Standards**

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) which are effective for accounting periods beginning on or after 1 January 2005.

The major changes in accounting policies upon the adoption of these HKFRSs and the application of the relevant transitional provisions are summarised as follows:

(a) The adoption of HKAS 1 has resulted in a change in the presentation of minority interests, which are now shown within equity. On the face of the consolidated profit and loss account, minority interests are presented as an allocation of the total profit or loss for the period. This change in presentation has been applied retrospectively.

(b) The adoption of HKFRS 3 has resulted in a change in the accounting policy relating to goodwill.

Previously, goodwill arising on acquisition of subsidiaries prior to 1 January 2001 was held in reserves, and would be charged to the consolidated profit and loss account at the time of disposal of the relevant subsidiary, or at such time as the goodwill was determined to be impaired. Goodwill arising on acquisition of subsidiaries after 1 January 2001 was capitalised and amortised on a straight line basis over its useful economic life.

With effect from 1 January 2005, positive goodwill will not be amortised. Positive goodwill is subject to impairment test and impairment losses are recognized, if any. This new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements in HKFRS 3. As a result, comparative figures have not been restated.

The carrying amount of negative goodwill previously recognized is no longer recognized and is credited to deficit in reserve.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the gain or loss on disposal.

The effect of the changes in the accounting policies described above is a decrease in amortisation of goodwill of approximately HK$1,308,000 for the period.

Save as disclosed above, other new HKFRSs and HKASs adopted have no material impact on the 2005 Interim Report.

**4. Segment information**

*Primary reporting format – business segments*

The Group is principally engaged in the manufacturing and trading of packaging products, paper gifts items and promotional products in Hong Kong and the PRC.

An analysis of the Group's turnover and results for the period by business segments is as follows:

| | Unaudited Six months ended 30 September 2005 HK$'000 | | | |
|---|---|---|---|---|
| | Packaging Products | Paper Gifts Items | Promotional Products | Group |
| Turnover | 26,557 | 10,668 | 21,381 | 58,606 |
| Segment results | 5,436 | 1,705 | 4,436 | 11,577 |
| Unallocated income | | | | 832 |
| Unallocated costs | | | | (25,982) |
| Gain on disposal of a subsidiary | | | | 1,095 |
| Operating (loss) | | | | (12,478) |
| Finance costs | | | | (2,220) |
| (Loss) before taxation | | | | (14,698) |
| Taxation | | | | 0 |
| (Loss) for the period | | | | (14,698) |

| | Unaudited Six months ended 30 September 2004 HK$'000 | | | |
|---|---|---|---|---|
| | Packaging Products | Paper Gifts Items | Promotional Products | Group |
| Turnover | 38,446 | 10,266 | 34,761 | 83,473 |
| Segment results | 8,305 | 1,598 | 7,218 | 17,121 |
| Unallocated income | | | | 1,244 |
| Unallocated costs | | | | (14,899) |
| Operating profit | | | | 3,466 |
| Finance costs | | | | (2,656) |
| Profit before taxation | | | | 810 |
| Taxation | | | | (43) |
| Profit for the period | | | | 767 |

There are no sales or other transactions between the business segments. Unallocated costs represent corporate expenses.

**5. Operating (loss)/profit**

Operating (loss)/profit is stated after the following:

| | Unaudited Six months ended 30 September 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| After crediting: | | |
| Gain on disposal of a subsidiary | 1,095 | – |
| After charging: | | |
| Cost of inventories sold | 47,029 | 66,352 |
| Depreciation of fixed assets | | |
| – owned assets | 3,050 | 3,855 |
| – assets held under finance leases | 1,898 | 1,758 |
| Amortisation of goodwill | – | 1,308 |
| Provision for doubtful debts | 8,774 | 1,570 |

**6. Staff costs**

| | Unaudited Six months ended 30 September 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Wages and salaries | 2,608 | 6,615 |
| Pension costs – defined contribution plans | 93 | 229 |
| | 2,701 | 6,844 |

**7. Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the six months ended 30 September 2005. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

A subsidiary of the Company established in the PRC is subject to PRC Enterprise Income Tax ("EIT") on the taxable income as reported in its PRC statutory financial statements adjusted in accordance with relevant income tax laws. The applicable EIT rate is 33%. However, the subsidiary has tax privileges granted by the PRC Government that it is entitled to full exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous years. No EIT is payable by the subsidiary as it has no taxable income for the period and is still in its tax exemption period.

The amount of taxation (credited)/charged to the condensed profit and loss account represents:

| | Unaudited Six months ended 30 September 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Hong Kong profits tax | 0 | 47 |
| Deferred taxation *(note 14)* | 0 | (4) |
| | 0 | 43 |

**8. (Loss)/Earnings per share**

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to equity holders of the Company for the period under review of approximately HK$14,700,000 (for the six months ended 30 September 2004: HK$442,000 profit) and of 180,000,000 shares (2004: 180,000,000 shares) in issue during the period under review.

No diluted earnings per share is presented as there are no dilutive potential ordinary shares during the period under review.

**9. Capital expenditure**

| | Unaudited | |
|---|---|---|
| | **Goodwill** | **Property, plant and equipment** |
| | *HK$'000* | *HK$'000* |
| Opening net book amount at 1 April 2005 | 6,538 | 80,839 |
| Additions | – | 140 |
| Disposals | – | (1,026) |
| Disposal of a subsidiary | – | (3,501) |
| Depreciation charge *(note 5)* | – | (4,948) |
| Closing net book amount at 30 September 2005 | 6,538 | 71,504 |

**10. Trade receivables**

The ageing analysis of trade receivables (net of provision for doubtful debts) is as follows:

| | **Unaudited 30 September 2005** | **Audited 31 March 2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current | 6,908 | 11,731 |
| 30 – 60 days | 8,807 | 2,567 |
| 61 – 90 days | 6,018 | 3,335 |
| 91 days to 180 days | 6,948 | 5,669 |
| Over 180 days | 5,341 | 8,694 |
| | 34,022 | 31,996 |

Customers are generally granted with credit terms of 30 to 90 days. Longer payment terms are granted to those customers which have good payment history and long-term business relationship with the Group.

**11. Trade payables**

The ageing analysis of trade payables is as follows:

| | **Unaudited 30 September 2005** | **Audited 31 March 2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current – 30 days | 3,169 | 4,669 |
| 31 – 60 days | 2,971 | 2,023 |
| 61 – 90 days | 3,707 | 2,206 |
| Over 90 days | 19,197 | 24,459 |
| | 29,044 | 33,357 |

**12. Borrowings**

| | Unaudited 30 September 2005 HK$'000 | Audited 31 March 2005 HK$'000 |
|---|---|---|
| Bank loans, secured | 19,778 | 17,712 |
| Other loans, secured | 23,179 | 9,000 |
| Other loans, unsecured | 2,718 | – |
| Trust receipt loans | 1,833 | 1,960 |
| Obligations under finance leases | 4,446 | 13,481 |
| | 51,954 | 42,153 |
| Less: Amounts due within one year and year and shown under current liabilities | (26,053) | (35,077) |
| | 25,901 | 7,076 |

At 30 September 2005, the Group's secured bank loans (excluding finance lease liabilities) were repayable as follows:

| | Unaudited 30 September 2005 HK$'000 | Audited 31 March 2005 HK$'000 |
|---|---|---|
| Within one year | 17,315 | 13,613 |
| More than one year but within two years | 987 | 2,238 |
| More than two years but within five years | 1,476 | 1,861 |
| More than five years | – | – |
| | 19,778 | 17,712 |

**13. Share capital**

| | Unaudited 30 September 2005 HK$'000 | Audited 31 March 2005 HK$'000 |
|---|---|---|
| *Authorised:* | | |
| 2,000,000,000 ordinary shares of HK$0.1 each | 200,000 | 200,000 |
| *Issued and fully paid:* | | |
| 180,000,000 ordinary shares of HK$0.1 each | 18,000 | 18,000 |

**14. Deferred taxation**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5%.

The movement on the deferred tax liabilities is as follows:

| | **Unaudited Six months ended 30 September 2005** | **Audited Year ended 31 March 2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At the beginning of the period/year | 9,961 | 10,149 |
| Deferred taxation (credited)/charged to consolidated profit and loss account *(note 7)* | – | (188) |
| Disposal of a subsidiary | (350) | – |
| At the end of the period/year | 9,611 | 9,961 |

Deferred tax assets are recognised for the carryforward of unused tax loss to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The movement on the deferred tax assets is as follows:

| | **Unaudited Six months ended 30 September 2005** | **Audited Year ended 31 March 2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At the beginning of the period/year | (139) | (315) |
| Deferred taxation (credited)/charged to consolidated profit and loss account *(note 7)* | – | 176 |
| At the end of the period/year | (139) | (139) |

**15. Contingent liabilities**

At 30 September 2005, the Group had no contingent liabilities in respect of discounted bills with recourse (At 31 March 2005: HK$35,989,000).

