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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Wang On Group Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**WANG ON GROUP LIMITED**

**( 宏 安 集 團 有 限 公 司 )\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1222)**

**PROPOSALS FOR THE GRANT OF THE  
NEW ISSUE MANDATE AND THE REPURCHASE MANDATE,  
RE-ELECTION OF DIRECTORS,  
AMENDMENT TO THE BYE-LAWS,  
THE BONUS ISSUE OF SHARES  
AND THE REFRESHMENT OF THE SCHEME MANDATE LIMIT**

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A notice convening the annual general meeting of the Company to be held at Garden Room A & B, 2nd Floor, Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui, Kowloon, Hong Kong on 12 August 2005 at 10:45 a.m. is set out in the annual report of the Company sent together with this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

\* *For identification purposes only*

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## DEFINITIONS

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*In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:*

“AGM”	the annual general meeting of the Company to be held at Garden Room A & B, 2nd Floor, Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui, Kowloon, Hong Kong on 12 August 2005 at 10:45 a.m.
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Bonus Issue”	the proposed conditional issue of Bonus Shares on the basis of one Bonus Share for every five existing Shares held on the Record Date upon and subject to the terms and conditions set out in this circular
“Bonus Share(s)”	new Share(s) to be allotted and issued pursuant to the Bonus Issue
“Bye-laws”	the bye-laws of the Company
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Code”	the Hong Kong Code on Takeovers and Mergers
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Wang On Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Convertible Notes”	collectively, two series of convertible redeemable notes, bearing 1% interest payable semi-annually to the holders thereof in an aggregate principal amount of up to HK\$98,620,000 due on the expiry of a period of three years and two and a half-years, respectively, from the date of issue of such notes, particulars of which are set out in the Company’s announcements dated 7, 22 February 2005 and 22 November 2004, respectively
“Directors”	the directors of the Company

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## DEFINITIONS

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“Eligible Person”

means:

(i) (a) any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time) of, or

(b) any individual for the time being seconded to work for,

any member of the Group (as defined in the Share Option Scheme) or any Substantial Shareholder (as defined in the Listing Rules) or any company controlled by a Substantial Shareholder; or

(ii) any holder of any securities issued by any member of the Group or any Substantial Shareholder or any company controlled by a Substantial Shareholders; or

(iii) (a) any business or joint venture partner, contractor, agent or representative of,

(b) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to,

(c) any supplier, producer or licensor of goods or services to,

(d) any customer, licensee (including any sub-licensee) or distributor of goods or services of, or

(e) any landlord or tenant (including any sub-tenant) of,

any member of the Group or any Substantial Shareholder or any company controlled by a Substantial Shareholder;

and, for the purposes of the Share Option Scheme, shall include any company controlled by one or more persons belonging to any of the above classes of participants

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Latest Practicable Date”	14 July 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Issue Mandate”	a general mandate proposed to be granted to the Directors at the AGM to allot, issue and deal with additional Shares up to a maximum of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of the relevant resolution granting the New Issue Mandate
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) and address(es) as shown on the register of members of the Company at the close of business on the Record Date is/are outside Hong Kong
“Record Date”	12 August 2005, being the record date by reference to which entitlements to the final dividend and the Bonus Issue will be determined
“Repurchase Mandate”	a general and unconditional mandate to the Directors to exercise the powers of the Company to repurchase during the prescribed period the Shares up to a maximum of 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing the relevant resolution granting the Repurchase Mandate
“Scheme Mandate Limit”	the limit imposed under rule 4(A) of the rules of the Share Option Scheme on the maximum number of Shares issuable upon the exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company, being 10% of the Shares in issue as at the date of the passing of the relevant resolution for the approval of the Share Option Scheme

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## DEFINITIONS

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“Scheme Period”	the period commencing on the date on which the Share Option Scheme was adopted by Shareholders and expiring at the close of business on the day immediately preceding the tenth anniversary thereof
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 3 May 2002
“Share Options”	the options to subscribe for Shares granted under the Share Option Scheme
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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## EXPECTED TIMETABLE