**16. Commitments under operating leases**

At 30 September 2005, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | **Unaudited 30 September 2005** | **Audited 31 March 2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | 1,152 | 1,205 |
| Later than one year but not later than five years | 387 | 532 |
| | 1,539 | 1,737 |

**17. Capital commitments**

At 30 September 2005, the Group had no capital commitments in respect of purchase of plant and equipment (At 31 March 2005: HK$2,050,000).

**18. Related party transactions**

Significant related party transactions during the period, which were carried out in the normal course of the Group's business with the following companies in which certain executive directors of the Company who resigned on 13 October 2005 have beneficial interest, charging at prices mutually agreed during the period under review are as follows:

| | | Unaudited Six month ended 30 September | |
|---|---|---|---|
| | | **2005** | **2004** |
| | *Note* | *HK$'000* | *HK$'000* |
| Interest income | | | |
| Beautiking Investments Limited | (i) | 35 | 12 |
| Rental paid | | | |
| Beaumax Company Limited | (ii) | 114 | 114 |
| Beautiking Investments Limited | (iii), (iv) & (v) | 192 | 252 |
| Glory Motion Company Limited | (iii) | 138 | 138 |

*Notes:*

(i) Amount due from Beautiking Investments Limited was unsecured and interest-bearing at 12% per annum which was charged at market rates.

(ii) One of the subsidiaries, Sun Hip Fung (JF) Printing Products Company Limited, has entered into a lease agreement with Beaumax Company Limited, to lease office space for a period of 2 years commencing 1 February 2003 at a monthly rental of HK$19,000. The lease agreement was renewed for a period of two years commencing 1 February 2005 at a monthly rental of HK$19,000. The lease was entered into on normal commercial terms.

(iii) One of the subsidiaries, New Spring Group Company Limited, has entered into lease agreements with Beautiking Investments Limited and Glory Motion Company Limited to lease office spaces for a period of 2 years commencing 1 February 2003 and 1 July 2003 at a monthly rental of HK$22,000 and HK$23,000 respectively. The lease agreement with Beautiking Investments Limited was renewed for a period of two years commencing 1 February 2005 at a monthly rental of HK$22,000. The leases were entered into on normal commercial terms.

(iv) One of the subsidiaries, New Spring Label & Packaging Limited, has entered into a lease agreement with Beautiking Investments Limited to lease office spaces for a period of 2 years commencing 1 April 2004 at a monthly rental of HK$10,000. The lease was entered into on normal commercial terms.

(v) One of the subsidiaries, Visual Products Limited, has entered into a lease agreement with Beautiking Investments Limited to lease office spaces for a period of 2 years commencing 1 April 2004 at monthly rental of HK$10,000. The lease was entered into on normal commercial terms.

**19. Interim dividend**

The Directors do not recommend the payment of an interim dividend for the period under review (for the six months ended 30 September 2004: Nil).

## 5. INDEBTEDNESS

### Borrowings

As at the close of business on 31 March 2006, being the latest practicable date for the purpose of this indebtedness statement, the Group had the following outstanding bank and other borrowings:

(a) secured bank overdrafts of approximately HK$8.4 million, which were repayable within one year;

(b) secured bank loans of approximately HK$11.4 million, of which approximately HK$3.7 million was repayable within one year, approximately 4.1 million was repayable after one year but within two years, and approximately HK$3.6 million was repayable after two years but within five years;

(c) obligations under finance leases of approximately HK$0.3 million, of which approximately HK$0.1 million was repayable within one year, approximately HK$0.1 million was repayable after one year but within two years and approximately HK$0.1 million was repayable after two years but within five years;

(d) loan from a former director of approximately HK$3 million, which was repayable after one year but within two years;

(e) loan from an existing director of approximately HK$1.5 million, which was repayable within one year;

(f) unsecured loans of approximately HK$2.2 million from the companies controlled by a former director, which were repayable within one year;

(g) secured other loans of approximately HK$29.2 million, of which approximately HK$6 million was repayable within one year and approximately HK$23.2 million was repayable after two years but within five years;

(h) unsecured other loans of approximately HK$0.4 million, which were repayable within one year;

(i) bills payable of approximately HK$3.4 million, which was repayable within one year; and

(j) loan from a shareholder of the Group of approximately HK$1.5 million, which was repayable within one year.

**Securities and guarantees**

The details of the securities and guarantees relating to the Group's borrowings were set out as follows:

(a) bank overdrafts of approximately HK$1.2 million were secured by charges over the Group's bank deposits of approximately HK$1.0 million; and personal guarantee for HK$6 million provided by a former director, another bank overdrafts of approximately HK$7.2 million were secured by charges over the Group's bank deposits of approximately HK$13 million, and unlimited personal guarantees provided by former directors;

(b) bank loans were secured by charges over the Group's bank deposits of approximately HK$13 million and unlimited personal guarantee provided by former directors;

(c) other loans of approximately HK$23.2 million were secured by first charges over the Group's plant and machinery with an aggregate net book value of approximately HK$57.1 million;

(d) other loans of approximately HK$6.0 million were secured by fixed charges over certain of the Group's plant and machinery and floating charges over the Group's trade receivables, and certain equity securities of former ultimate holding company; and

(e) loan from the former director of approximately HK$3 million was secured by a property located in Hong Kong owned by another former director.

**Disclaimer**

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding, at the close of business on 31 March 2006, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, other loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, debentures, mortgages, charges, guarantees or other material contingent liabilities.

**No material change**

The Directors have confirmed that there had not been any material change in the indebtedness and contingent liabilities of the Group since 31 March 2006.

## 6. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position or prospects of the Group since 31 March 2005, the date to which the latest published audited financial statements of the Company were made up.

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, certified Public Accountants, Hong Kong. As described in the section headed "Documents for inspection" in Appendix V, a copy of the following report is available for inspection.*

CCIF

**CCIF CPA LIMITED**
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

19 May 2006

The Directors
Uni-Bio Science Group Limited
Room 2302, 23/F
Lippo Centre Tower II
89 Queensway
Admiralty
Hong Kong

Dear Sirs,

**INTRODUCTION**

We set out below our audit report on the financial information relating to Figures Up Trading Limited ("Figures Up") and its subsidiaries, (hereinafter collectively referred to as the "FUTL Group") including the balance sheets as at 31 December 2003, 2004 and 2005, the consolidated balance sheets as at 31 December 2003, 2004 and 2005, the consolidated income statements, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2003, 2004 and 2005 (the "Relevant Periods"), and the notes thereto (the "Financial Information"), for inclusion in the circular of Uni-Bio Science Group Limited (the "Company") dated 19 May 2006 (the "Circular") in connection with the proposed acquisition of the 100% equity interest in Figures Up by the Company (the "Acquisition") as described more fully in the section headed "Introduction" in the letter from the Board of Directors contained in the Circular. As at the date of this report, Figures Up was owned by independent third parties.

Figures Up was incorporated in the British Virgin Islands with limited liability pursuant to the International Business Companies Act, Cap. 291 on 12 April 2000. The principal activities of Figures Up Group are sales and distribution of pharmaceutical and healthcare products in the PRC.

As at the date of this report, Figures Up has the following subsidiaries:

| Name of subsidiary | Place and date of incorporation/ establishment | Registered capital | Attributable equity interest held by Figures up | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirectly | |
| Dongguan Tai Li Green Environmental Technology Company Limited ("Dongguan-Tai Li") 東莞太力綠色環保科技有限公司 | People's Republic of China (the "PRC') 25 September 2002 | HK$2,000,000 | 100% | – | Investment holding |
| Donguan Shi Bo Kang Jian Pharmaceutical Technology Co., Limited ("DG-Pharmaceutical") 東莞市博康健醫藥科技有限公司 | The PRC 9 September 2002 | RMB1,000,000 | – | 100% | Sales and distribution of pharmaceutical and healthcare products |

The financial year end date of all companies now comprising the FUTL Group is 31 December.

The statutory financial statements of Dongguan-Tai Li and DG-Pharmaceutical are prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC. The statutory auditors of Dongguan-Tai Li and DG-Pharmaceutical were 東莞市德正會計師事務所, a firm of certified public accountants registered in the PRC, for the years ended 31 December 2003, 2004 and 2005. Adjustments have been made to restate these statutory financial statements to conform with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**BASIS OF PREPARATION**

The Financial Information has been prepared by the directors of Figures Up (the "Directors") based on the audited financial statements of Figures Up for the Relevant Periods (the "Underlying Financial Information").