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2005

Last date of dealings in Shares cum-entitlements to the final dividend and the Bonus Issue . . . . .	Thursday, 4 August
First day of dealings in Shares ex-entitlements to the final dividend and the Bonus Issue . . . . .	Friday, 5 August
Latest time for lodging transfers of Shares to qualify for entitlements to the final dividend and the Bonus Issue . . . . .	4:00 p.m. on Monday, 8 August
Closure of register of members (both days inclusive) . . . . .	Tuesday, 9 August to Friday, 12 August
Latest time for lodging forms of proxy for the AGM . . . . .	10:45 a.m. on Wednesday, 10 August
Record Date for determination of entitlements to the final dividend and the Bonus Issue . . . . .	Friday, 12 August
Date and time of the AGM . . . . .	10:45 a.m. on Friday, 12 August
Register of members reopens . . . . .	Monday, 15 August
Despatch of dividend cheques . . . . .	Friday, 19 August
Despatch of certificates for the Bonus Shares . . . . .	Friday, 19 August
First day of dealings in the Bonus Shares on the Stock Exchange . . . . .	Tuesday, 23 August

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## **RESPONSIBILITY STATEMENT**

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This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

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LETTER FROM THE BOARD

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**WANG ON GROUP LIMITED**

( 宏 安 集 團 有 限 公 司 )\*

(incorporated in Bermuda with limited liability)

*Executive Directors:*

Mr. Tang Ching Ho

(Chairman and Managing Director)

Ms. Yau Yuk Yin

(Deputy Chairman and

Deputy Managing Director)

Mr. Chan Chun Hong, Thomas

*Independent non-executive Directors:*

Dr. Lee Peng Fei, Allen, CBE, JP

Mr. Wong Chun, Justein, MBE, JP

Dr. Siu Yim Kwan, Sidney, S.B. St.J

Mr. Siu Kam Chau

*Registered office:*

Clarendon House

2 Church Street

41 Cedar Avenue

Hamilton HM 11

Bermuda

*Head office and principal*

*place of business:*

5th Floor

Wai Yuen Tong Medicine Building

9 Wang Kwong Road

Kowloon Bay

Kowloon

Hong Kong

18 July 2005

*To the Shareholders and, for information only,  
holders of the Share Options*

Dear Sir or Madam,

**PROPOSALS FOR THE GRANT OF THE  
NEW ISSUE MANDATE AND THE REPURCHASE MANDATE,  
RE-ELECTION OF DIRECTORS,  
AMENDMENT TO THE BYE-LAWS,  
THE BONUS ISSUE OF SHARES  
AND THE REFRESHMENT OF THE SCHEME MANDATE LIMIT**

**INTRODUCTION**

The purpose of this circular is to provide you with information in respect of the resolutions to be proposed at the AGM for (i) the grant of the New Issue Mandate and the Repurchase Mandate; (ii) the re-election of the retiring Directors; (iii) the amendment to the Bye-laws; (iv) the Bonus Issue; and (v) the refreshment of the Scheme Mandate Limit.

\* For identification purposes only

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## **LETTER FROM THE BOARD**

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### **THE GRANT OF THE NEW ISSUE MANDATE AND THE REPURCHASE MANDATE**

At the special general meeting of the Company held on 6 May 2005, the Directors were granted a general mandate to allot, issue and deal with Shares and a general mandate to repurchase Shares on the Stock Exchange. These mandates will expire at the conclusion of the AGM. In addition, subject to the Bonus Issue becoming unconditional, the issued share capital of the Company will be enlarged by the issue of the Bonus Shares. To take into account of the enlarged issued share capital of the Company and to facilitate future allotment and issue of Shares by the Directors on behalf of the Company, the Directors will seek the approval of the Shareholders for the grant of the New Issue Mandate and the Repurchase Mandate at the AGM.

The Directors have no immediate plans to allot and issue any new Shares other than the Bonus Shares and such Shares which may fall to be issued upon the exercise of the outstanding Share Options granted and the conversion rights attached to the Convertible Notes.

The explanatory statement required by the Listing Rules to be included in this circular is set out in Appendix I to this circular.

### **RE-ELECTION OF DIRECTORS**

The Board currently consists of seven Directors, namely Mr. Tang Ching Ho, Ms. Yau Yuk Yin, Mr. Chan Chun Hong, Thomas, Dr. Lee Pang Fei, Allen, Mr. Wong Chun, Justein, Dr. Siu Yim Kwan, Sidney and Mr. Siu Kam Chau.

Pursuant to Bye-law 86(2), Mr. Siu Kam Chau, being a Director appointed after the annual general meeting held on 13 August 2004, shall retire as Director at the AGM. Pursuant to Bye-law 87, Mr. Wong Chun, Justein shall retire as Director by rotation. Both Directors, being eligible, offer themselves for re-election.

Biographical details of the retiring Directors abovementioned are set out in Appendix II to this circular. If a valid notice from a Shareholder to propose a person to stand for election as a Director at the AGM is received in accordance with the Bye-laws after the printing of this circular, the Company will issue a supplementary circular to inform Shareholders of the details of such additional candidate proposed.

### **AMENDMENT TO THE BYE-LAWS**

The Stock Exchange has revised the Listing Rules concerning various corporate governance issues. Among other code provisions of the code on corporate governance practices set out in Appendix 14 to the Listing Rules, it is required that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

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## LETTER FROM THE BOARD

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In their present form, the Bye-laws provides that such Director holding office as the chairman of the Board and/or managing director of the Company will not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. As such, the Board considers that the Bye-laws should be amended in line with the changes required under the revised Listing Rules and an amendment to the Bye-laws will be proposed at the AGM, details of which are set out in resolution numbered 8 in the notice of the AGM.

### **THE BONUS ISSUE**

#### **(1) Introduction**

The Directors propose that the Bonus Issue will be made on the basis of one Bonus Share, credited as fully paid at par, for five existing issued Shares held by the Shareholders whose names appear on the register of members of the Company on the Record Date. The Bonus Shares will rank pari passu in all respects with the existing issued Shares except to the extent that the holders of the Bonus Shares will not be entitled to participate in the final dividend of HK12.0 cents recommended by the Directors for approval by the Shareholders at the AGM.

On the assumptions that all outstanding Share Options and the conversion rights attached to the Convertible Notes, respectively, are exercised in full on or before the Record Date and that no further Shares will be allotted and issued or repurchased prior to the Record Date and based on 173,320,366 Shares in issue and taking into account 46,990,000 additional Shares that may fall to be allotted and issued pursuant to the exercise in full (i) of the conversion rights attached to the Convertible Notes; and (ii) of all outstanding Share Options as at the Latest Practicable Date, there would be 220,310,366 Shares in issue on the Record Date. Accordingly, the total number of Bonus Shares to be issued may amount to 44,062,073.

It is proposed that the Directors be authorised to capitalize an amount of not less than HK\$4,406,207.3 standing to the credit of the share premium account of the Company and to apply such amounts in paying up in full the Bonus Shares.

#### **(2) Conditions of the Bonus Issue**

The Bonus Issue will be conditional upon:

- (a) the passing of an ordinary resolution to approve the Bonus Issue by the Shareholders at the AGM; and
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Bonus Shares.

#### **(3) Reasons for the Bonus Issue**

The Directors believe that the Bonus Issue will enhance the liquidity of the Shares in the market and the Bonus Issue will also provide the Shareholders with an opportunity to obtain further equity participation in the Company, thereby enlarging the Shareholders' base.

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## LETTER FROM THE BOARD

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### **(4) Listing and dealings**

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Bonus Shares. The issued Shares are listed and dealt in on the Stock Exchange. No part of the equity or debt securities of the Company is listed or dealt in on any other stock exchange, nor is listing or permission to deal in such securities on any other stock exchange being or proposed to be sought.

Subject to the granting of the listing of, and permission to deal in, the Bonus Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Bonus 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 Bonus 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 date is required to take place in CCASS on the second trading date thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Bonus Shares on the Stock Exchange are expected to commence on 23 August 2005 and will be subject to stamp duty in Hong Kong.

### **(5) Fractions of Bonus Shares**

The Company will not allot any fractions of the Bonus Shares. Bonus Shares representing fractional entitlement will be aggregated and issued to a nominee to be nominated by the Directors. Such Bonus Shares (if any) will be sold and the net proceeds, after deducting the related expenses therefrom, will be retained by the Company for its own benefits.

### **(6) Share certificates**

Certificates for the Bonus Shares are expected to be despatched to the qualifying Shareholders by post on or about 19 August 2005 to their respective addresses shown in the register of members on the Record Date or in the case of joint holders to the address of the joint holders whose name stands first in the register of members on the Record Date at their own risk.