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS**

The Directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives 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 the Financial Information and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility toward or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have audited the Financial Information of Figures Up for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of Figures Up, 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 Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion, for the purposes of this report, the Financial Information gives a true and fair view of the state of affairs of Figures Up and FUTL Group as at 31 December 2003, 2004 and 2005 and the results and the cash flows for the years ended 31 December 2003, 2004 and 2005 of FUTL Group.

**CONSOLIDATED INCOME STATEMENTS**

*For the years ended 31 December 2003, 2004 and 2005*

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2003** | **2004** | **2005** |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | 3 | 60,030 | 196,351 | 290,247 |
| Cost of sales | | (21,578) | (52,553) | (74,260) |
| Gross profit | | 38,452 | 143,798 | 215,987 |
| Other revenue | 3 | 114 | 402 | 893 |
| Distribution costs | | (20,927) | (63,269) | (93,284) |
| Administrative expenses | | (5,502) | (6,300) | (8,380) |
| Profit before taxation | 4 | 12,137 | 74,631 | 115,216 |
| Income tax | 5(a) | (9,970) | (44,863) | (66,715) |
| Profit for the year | | 2,167 | 29,768 | 48,501 |

**CONSOLIDATED BALANCE SHEETS**

*As at 31 December 2003, 2004 and 2005*

| | | 31 December | | |
|---|---|---|---|---|
| | | **2003** | **2004** | **2005** |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | |
| Fixed assets | 7 | 42,646 | 38,504 | 71,635 |
| **Current assets** | | | | |
| Inventories | 9 | 561 | 1,753 | 541 |
| Trade and other receivables | 10 | 6,814 | 30,905 | 73,481 |
| Cash and cash equivalents | | 22,518 | 111,844 | 151,971 |
| | | 29,893 | 144,502 | 225,993 |
| **Current liabilities** | | | | |
| Trade and other payables | 11 | (33,972) | (106,248) | (193,371) |
| Non-interest bearing borrowings | 14 | – | (14,500) | – |
| Income tax payable | 5(b) | (6,970) | (24,863) | (16,716) |
| | | (40,942) | (145,611) | (210,087) |
| **Net current assets/(liabilities)** | | (11,049) | (1,109) | 15,906 |
| **Total assets less current liabilities** | | 31,597 | 37,395 | 87,541 |
| **Non-current liabilities** | | | | |
| Due to shareholders | 13 | (899) | (1,429) | (3,074) |
| Non-interest bearing borrowings | 14 | (24,500) | – | – |
| | | (25,399) | (1,429) | (3,074) |
| **NET ASSETS** | | 6,198 | 35,966 | 84,467 |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 15 | 1 | 1 | 1 |
| Reserves | 16(a) | 6,197 | 35,965 | 84,466 |
| **TOTAL EQUITY** | | 6,198 | 35,966 | 84,467 |

**BALANCE SHEETS**
*As at 31 December 2003, 2004 and 2005*

| | | 31 December | | |
|---|---|---|---|---|
| | | **2003** | **2004** | **2005** |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | |
| Investments in subsidiaries | 8 | – | 530 | 2,120 |
| **Current assets** | | | | |
| Due from a subsidiary | 12 | 900 | 900 | 900 |
| Cash and cash equivalents | | – | – | 45 |
| | | 900 | 900 | 945 |
| **Current liabilities** | | | | |
| Other payables and accruals | 11 | (29,970) | (88,875) | (175,950) |
| **Net current liabilities** | | (29,070) | (87,975) | (175,005) |
| **Total assets less current liabilities** | | (29,070) | (87,445) | (172,885) |
| **Non-current liabilities** | | | | |
| Due to shareholders | 13 | (899) | (1,429) | (3,074) |
| **NET LIABILITIES** | | (29,969) | (88,874) | (175,959) |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 15 | 1 | 1 | 1 |
| Reserves | 16(b) | (29,970) | (88,875) | (175,960) |
| **TOTAL DEFICIT** | | (29,969) | (88,874) | (175,959) |

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

*For the years ended 31 December 2003, 2004 and 2005*

| | 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Total equity at the beginning of year | 4,031 | 6,198 | 35,966 |
| Net profit for the year | 2,167 | 29,768 | 48,501 |
| Total equity at the end of year | 6,198 | 35,966 | 84,467 |

## CONSOLIDATED CASH FLOW STATEMENTS

*For the years ended 31 December 2003, 2004 and 2005*

| | 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Operating activities** | | | |
| Profit from ordinary activities before taxation | 12,137 | 74,631 | 115,216 |
| Adjustments for: | | | |
| Depreciation | 3,257 | 4,142 | 5,899 |
| Interest income | (114) | (402) | (893) |
| **Operating profit before changes in working capital** | 15,280 | 78,371 | 120,222 |
| (Increase)/decrease in inventories | 348 | (1,192) | 1,212 |
| (Increase)/decrease in trade and other receivables | 7,581 | (24,091) | (42,576) |
| Increase in trade and other payables | 8,116 | 72,276 | 87,123 |
| **Cash generated from operations** | 31,325 | 125,364 | 165,981 |
| **Tax paid** | | | |
| PRC enterprise income tax paid | (9,737) | (26,970) | (74,862) |
| **Net cash from operating activities** | 21,588 | 98,394 | 91,119 |
| **Investing activities** | | | |
| Payment for purchase of fixed assets | (45,812) | – | (39,030) |
| Interest received | 114 | 402 | 893 |
| **Net cash from/(used in) investing activities** | (45,698) | 402 | (38,137) |
| **Financing activities** | | | |
| Increase in amount due to shareholders | – | 530 | 1,645 |
| Increase/(decrease) in non-interest bearing borrowings | 19,500 | (10,000) | (14,500) |
| **Net cash from/(used in) financing activities** | 19,500 | (9,470) | (12,855) |
| **Increase/(decrease) in cash and cash equivalents** | (4,610) | 89,326 | 40,127 |
| **Cash and cash equivalents at I January** | 27,128 | 22,518 | 111,844 |
| **Cash and cash equivalents at 31 December** | 22,518 | 111,844 | 151,971 |

## NOTES ON THE FINANCIAL STATEMENTS

*(Expressed in Renminbi)*

**1. BACKGROUND**

Figures Up Trading Limited ("Figures Up") was incorporated in the British Virgin Islands on 12 April 2000 with authorised capital of US$50,000 and paid up capital of US$100. The principal activities of the Company and its subsidiaries (collectively referred to as the "FUTL Group") are sales and distribution of pharmaceutical and healthcare products in the PRC. Other particulars of the subsidiaries are set out in note 8 on the financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by FUTL Group is set out below.

In 2004, the HKICPA issued a number of new and revised HKFRS (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. For the purposes of preparing these financial statements, FUTL Group has adopted all these new and revised HKFRSs to all periods presented.

**(b) Basis of preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is historical cost.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**(c) Basis of consolidation**

The consolidated financial statements include the financial statements of Figures Up and its subsidiaries made up to the respective balance sheet dates. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

**(d) Investments in subsidiaries**

A subsidiary is an enterprise controlled by Figures Up. Control exists when Figures Up has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Figures Up's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 2(g)), unless they are classified as held for sale (or included in a disposal group that is classified as held for sale). If it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the investments in subsidiaries are available for sale in their present condition.

Immediately before classification as held for sale, the measurement of the investments in subsidiaries is brought up-to-date in accordance with the above accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the investments in subsidiaries are recognised at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in the income statement.

**(e) Property, plant and equipment**

(i) Property, plant and equipment are stated in the balance sheets at cost less accumulated depreciation (see note 2(f)) and impairment losses (see note 2(g)).

(ii) Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

**(f) Depreciation**

Depreciation is calculated to write off the cost of items of property, plant and equipment on a straight-line basis over their estimated useful lives after deducting the estimated residual value as follows:

| | |
|---|---|
| Plant and machinery | 10 years |
| Furniture and equipment | 5 years |

**(g) Impairment of assets**

*(i) Impairment of trade and other receivables*

Trade and other receivables that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

*(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property, plant and equipment and investments in subsidiaries may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its coverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

**(h) Inventories**

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(i) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(j) Income tax**

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, Figures Up or FUTL Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, Figures Up or FUTL Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(k) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when Figures Up or FUTL Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(l) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(g)), except where the effect of discounting would not be material or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(g)).

**(m) Trade and other payables**

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost where the effect of discounting would be material, in which case they are stated at cost.

**(n) Revenue recognition**

Provided it is probable that the economic benefits will flow to FUTL Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

*(i) Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and rebates.

*(ii) Interest income*

Interest income from bank deposits is recognised as it accrues using the effective interest method.

**(o) Operating leases charges**

Where FUTL Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

**(p) Employee benefits**

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to FUTL Group of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of FUTL Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans in the PRC are recognised as an expense in the income statement as incurred.