### **(7) Overseas Shareholders**

Directors will seek advice from overseas counsel(s) on the applicable procedural requirements for extending the Bonus Issue to Overseas Shareholders.

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## LETTER FROM THE BOARD

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Overseas Shareholders will not be allotted the Bonus Shares if the law of jurisdiction at which their registered address is located prohibit the Company from allotting Bonus Shares to them, or require the Company to comply with any requirements (such as the filing of any registration statement or prospectus or other special formalities) which the Directors consider to be impracticable. Instead, the Bonus Shares otherwise falling to be allotted to them will be sold in the market as soon as practicable after dealings in the Bonus Shares commence and the net proceeds of sale will be paid to the Shareholders affected. Where, however, the amount of the net proceeds payable to any particular Shareholder is less than HK\$50, the net proceeds will be paid to the Company instead for its own benefit and will not be paid to the Shareholder affected.

### **(8) Adjustment to exercise price in respect of and/or number of outstanding Share Options and conversion price of the Convertible Notes**

As at the Latest Practicable Date, Share Options for the subscription for 21,490,000 Shares granted by the Company had remained outstanding. The exercise prices of these outstanding Share Options are HK\$0.968 per Share, HK\$1.07 per Share and HK\$1.28 per Share respectively.

In addition, Convertible Notes in the aggregate amount of HK\$56,800,000 had remained outstanding as at the Latest Practicable Date. Upon full exercise of the conversion rights attached to the Convertible Notes, an aggregate number of 25,500,000 Shares will be allotted and issued. The initial conversion prices of the Convertible Notes are HK\$1.30 per Share and HK\$2.40 per Share respectively.

In accordance with the rules of the Share Option Scheme and the terms and conditions of the Convertible Notes, holders of outstanding Share Options who have not exercised their Share Options or holders of the outstanding Convertible Notes who have not exercised the conversion rights attached to the Convertible Notes in full prior to the Record Date will be entitled to adjustment to the exercise price in respect of and/or the number of their outstanding Share Options or the conversion price of the outstanding Convertible Notes (as the case may be). Option holders and holders of the outstanding Convertible Notes will be notified in due course of the adjusted exercise price in respect of and/or the number of their outstanding Share Options or the conversion price of the outstanding Convertible Notes.

### **CLOSURE OF THE REGISTER OF MEMBERS**

The register of members of the Company will be closed from 9 August 2005 to 12 August 2005 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for the final dividend and the Bonus Issue, all Shareholders are required to lodge their duly signed transfers accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Tengis Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration by no later than 4:00 p.m. on 8 August 2005.

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## LETTER FROM THE BOARD

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### REFRESHMENT OF THE SCHEME MANDATE LIMIT

The Company adopted the Share Option Scheme on 3 May 2002. Apart from the Share Option Scheme, the Company had no other share option scheme as at the Latest Practicable Date.

Under the rules of the Share Option Scheme:

- (1) Subject to sub-paragraphs (2) and (3) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company as from the commencement of the Scheme Period (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed the Scheme Mandate Limit. The Shares underlying any options granted under the Share Option Scheme or any other share option schemes of the Company which have been cancelled (but not options which have lapsed) are counted for the purpose of calculating the Scheme Mandate Limit.
- (2) The Scheme Mandate Limit may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate Limit must not exceed 10% of the Shares in issue at the date of the Shareholder's approval of such refreshed Scheme Mandate Limit. Options previously granted under the Share Option Scheme or any other share option schemes of the Company (including those exercised, outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) will not counted for the purpose of calculating the total number of Shares subject to the refreshed Scheme Mandate Limit.
- (3) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

Based on the total number of Shares in issue as at 12 November 2004, being the date on which the Scheme Mandate Limit was refreshed, the maximum number of Shares which may be issued upon exercise of all Share Options to be granted under the Share Option Scheme is 14,332,036 Shares, representing 10% of the Shares then in issue as at 12 November 2004.