**(q) Related parties**

For the purposes of these financial statements, parties are considered to be related to FUTL Group if FUTL Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where FUTL Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of FUTL Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of FUTL Group or of any entity that is a related party of FUTL Group.

**(r) Translation of foreign currencies**

Foreign currency transactions during the year are translated into Renminbi ("RMB") at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

**(s) Segment reporting**

A segment is a distinguishable component of FUTL Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for mort than one period.

Unallocated items comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financial expenses.

### 3. TURNOVER AND OTHER REVENUE

FUTL Group is principally engaged in sales and distribution of pharmaceutical and healthcare products.

Turnover represents sale value of goods sold, less returns, trade discounts and rebates, value-added taxes and other sales taxes. The operations of FUTL Group are predominately conducted in the PRC. Analysis of turnover and other revenue is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | | | |
| Sales of goods | 60,030 | 196,351 | 290,247 |
| Other revenue | | | |
| Bank interest income | 114 | 402 | 893 |
| Total revenue | 60,144 | 196,753 | 291,140 |

### 4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| (a) Staff costs | | | |
| – Salaries and allowances | 1,494 | 1,565 | 1,939 |
| – Contributions to defined contribution retirement plans | 61 | 63 | 77 |
| | 1,555 | 1,628 | 2,016 |
| (b) Other items | | | |
| Cost of inventories | 21,578 | 52,553 | 74,260 |
| Depreciation | 3,257 | 4,142 | 5,899 |
| Operating lease charges in respect of properties | 721 | 721 | 588 |

### 5. TAXATION

a) Taxation in the consolidated income statements represents:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Current tax: | | | |
| PRC enterprise income tax for the year | 9,970 | 44,863 | 66,715 |

Reconciliation between actual tax expense and accounting profit at applicable tax rate:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit before taxation | 12,137 | 74,631 | 115,216 |
| Notional tax on profit before tax, calculated at the rate of 33% | 4,005 | 24,629 | 38,021 |
| Tax effect of non-deductible expenses | 6,091 | 19,586 | 28,894 |
| Others | (126) | 648 | (200) |
| Actual tax expense | 9,970 | 44,863 | 66,715 |

*Note:*

**i) Hong Kong profits tax**

No Hong Kong profits tax has been provided for as FUTL Group did not derive any income subject to Hong Kong profits tax for the years ended 31 December 2003, 2004 and 2005.

**ii) PRC enterprise income tax**

Dongguan Tai Li Green Environmental Technology Company Limited and Dongguan Shi Bo Kang Jian Pharmaceutical Technology Co., Ltd. are subject to PRC enterprise income tax at 33%.

b) Taxation in the consolidated balance sheets represents:

| | FUTL Group At 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Provision for PRC income tax payable for the year | 9,970 | 44,863 | 66,715 |
| Balance of PRC income tax provision relating to prior years | 6,737 | 6,970 | 24,863 |
| | 16,707 | 51,833 | 91,578 |
| PRC income tax paid | (9,737) | (26,970) | (74,862) |
| | 6,970 | 24,863 | 16,716 |

(c) Deferred taxation

FUTL Group and Figures Up have no significant potential deferred tax assets/liabilities for the Relevant Periods and at 31 December 2003, 2004 and 2005.

## 6. DIRECTORS' REMUNERATION

Individual emoluments paid/payable to the directors of Figures Up during the Relevant Periods are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| ***Executive directors*** | | | |
| Wong Kim Kwan | | | |
| – Fees | – | – | – |
| – Salaries and other emoluments | – | – | – |
| – Retirement benefits | – | – | – |
| | – | – | – |
| Hau Cheong Man | | | |
| – Fees | – | – | – |
| – Salaries and other emoluments | – | – | – |
| – Retirement benefits | – | – | – |
| | – | – | – |
| Total | | | |
| – Fees | – | – | – |
| – Salaries and other emoluments | – | – | – |
| – Retirement benefits | – | – | – |
| | – | – | – |

None of the directors has waived or agreed to waive any emoluments during the Relevant Periods.

## 7. FIXED ASSETS

| | FUTL Group | | |
|---|---|---|---|
| | Plant and machinery | Furniture and equipment | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cost: | | | |
| At 1 January 2003 | – | 95 | 95 |
| Additions during the year | 45,787 | 25 | 45,812 |
| At 31 December 2003, 1 January 2004, 31 December 2004 and 1 January 2005 | 45,787 | 120 | 45,907 |
| Additions during the year | 39,030 | – | 39,030 |
| At 31 December 2005 | 84,817 | 120 | 84,937 |
| Accumulated depreciation: | | | |
| At 1 January 2003 | – | 4 | 4 |
| Charge for the year | 3,238 | 19 | 3,257 |
| At 31 December 2003 and 1 January 2004 | 3,238 | 23 | 3,261 |
| Charge for the year | 4,120 | 22 | 4,142 |
| At 31 December 2004 and 1 January 2005 | 7,358 | 45 | 7,403 |
| Charge for the year | 5,877 | 22 | 5,899 |
| At 31 December 2005 | 13,235 | 67 | 13,302 |
| Net book value: | | | |
| At 31 December 2005 | 71,582 | 53 | 71,635 |
| At 31 December 2004 | 38,429 | 75 | 38,504 |
| At 31 December 2003 | 42,549 | 97 | 42,646 |

## 8. INVESTMENTS IN SUBSIDIARIES

| | Figures Up At 31 December 2003 RMB'000 | 2004 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| Unlisted shares, at cost | – | 530 | 2,120 |

| Name of company | Place of incorporation | Particulars of register capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Dongguan Tai Li Green Environmental Technology Company Limited ("Dongguan-Tai Li")# 東莞太力綠色環保科技有限公司 | PRC | HK$2,000,000 | 100% | – | Investment holding |
| Dongguan Shi Bo Kang Jian Pharmaceutical Technology Co., Ltd. ("DG-Pharmaceutical")* 東莞市博康健醫藥科技有限公司 | PRC | RMB1,000,000 | – | 100% | Sales and distribution of pharmaceutical and healthcare products |

\# Dongguan-Tai Li is a foreign owned enterprise established in the PRC with operating period expired on 28 September 2014.

* DG-Pharmaceutical is a limited liability enterprise established in the PRC with operating period expiring on 8 September 2012.

## 9. INVENTORIES

| | FUTL Group At 31 December 2003 RMB'000 | 2004 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| Raw materials | – | 575 | 198 |
| Finished goods | 472 | 592 | 343 |
| Goods in transit | 89 | 586 | – |
| | 561 | 1,753 | 541 |

All inventories are stated at cost.

## 10. TRADE AND OTHER RECEIVABLES

| | FUTL Group At 31 December | | |
|---|---|---|---|
| | 2003 | 2004 | 2005 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 6,694 | 30,790 | 34,044 |
| Rental deposits | 50 | 50 | 23 |
| Other receivables | 70 | 65 | 39,414 |
| | 6,814 | 30,905 | 73,481 |

An ageing analysis of trade receivables is as follows:

| | FUTL Group At 31 December | | |
|---|---|---|---|
| | 2003 | 2004 | 2005 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 30 days | 5,404 | 23,016 | 34,044 |
| Over 1 month but less than 3 months | 1,290 | 7,774 | – |
| | 6,694 | 30,790 | 34,044 |

FUTL Group's credit policy is set out in note 20.

## 11. TRADE AND OTHER PAYABLES

| | FUTL Group At 31 December | | | Figures Up At 31 December | | |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2003 | 2004 | 2005 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 2,121 | 13,096 | 10,666 | – | – | – |
| Other payable and accruals | 31,450 | 92,531 | 181,780 | 29,970 | 88,875 | 175,950 |
| Staff costs payable | 401 | 621 | 925 | – | – | – |
| | 33,972 | 106,248 | 193,371 | 29,970 | 88,875 | 175,950 |

An ageing analysis of trade payables is as follows:

| | FUTL Group At 31 December | | |
|---|---|---|---|
| | 2003 | 2004 | 2005 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 30 days | 2,121 | 6,579 | 8,784 |
| Over 1 month but less than 3 months | – | 4,118 | 1,882 |
| Over 3 months but less than 6 months | – | 2,399 | – |
| | 2,121 | 13,096 | 10,666 |

**12. DUE FROM A SUBSIDIARY**

The amount is unsecured, interest free and repayable on demand.

**13. DUE TO SHAREHOLDERS**

The amount is unsecured, interest free and not repayable within one year.

**14. NON-INTEREST BEARING BORROWINGS**

The amount was unsecured, interest free and repayable in the year of 2005.

**15. SHARE CAPITAL**

| | FUTL Group and Figures Up At 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Authorised: | | | |
| 50,000 ordinary shares of US$1 each | 413 | 413 | 413 |
| Issued and fully paid: | | | |
| 100 ordinary shares of US$1 each | 1 | 1 | 1 |

**16. RESERVES**

**(a) FUTL Group**

| | Surplus reserve | Statutory public welfare fund | Retained profits | Total |
|---|---|---|---|---|
| | *Note (i)* | *Note (ii)* | | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2003 | 1,672 | 836 | 1,522 | 4,030 |
| Net profit for the year | – | – | 2,167 | 2,167 |
| Transfer to reserves | – | 1,012 | (1,012) | – |
| At 31 December 2003 and 1 January 2004 | 1,672 | 1,848 | 2,677 | 6,197 |
| Net profit for the year | – | – | 29,768 | 29,768 |
| Transfer to reserves | – | 4,554 | (4,554) | – |
| At 31 December 2004 and 1 January 2005 | 1,672 | 6,402 | 27,891 | 35,965 |
| Net profit for the year | – | – | 48,501 | 48,501 |
| Transfer to reserves | – | 6,773 | (6,773) | – |
| At 31 December 2005 | 1,672 | 13,175 | 69,619 | 84,466 |

**(b) Figures Up**

| | Accumulated losses *RMB'000* |
|---|---|
| At 1 January 2003 | (11,961) |
| Net loss for the year | (18,009) |
| At 31 December 2003 and 1 January 2004 | (29,970) |
| Net loss for the year | (58,905) |
| At 31 December 2004 and 1 January 2005 | (88,875) |
| Net loss for the year | (87,085) |
| At 31 December 2005 | (175,960) |

(i) Surplus reserve

According to the relevant rules and regulations in the PRC, Dongguan-Tai Li and DG-Pharmaceutical are required to appropriate 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with Accounting Standard for Business Enterprises in the PRC, to a general reserve until the balance of the reserve reaches 50% of their registered capital. Thereafter, any further appropriation can be made at the directors' discretion. The surplus reserve can be utilised to offset prior years' losses, or be utilised for issuance of bonus shares on the condition that the surplus reserve shall be maintained at a minimum of 25% of the registered capital after such issuance.

(ii) Statutory public welfare fund

According to the relevant rules and regulations in the PRC, DG-Pharmaceutical is required to transfer 5% of its after-tax profit (after offsetting prior year losses) to the statutory public welfare fund, based on the PRC statutory financial statements prepared in accordance with Accounting Standard for Business Enterprises in the PRC. This fund can only be utilised on capital items for the collective benefits of the employees of this subsidiary in the PRC. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

**17. SEGMENT REPORTING**

FUTL Group's profits are almost entirely attributable to sales and distribution of pharmaceutical and healthcare products in the PRC. Accordingly, no segmental analysis is provided.

**18. RETIREMENT BENEFITS SCHEMES**

Pursuant to the relevant PRC regulations, PRC subsidiaries of Figures Up are required to make contributions at a percentage of the eligible employees' salaries to defined contribution retirement schemes organized by the relevant Social Security Bureau in respect of the retirement benefit for FUTL Group's employees in the PRC. The employer's contributions vest fully once they are made.

Save as disclosed above, FUTL Group has no other obligation to make payments in respect to retirement benefits of the employees.

The aggregate amounts of employer's contributions by FUTL Group in respect of retirement benefits dealt with in the consolidated income statements for the Relevant Periods are disclosed in note 4 to these financial statements.

**19. OPERATING LEASE COMMITMENTS**

At 31 December 2003, 2004 and 2005, the total future minimum lease payments in respect of rented properties under non-cancellable operating leases are payable as follows:

| | FUTL Group At 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | 721 | 471 | 562 |
| After 1 year but within 5 years | 1,314 | 1,264 | 2,270 |
| After 5 years | 2,808 | 2,387 | 1,544 |
| | 4,843 | 4,122 | 4,376 |

FUTL Group leases a number of properties under operating leases. The leases typically run for an initial period of two to twelve years, with one option to renew the leases when all terms are renegotiated. None of leases includes contingent rentals.

**20. FINANCIAL INSTRUMENTS**

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of FUTL Group's business. These risks are evaluated and monitored by FUTL Group in accordance with the financial management policies and practices described below.

**(i) Credit risk**

FUTL Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 3 months from the date of billing. Debtors with balances that are overdue are required to settle all outstanding balances before any further credit is granted. Normally, FUTL Group does not obtain collateral from customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets.

**(ii) Liquidity risk**

Individual operating entities with FUTL Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's boards when the borrowings exceed certain predetermined levels of authority. FUTL Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

**(iii) Foreign currency risk**

As most of FUTL Group's monetary assets and liabilities are denominated in Renminbi, and FUTL Group conducted its business transactions principally in Renminbi, the exchange rate risk of FUTL Group is not significant and FUTL Group did not employ any financial instruments for hedging purposes.

**21. RELATED PARTY TRANSACTIONS**

Apart from the balances with related parties disclosed in note 13, no significant transactions was entered into between FUTL Group and the related parties in which a director or a shareholder of Figures Up is in a position to exercise significant influence during the year.

Yours faithfully,
**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong
**Chan Wai Dune, Charles**
Practising Certificate Number P00712

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong. As described in the section headed "Documents for inspection" in Appendix V, a copy of the following report is available for inspection.

CCIF

**CCIF CPA LIMITED**

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

19 May 2006

The Directors
Uni-Bio Science Group Limited
Room 2302, 23/F
Lippo Centre Tower II
89 Queensway
Admiralty
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of the Enlarged Group (the Listed Group (as defined herein) together with the FUTL Group (as defined herein)) (the "Unaudited Pro Forma Financial Information") set out on pages 141 to 145 in Appendix IV to the circular of Uni-Bio Science Group Limited (the "Company", and together with its subsidiaries are referred to as the "Listed Group") dated 19 May 2006, which has been prepared by the Company solely for illustrative purposes.

Figures Up Trading Limited ("Figures Up", and together with its subsidiaries are referred to as the "FUTL Group") was incorporated in the British Virgin Islands with limited liability on 12 April 2000 and the FUTL Group is principally engaged in the sales and distribution of pharmaceutical and healthcare products in the PRC (the "Distribution Operations").

The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction and notes to the Unaudited Pro Forma Financial Information of the Enlarged Group.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by HKICPA. Our work consisted primarily of comparing the historical amounts in the Unaudited Pro Forma Financial Information with the financial information of the Listed Group and the FUTL Group as set out in Appendix II and Appendix III respectively, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information. The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the directors' judgements and assumptions, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or result of:

- the Enlarged Group had the proposed acquisition actually completed as at the dates indicated therein; or

- the Enlarged Group at any future date or for any future periods.

**OPINION**

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Listed Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong
**Chan Wai Dune, Charles**
Practising Certificate Number P00712

## (A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma financial information of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared to illustrate the effect of the proposed acquisition (the "Acquisition") of the FUTL Group by Uni-Bio Science Group Limited (the "Company").

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Company's directors, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or result of:

- the Enlarged Group had the Acquisition actually completed as at the dates indicated therein; or

- the Enlarged Group at any future date or for any future periods.

The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based upon the unaudited consolidated balance sheet of the Listed Group as at 30 September 2005, which has been extracted from the interim report of the Company for the six months ended 30 September 2005 and the audited consolidated balance sheet of the FUTL Group as at 31 December 2005 as extracted from the accountants' report set out in Appendix II and III, respectively, to this circular as if the Acquisition has been completed on 30 September 2005.

The unaudited pro forma combined income statement and cash flow statement of the Enlarged Group are prepared based on the audited consolidated income statement and cash flow statement of the Listed Group for the year ended 31 March 2005 as extracted from the annual report of the Company for the year ended 31 March 2005, and the audited consolidated income statement and cash flow statement of the FUTL Group for the year ended 31 December 2005 as extracted from the accountants' report set out in Appendix II and III, respectively, to this circular as if the Acquisition has been completed on 1 April 2004.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based upon the audited and unaudited historical financial information of the Listed Group as set out in Appendix II and the audited historical financial information of the FUTL Group as set out in Appendix III after incorporating the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Listed Group as set out in Appendix II, the financial information of the FUTL Group as set out in Appendix III and other financial information included elsewhere in this circular.