As at the Latest Practicable Date, Share Options (without taking into account the outstanding Share Options carrying the rights to subscribe for up to a total of 9,800,000 Shares granted prior to 12 November 2004, being the date on which the Scheme Mandate Limit was refreshed) carrying the rights to subscribe for up to a total of 12,990,000 Shares, representing 9.06% of the Shares in issue as at 12 November 2004, had been granted under the Share Option Scheme, out of which Share Options in respect of 1,300,000 Shares had been exercised. Save as aforesaid, none of these granted Shares Options had been lapsed or cancelled as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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Unless the Scheme Mandate Limit is refreshed, only a limited number of Share Options may be granted under the Scheme Mandate Limit. The Directors are of the view that their ability to grant new Share Options to Eligible Persons as incentives or rewards for their contribution or potential contribution to the Group will be limited. It is therefore proposed that, subject to the approval of the Shareholders at the AGM and fulfillment of other applicable requirements under the Listing Rules, the Scheme Mandate Limit be refreshed to 10% of the Shares in issue as at the date of the approval of the Shareholders at the AGM. Options previously granted under the Share Option Scheme or any other share option schemes of the Company (including those exercised, outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed.

On the assumptions that all outstanding Share Options and the conversion rights attached to the Convertible Notes, respectively, are exercised in full on or before the date of the AGM, pursuant to which 46,990,000 additional Shares that may fall to be allotted and issued and that no further Shares will be allotted and issued or repurchased prior to the date of the AGM and based on 173,320,366 Shares in issue as at the Latest Practicable Date, there would be 220,310,366 Shares in issue on the date of the AGM, on which the Shareholders' approval of the refreshed Scheme Mandate Limit will be sought. Accordingly, if the Scheme Mandate Limit is refreshed, the maximum number of Shares in respect of which Share Options that can be granted by the Company under the refreshed Scheme Mandate Limit would be 22,031,036 Shares, representing 10% of the Shares in issue as at the date of the approval by the Shareholders at the AGM.

The refreshment of the Scheme Mandate Limit is conditional upon:

- (a) the Shareholder passing an ordinary resolution to approve the refreshment of the Scheme Mandate Limit at the AGM; and
- (b) the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options granted under the refreshed Scheme Mandate Limit.

Application will be made to the Stock Exchange for the listing of and permission to deal in any Shares which may fall to be issued upon the exercise of any Share Options that may be granted under the refreshed Scheme Mandate Limit.

### **ANNUAL GENERAL MEETING**

The notice convening the AGM, which contains, inter alia, ordinary resolutions in respect of the New Issue Mandate, the Repurchase Mandate, the re-election of the retiring Directors, the Bonus Issue and the refreshment of the Scheme Mandate Limit, and the special resolution approving the amendment to the Bye-laws, is contained in the annual report of the Company sent together with this circular. Shareholders are advised to read the notice and to complete and return the form of proxy for use at the AGM enclosed with the annual report of the Company in accordance with the instructions printed thereon.

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## LETTER FROM THE BOARD

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### PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to Bye-law 66 of the Bye-laws, a resolution put to the vote of a meeting shall be decided on a show of hands unless (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 demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or in the case of a Shareholder 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 Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders 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 shares conferring that right.

### RECOMMENDATION

The Directors believe that the proposals for the New Issue Mandate, the Repurchase Mandate, the re-election of retiring Directors, the proposed amendment to the Bye-laws, the Bonus Issue and the refreshment of the Scheme Mandate Limit are all in the best interest of the Company and its Shareholders. Accordingly, the Directors recommend that all Shareholders should vote in favour of such resolutions to be proposed at the AGM.

### DOCUMENT AVAILABLE FOR INSPECTION

A copy of the Share Option Scheme and the Bye-laws is available for inspection at the head office and principal place of business of the Company in Hong Kong at 5th Floor, Wai Yuen Tong Medicine Building, 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong during normal business hours up to the date of the AGM.

Yours faithfully,  
**Tang Ching Ho**  
*Chairman and Managing Director*

*This appendix serves as an explanatory statement as required by the Listing Rules to provide the requisite information to you for your consideration of the Repurchase Mandate.*

## **1. SHARE CAPITAL**

As at the Latest Practicable Date, the issued share capital of the Company was HK\$17,332,036.60 comprising 173,320,366 Shares. In addition, as at the Latest Practicable Date, Share Options carrying the rights to subscribe up to an aggregate of 21,490,000 Shares and Convertible Notes carrying the rights to convert up to an aggregate of 25,500,000 Shares, respectively had remained outstanding. If such outstanding Share Options and conversion rights attached to the Convertible Notes are exercised in full on or prior to the date of the passing of the resolution in respect of the Repurchase Mandate, a further 46,990,000 Shares will be in issue.