**Unaudited Pro Forma Income Statement of the Enlarged Group**

| | **The Listed Group** | **The FUTL Group** | | **Pro forma adjustments** | | **Pro forma Enlarged Group** |
|---|---|---|---|---|---|---|
| | *HK$'000* | *RMB'000* | *HK$'000* | *HK$'000* | *Note* | *HK$'000* |
| Turnover | 134,270 | 290,247 | 279,084 | – | | 413,354 |
| Cost of sales | (102,610) | (74,260) | (71,404) | – | | (174,014) |
| Gross profit | 31,660 | 215,987 | 207,680 | – | | 239,340 |
| Other revenue | 2,345 | 893 | 859 | – | | 3,204 |
| Distribution Costs | (5,592) | (93,284) | (89,696) | – | | (95,288) |
| Administrative expenses | (23,267) | (8,380) | (8,058) | – | | (31,325) |
| Profit from operations | 5,146 | 115,216 | 110,785 | – | | 115,931 |
| Finance costs | (4,483) | – | – | (6,883) | 2 | (11,366) |
| Profit before taxation | 663 | 115,216 | 110,785 | (6,883) | | 104,565 |
| Income tax | (87) | (66,715) | (64,149) | – | | (64,236) |
| Profit for the year | 576 | 48,501 | 46,636 | (6,883) | | 40,329 |
| Attributable to: | | | | | | |
| Equity shareholders of the Company | (87) | 48,501 | 46,636 | (6,883) | | 39,666 |
| Minority interests | 663 | – | – | – | | 663 |
| | 576 | 48,501 | 46,636 | (6,883) | | 40,329 |

**Unaudited Pro Forma Balance sheet of the Enlarged Group**

| | The Listed Group | The FUTL Group | | Pro forma adjustments | | Pro forma Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *RMB'000* | *HK$'000* | *HK$'000* | *Note* | *HK$'000* |
| Non-current assets | | | | | | |
| Fixed assets | 71,504 | 71,635 | 68,880 | – | | 140,384 |
| Deferred tax assets | 139 | – | – | – | | 139 |
| Goodwill | 6,538 | – | – | 390,782 | *1* | 397,320 |
| | 78,181 | 71,635 | 68,880 | 390,782 | | 537,843 |
| Current assets | | | | | | |
| Inventories | 13,359 | 541 | 520 | – | | 13,879 |
| Trade and other receivables | 65,330 | 73,481 | 70,655 | – | | 135,985 |
| Dividend receivables | 1,100 | – | – | – | | 1,100 |
| Pledged bank deposits | 20,178 | – | – | – | | 20,178 |
| Cash and cash equivalents | 305 | 151,971 | 146,126 | (146,431)* | *1* | – |
| | 100,272 | 225,993 | 217,301 | (146,431) | | 171,142 |
| Current liabilities | | | | | | |
| Trade and other payables | (47,922) | (193,371) | (185,934) | – | | (233,856) |
| Income tax payables | (98) | (16,716) | (16,073) | – | | (16,171) |
| Bank borrowings | (26,053) | – | – | – | | (26,053) |
| Bank overdrafts, secured | (6,860) | – | – | (13,569)* | *1* | (20,429)* |
| | (80,933) | (210,087) | (202,007) | (13,569) | | (296,509) |
| Net current assets/(liabilities) | 19,339 | 15,906 | 15,294 | (160,000) | | (125,367) |
| Total assets less current liabilities | 97,520 | 87,541 | 84,174 | 230,782 | | 412,476 |
| Non-current liabilities | | | | | | |
| Bank borrowings | (25,901) | – | – | – | | (25,901) |
| Deferred tax liabilities | (9,611) | – | – | – | | (9,611) |
| Due to shareholders of FUTL Group | – | (3,074) | (2,956) | – | | (2,956) |
| Convertible bonds | – | – | – | (91,770) | *1* | (91,770) |
| | (35,512) | (3,074) | (2,956) | (91,770) | | (130,238) |
| NET ASSETS | 62,008 | 84,467 | 81,218 | 139,012 | | 282,238 |
| CAPITAL AND RESERVES | | | | | | |
| Share capital | 18,000 | 1 | 1 | 21,999 | *1* | 40,000 |
| Reserves | 43,058 | 84,466 | 81,217 | 117,013 | *1* | 241,288 |
| Total equity attributable to equity shareholders of the Company | 61,058 | 84,467 | 81,218 | 139,012 | | 281,288 |
| Minority interests | 950 | – | – | – | | 950 |
| | 62,008 | 84,467 | 81,218 | 139,012 | | 282,238 |

**Unaudited Pro Forma Condensed Cash Flow Statement of the Enlarged Group**

| | The Listed Group | The FUTL Group | | Pro forma adjustments | | Pro forma Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *RMB'000* | *HK$'000* | *HK$'000* | *Note* | *HK$'000* |
| Cash flows from operating activities | 16,105 | 91,119 | 87,614 | – | | 103,719 |
| Cash flows from investing activities | 7,399 | (38,137) | (36,670) | (364,458) | *1* | (393,729) |
| Cash flows from financing activities | (17,018) | (12,855) | (12,360) | 312,000 | *1* | 299,640 |
| Increase in cash and cash equivalents | 6,486 | 40,127 | 38,584 | (52,458) | | 9,630 |
| Cash and cash equivalents at beginning of the year | (19,283) | 111,844 | 107,542 | (107,542) | | (19,283) |
| Cash and cash equivalents at end of the year | (12,797) | 151,971 | 146,126 | (160,000) | | (9,653) |

*Notes:*

(1) These adjustments represent the elimination of the capital and reserves of the FUTL Group upon completion of the Acquisition for a total consideration of HK$472 million which is to be financed by internal cash resources of approximately HK$160 million, issue of an aggregate of 220 million Shares of the Company at an issue price of HK$0.9 each and issue of the Convertible Bonds of approximately HK$114 million. With reference to the net asset value of the FUTL Group attributable to shareholders of the FUTL Group as at 31 December 2005 of HK$81,218,000, representing share capital of HK$1,000 and reserves of HK$81,217,000, goodwill of HK$390,782,000 arises on the Acquisition.

In accordance with HKAS 32, the liability component and the equity component of the Convertible Bonds should be separately accounted for. The liability component is included in non-current liabilities while the equity component is included in shareholder's equity. Both liability and equity components are stated at fair values. If there are any transaction costs involved, they would usually be allocated to the liability and equity components of the Convertible Bonds based on the proportion of their respective fair value. For the purpose of compiling this unaudited pro forma combined balance sheet of the Enlarged Group, the fair value of the liability component of the Convertible Bonds as at 30 September 2005 is HK$91,770,000 estimated by the Company using the effective interest method and the fair value of the equity component of the Convertible Bonds as at 30 September 2005 is HK$22,230,000 (included in the adjustment to reserves). The final fair value of the liability component of the Convertible Bonds at the Completion Date may be different to the amount of HK$91,770,000 million as at 30 September 2005.

(2) This adjustment represents the estimated interest expenses accrued on the liability component of the Convertible Bonds issued as part of the consideration for the Acquisition as set out in note 1 above, assuming an effective interest rate of 7.5% per annum, which is by reference to Hong Kong Exchange Fund Notes and similar grade corporate bonds as required by the Hong Kong Accounting Standard 39 issued by the Hong Kong Institute of Certified Public Accountants.

(3) Translation of RMB into HK$ is made in the Unaudited Pro Forma Financial Information of the Enlarged Group at the rate of HK$1=RMB1.04.

Remark

* As disclosed in the announcement of the Company dated 15 February 2006 and the circular dated 1 March 2006 issued by the Company to its shareholders relating to (among others) the open offer, the Company raised HK$180 million by issue of 360 million new Shares pursuant to the open offer at a subscription price of HK$0.50 each. The excess of the net proceeds of approximately HK$175.5 million, over the aggregate par value of 360 million Shares issued as a result of the open offer is credited to the share premium account included in the reserves. Therefore, the Group has sufficient cash and cash equivalents to complete the Acquisition. The bank overdrafts represent the utilization of the Group's banking facilities.

## 1 RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular concerning the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular relating to the Group the omission of which would make any statement contained in this circular misleading.

## 2. SHARE CAPITAL

### (a) Share capital

As at the Latest Practicable Date, the authorized and issued share capital of the Company were as follows:

| | | |
|---|---|---|
| *Authorised share capital:* | | *HK$* |
| 2,000,000,000 | ordinary shares of HK$0.10 each | 200,000,000 |
| *Issued and fully paid share capital:* | | *HK$* |
| 540,000,000 | ordinary shares of HK$0.10 each | 54,000,000 |

All the existing Shares rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

### (b) Share options

Save as disclosed in this circular, there were no outstanding option under the Share Option Scheme.

### (c) Convertible securities

Save as disclosed in this circular, the Company has not issued any options, warrants, derivatives or securities convertible or exchangeable into Shares since 31 March 2005, being the date to which the latest published audited consolidated accounts of the Group were made up.

## 3. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company and their respective Associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

| Name of Director | The Company/ Name of associated corporation | Capacity | Number of issued Shares held | Interest in underlying Shares | Total Interest (L) *(Note 1)* | Percentage of the issued share capital of the Company |
|---|---|---|---|---|---|---|
| Tong Kit Shing | The Company | Interest of a controlled corporation *(Note 3)* | 292,058,248 | 120,000,000 *(Note 2)* | 412,058,248 | 76.30% |
| Liu Guoyao | Automatic Result | Interest of a controlled corporation *(Note 3)* | 292,058,248 | 120,000,000 *(Note 2)* | 412,058,248 | 76.30% |

*Notes:*

1. The letter "L" represents the interests in the shares and the underlying shares in the Company or its associated corporation(s).

2. The Shares refer to the maximum number of Shares which may be issued to Automatic Result upon exercise of the Conversion Right attaching to the Convertible Bonds agreed to be subscribed for by Automatic Result pursuant to the Subscription Agreement (subject to the approval by Independent Shareholders at the EGM) at the conversion price of HK$0.95 per Share.

3. The Shares are held by Automatic Result, the entire issued share capital of which is solely and beneficially owned by Mr Tong Kit Shing. Mr Tong (being the sole shareholder of Automatic Result) and Mr Liu Guoyao (being the sole director of Automatic Result) are deemed to be interested in all the interest in Shares held by Automatic Result by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under the SFO) or were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## 4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, as far as is known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, or who were, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

| Name of Shareholder | Capacity | Number of issued Shares held | Interest in underlying Shares | Total interest | Percentage of the issued share capital of the Company |
|---|---|---|---|---|---|
| Automatic Result *(Note 1)* | Beneficial owner | 292,058,248 | 120,000,000 *(Note 2)* | 412,058,248 | 76.30% |

*Notes:*

1. The entire issued share capital of Automatic Result is solely and beneficially owned by Mr Tong Kit Shing whereas Mr Liu Guoyao is the sole director of Automatic Result. Both Mr Tong and Mr Liu are deemed to be interested in all the interest in Shares held by Automatic Result by virtue of the SFO.

2. The Shares under the column "interest in underlying Shares" refer to the maximum number of Shares which may be issued to Automatic Result upon exercise of the Conversion Right attaching to the Convertible Bonds agreed to be subscribe for by Automatic Result pursuant to the Subscription Agreement (subject to the approval by the Independent Shareholders at the EGM) at the conversion price of HK$0.95 per Share.

Save as disclosed herein, there is no person known to the Directors, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the normal value of any class of Shares carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

## 5. OTHER DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been since 31 March 2005, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

(b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 March 2005, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group save for:

(i) the underwriting agreement dated 14 February 2006 made between the Company and Automatic Result (as varied, modified and supplemented by a supplemental agreement dated 28 February 2006 entered into between the same parties) (together, the "**Underwriting Agreement**") in relation to the issue by the Company of 360,000,000 new Shares by way of an open offer as disclosed in the announcement of the Company dated 15 February 2006;

(ii) the Acquisition Agreement; and

(iii) the Subscription Agreement (constituting the Connected Transaction).

As disclosed in this circular, Messrs Tong Kit Shing and Liu Guoyao, each being an executive Director, is the sole shareholder and sole director respectively of Automatic Result and are considered as interested in each of the transactions contemplated under the Underwriting Agreement, the Acquisition Agreement and the Subscription Agreement.

## 6. DIRECTORS' SERVICE AGREEMENTS

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or terminable by the employer within one year, without payment of compensation (other than statutory compensation) between any of the Directors with any member of the Group.

## 7. SECRETARY AND QUALIFIED ACCOUNTANT

The secretary and qualified accountant of the Company is Mr Hong Kin Choy, a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants (practicing).

## 8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice which are contained in this circular:

| **Name** | **Qualification** |
|---|---|
| CCIF | Certified Public Accountants |
| AsiaVest | A licensed corporation under the SFO to carry out types 4, 6 and 9 regulated activities (advising on securities, advising on corporate finance and asset management) under the SFO. |

As at the Latest Practicable Date, neither CCIF nor AsiaVest had any beneficial interest in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and has any interest, either directly or indirectly, in any assets which have been, since 31 March 2005, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of CCIF and AsiaVest has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter/report and/or references to its name, in the form and context in which it respectively appears.

## 9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against either the Company or any of its subsidiaries.

## 10. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 March 2005, being the date to which the latest audited consolidated financial statements of the Group were made up.

## 11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this circular, which are or may be material:

(i) the Underwriting Agreement;
(ii) the Acquisition Agreement;
(iii) the Subscription Agreement (constituting the Connected Transaction).

Save as disclosed, no other material contract (not being contract entered into in the ordinary course of business) has been entered into by any member of the Group within the two years immediately preceding the issue of this circular.

## 12. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

## 13. CORPORATE INFORMATION

| | |
|---|---|
| **Registered office** | P. O. Box 2681 GT<br>Century Yard<br>Cricket Square<br>Hutchins Drive<br>George Town<br>Grand Cayman<br>British West Indies |
| **Head office and principal place of business in Hong Kong** | Room 2302, 23rd Floor<br>Lippo Centre Tower II<br>89 Queensway<br>Admiralty<br>Hong Kong |
| **Company secretary and qualified accountant** | Mr Hong Kin Choy *FCCA, CPA (practising)*<br>19A, Wai Wah Court<br>12Q Smithfield Road, Hong Kong |

| | |
|---|---|
| **Authorised representatives** | Mr Tong Kit Shing<br>3B, Evergreen Garden<br>No. 18 Shouson Hill Road<br>Hong Kong |
| | Mr Liu Guo Yao<br>Room 2302, 23rd Floor<br>Lippo Centre Tower II<br>89 Queensway<br>Admiralty, Hong Kong |
| **Auditors** | CCIF CPA Limited<br>Certified Public Accounts<br>37/F, Hennessy Centre<br>500 Hennessy Road<br>Causeway Bay<br>Hong Kong |
| **Financial adviser to the Company** | REXCAPITAL (Hong Kong) Limited<br>34/F., COSCO Tower<br>Grand Millennium Plaza<br>183 Queen's Road Central<br>Hong Kong |
| **Legal adviser to the Company as to Hong Kong law** | Chiu & Partners<br>41st Floor, Jardine House<br>1 Connaught Place<br>Hong Kong |
| **Principal share registrar and transfer office** | Bank of Bermuda (Cayman) Limited<br>3/F, 36C Bermuda House<br>P.O. Box 513 G..T.<br>Dr, Roy's Drive, George Town<br>Grand Cayman, Cayman Islands<br>British West Indies |
| **Hong Kong branch share registrar and transfer office** | Abacus Share Registrars Limited<br>26th Floor, Tesbury Centre<br>28 Queen's Road East<br>Wanchai<br>Hong Kong |

| | |
|---|---|
| **Principal Bankers** | Bank of China (Hong Kong) Limited |
| | DBS Bank (Hong Kong) Limited |
| | The Hongkong and Shanghai Banking Corporation Limited |
| | Fubon Bank (Hong Kong) Limited |
| | Bank of Communications Co., Ltd., Hong Kong Branch |

## 14. MISCELLANEOUS

(a) Save as disclosed in this circular, none of the Directors, CCIF nor AsiaVest has, or had any direct or indirect in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company or any member of the Group since 31 March 2005, being the date to which the latest published audited accounts of the Company were made up.

(b) The registered office of Automatic Result is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(c) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

### 15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal office of the Company at Room 2302, 23rd Floor, Lippo Centre Tower II, 89 Queensway, Admiralty, Hong Kong from the date of this circular up to and including 6 June 2006 and at the EGM (and any adjournment thereof):

(a) this circular;

(b) the memorandum of association and articles of association of the Company;

(c) the annual report of the Company for each of the two financial years ended 31 March 2005;

(d) the letter from the Independent Board Committee, the text of which is set out on page 40 of this circular;

(e) the letter from AsiaVest to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 41 to 65 of this circular;

(f) the material contracts (including the Underwriting Agreement, the Acquisition Agreement and the Subscription Agreement (constituting the Connected Transaction)) referred to under the paragraph headed "Material Contracts" in this Appendix;

(g) the audited financial statements of the Company for the years ended 31 March 2004 and 31 March 2005;

(h) the report issued by CCIF in connection with the financial information of the FUTL Group set out in Appendix III to this circular;

(i) the report issued by CCIF in connection with the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular; and

(j) the written consents referred to under the section headed "Experts and Consents" in this Appendix.

聯康生物科技集團有限公司*

Uni-Bio Science Group Limited

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 690)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Uni-Bio Science Group Limited (the "**Company**") will be held at 11:00 a.m. on Tuesday, 6 June 2006 at Room 2302, 23rd Floor, Lippo Centre Tower II, 89 Queensway Admiralty, Hong Kong, for the purposes of considering and, if thought fit, passing, with or without modification, the following ordinary resolutions:

(1) "**THAT**:

(a) the conditional sale and purchase agreement dated 13 April 2006 (the "**Acquisition Agreement**") (a copy of which marked "A" has been produced to the meeting and initialled by the Chairman for the purpose of identification) made between Liu Cheng Hua, Wong Kim Kwan Kings, Hau Cheong Man, Li Kit Yuk, Chan Siu Ming and Leung Lai Kwan Susanna (together, the "**Vendors**") as vendors and Lelion Holdings Limited (a wholly-owned subsidiary of the Company) (the "**Purchaser**") as purchaser in relation to the proposed acquisition of the entire issued share capital of Figures Up Trading Limited (details of which are set out in the circular of the Company dated 19 May 2006 to its shareholders (the "**Circular**") (a copy of which marked "B" has been produced to the meeting and initialled by the Chairman for the purpose of identification) and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of and permission to deal in the Consideration Shares (as defined below), the directors of the Company (the "**Directors**") (or a duly authorized committee thereof) be and they are hereby authorized to allot and issue an aggregate of up to 220,000,000 new shares (the "**Consideration Shares**") of HK$0.10 par value each in the capital of the Company credited as fully paid at an issue price of HK$0.90 per Consideration Share to the Vendors (in the proportion of their respective entitlements to the consideration of the Acquisition) or as the Vendors may direct at completion of the Acquisition Agreement, and that the Consideration Shares shall, when allotted and issued, rank pari passu in all respects with all other shares of the Company in issue on the date of such allotment and issue;

(c) the Directors (or a duly authorized committee thereof) be and they are hereby authorized to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement or any of the transactions contemplated thereunder and matters contemplated in paragraph (a) of this Resolution No. (1) above and all other matters incidental thereto."

* *for identification purposes only*

(2) “**THAT**:

(a) the creation and issue by the Company of the three-year zero coupon convertible bonds in the aggregate principal amount of HK$114 million (the “**Convertible Bonds**”) convertible into new shares (the “**Shares**”) of HK$0.10 par value each in the capital of the Company on the same terms and conditions (the “**Bond Conditions**”) contained in Schedule 1 to the conditional subscription agreement dated 26 April 2006 (the “**Subscription Agreement**”) (a copy of which marked “C” has been produced to the meeting and initialled by the chairman for the purpose of identification) between the Company and Automatic Result Limited in connection with the subscription by Automatic Result Limited of the Convertible Bonds and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) conditional on the passing of paragraph (a) of this Resolution No. 2 above, the Subscription Agreement and all the transactions contemplated thereunder and all other matters of and incidental thereto or in connection therewith be and are hereby generally and unconditionally approved, ratified and confirmed in all respects and that the directors (the “**Directors**”) of the Company (or a duly authorised committee thereof) be and they are hereby generally and unconditionally authorised to issue the Convertible Bonds on and subject to the terms of the Subscription Agreement, to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in the opinion of the Directors, may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by the Subscription Agreement and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of the Bond Conditions) as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole;

(c) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, such number of new Shares (as defined in paragraph (a) of this Resolution No. (2) above) (the “**Conversion Shares**”) which may fall to be allotted and issued upon the exercise of the conversion right attaching to the Convertible Bonds approved to be issued under paragraph (a) of this Resolution No. (2) above, the Directors (or a duly authorised committee thereof) be and they are hereby generally and specifically authorised to allot and issue such number of Conversion Shares as may be required (or to the extent necessary) on and subject to the terms of the Subscription Agreement and the Bond Conditions.”

(3) "**THAT** conditional on the passing of Resolution Nos. (1) and (2) above, the authority be conferred upon the directors (the "**Directors**") of the Company to allot and issue the Consideration Shares and the Conversion Shares respectively defined under Resolution Nos. (1) and (2) above (the "**Special Mandate**") and such authority shall be in addition to, and shall not prejudice nor revoke the existing general mandate granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 30 August 2005 or such other general or special mandate(s) which may from time to time be granted to the Directors prior to the passing of this Resolution No. (3)."

(4) "**THAT**

(a) subject to paragraph (b) of this Resolution No. (4), the exercise by the directors of the Company during the Relevant Period (as defined below) of all powers of the Company to repurchase shares ("**Shares**") in the capital of the Company on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") or on any other stock exchange on which the Shares may be listed and recognized by the Securities and Futures Commission of Hong Kong ("**SFC**") and the Stock Exchange for such purpose, subject to and in accordance with all applicable laws, rules and regulations of the SFC, and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal value of the Shares which may be repurchased by the Company pursuant to paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal value of the Shares in issue as at the date of passing of this Resolution No. (4) and the authority pursuant to paragraph (a) of this Resolution No. (4) above shall be limited accordingly; and

(c) for the purpose of this Resolution No. (4), "**Relevant Period**" means the period from the passing of this Resolution No. (4) 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 the articles of association of the Company or any applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution No. (4)."

(5) “**THAT**

(a) subject to paragraph (c) of this Resolution No. (5) below, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue or otherwise deal with the unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution No. (5) above shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal value of share capital allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution No. (5) above, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined); or

(ii) the exercise of the subscription rights or conversion under the terms of any warrants or other securities issued by the Company as at the date of passing of this Resolution No. (5) carrying a right to subscribe for or purchase shares in the capital of the Company or otherwise convertible into shares in the capital of the Company; or

(iii) the exercise of the subscription rights under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or other eligible grantees of shares or rights to acquire shares of the Company; or

(iv) any scrip dividend or similar arrangement providing for the allotment of shares in the capital of the Company in lieu of the whole or part of a dividend on shares in accordance with the memorandum and articles of association of the Company,

shall not exceed the aggregate of:

(01) 20% of the aggregate nominal value of the share capital of the Company in issue as at the date of passing of this Resolution No. (5); and

(02) (if the directors of the Company are so authorized by a separate ordinary resolution of the shareholders of the Company) the aggregate nominal value of any share capital of the Company purchased by the Company subsequent to the passing of this Resolution No. (5) (up to a maximum equivalent to 10% of the aggregate nominal value of the share capital of the Company in issue as at the date of passing of this Resolution), and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution No. (5):

"**Relevant Period**" means the period from the passing of this Resolution No. (5) 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 the articles of association of the Company or any applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution No. (5); and

"**Rights Issue**" means an offer of shares open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company 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 recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

(6) "**THAT** the general mandate granted to the directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue or otherwise deal with the unissued shares of the Company pursuant to Resolution No. (5) set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. (4) set out in the notice convening this meeting, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue as at the date of passing of this Resolution."

(7) "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of, and permission to deal in, such number of new shares (the "**Shares**") of HK$0.10 par value each in the capital of the Company which may fall to be allotted and issued pursuant to the exercise of the options which may be granted under the share option scheme adopted by the Company on 22 October 2001 (the "**Share Option Scheme**"), representing 10% of the issued share capital of the Company as at the date on which this Resolution No. (7) is passed, pursuant to Clause 9.2 of the Share Option Scheme:

(a) approval be and is hereby granted for refreshing the 10 per cent. mandate under the Share Option Scheme (the "**Refreshed Scheme Mandate**") provided that the total number of shares in the Company which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as refreshed hereby shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this Resolution (7) (options previously granted under the Share Option Scheme and any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) shall not be counted for the purpose of calculating the Refreshed Scheme Mandate); and

(b) the directors of the Company (or a duly authorised committee thereof) be and they are hereby authorised (i) at their absolute discretion, to grant options to subscribe for shares in the Company within the Refreshed Scheme Mandate in accordance with the rules of the Share Option Scheme and (ii) to allot, issue and deal with shares in the Company pursuant to the exercise of options granted under the Share Option Scheme within the Refreshed Scheme Mandate."

By Order of the Board
**Uni-Bio Science Group Limited**
**Tong Kit Shing**
*Chairman*

Hong Kong, 19 May 2006

*Registered office:*
P. O. Box 2681 GT
Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
British West Indies

*Head office and principal place of business in Hong Kong:*
Room 2302, 23rd Floor
Lippo Centre Tower II
89 Queensway, Admiralty
Hong Kong

*Notes:*

1 A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy or, if he is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith.

2 To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited with the Company's Hong Kong Branch Registrars, Abacus Share Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. Completion and return of the accompanying form of proxy will not preclude members of the Company from attending and voting in person at the meeting or any adjournment thereof should they so wish.

As at the date of this circular, the executive Directors are Mr Tong Kit Shing (Chairman), Mr Liu Guoyao (Chief Executive Officer) and Mr Cheng Wai Man; the independent non-executive Directors are Mr Zhou Yao Ming, Mr Lin Jian and Mr So Yin Wai.