Subject to the passing of the relevant ordinary resolution as set out in the notice of the AGM and assuming that no further Shares are issued or purchased by the Company, the Directors will be authorised to purchase up to 17,332,036 Shares pursuant to the Repurchase Mandate. Assuming that all outstanding Share Options and conversion rights attached to the Convertible Notes are exercised in full on or before the date of the passing of the resolution in respect of the Repurchase Mandate and subject to the Bonus Issue becoming unconditional and upon its completion and assuming no further Shares are issued or purchased by the Company, the total number of Shares in issue will be 264,372,439 and the Directors will be authorised to purchase up to 26,437,243 Shares.

## **2. REASONS FOR REPURCHASES**

The Directors believe that it is in the best interests of the Company and the Shareholders to have a general authority from the Shareholders to enable the Directors to purchase Shares in the market. Such purchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets or its earnings per Share or both and will only be made when the Directors believe that such purchases will benefit the Company and the Shareholders as a whole.

## **3. FUNDING OF REPURCHASES**

In repurchasing Shares, the Company must fund the repurchase entirely from the Company's available cash flow or working capital facilities legally available for such purpose in accordance with its memorandum of association and the Bye-laws and the laws of Bermuda.

There might be an adverse impact on the working capital or gearing position of the Company as compared with the positions disclosed in the Company's annual report for the year ended 31 March 2005 in the event that the Repurchase Mandate was to be carried out in full at any time during the proposed repurchase period.

The Directors do not propose to exercise the Repurchase Mandate to such extent as could, in the circumstances, have a material adverse effect on the working capital or the gearing level of the Company which in the opinion of the Directors is from time to time appropriate for the Company.

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

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates, have any present intention, in the event that the Repurchase Mandate is approved by the Shareholders at the AGM, to sell Shares to the Company under the Repurchase Mandate.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell any Shares to the Company, or that he has undertaken not to sell any Shares held by him to the Company, in the event that the Repurchase Mandate is granted by the Shareholders at the AGM.

The Company has not repurchased any of its Shares (whether on the Stock Exchange or otherwise) in the six months preceding the date of this circular.

**5. DIRECTORS' UNDERTAKING**

The Directors have undertaken to the Stock Exchange that they will exercise the powers of the Company pursuant to the Repurchase Mandate in accordance with the Listing Rules, the memorandum of association of the Company and the Bye-laws and the applicable laws of Bermuda so far as the same may be applicable.

**6. EFFECT OF THE CODE**

If, on the exercise of the power to repurchase Shares pursuant to the 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 purpose of Rule 32 of the Code. As a result, a Shareholder or a group of Shareholders acting in concert (as defined in the Code), depending on the level of such increase, could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Code.

As at the Latest Practicable Date and to the best knowledge and belief of the Directors, Mr. Tang Ching Ho, the Chairman and Managing Director of the Company, and parties acting in concert with him were interested or deemed to be interested in approximately 15.99% of the existing issued share capital of the Company. In the event that the Directors should exercise the power to repurchase Shares under the Repurchase Mandate in full, the shareholding of Mr. Tang Ching Ho and parties acting in concert with him will be increased to approximately 17.77% of the issued share capital of the Company.

The Directors are not aware of any consequence which may arise under the Code as a result of any purchases made under the Repurchase Mandate.

The Directors have no present intention to exercise the power to repurchase Shares to the extent that the aggregate amount of the share capital of the Company in public hands would be reduced to less than 25%.

**7. SHARE PRICES**

The highest and lowest prices at which the Shares have traded on the Stock Exchange in each of the last twelve months are as follows:

	<b>Shares</b>	
	<b>Highest</b>	<b>Lowest</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>2004</b>		
July	1.420	0.840
August	1.240	0.970
September	1.140	1.020
October	1.320	1.080
November	1.500	1.160
December	2.175	1.360
<b>2005</b>		
January	2.350	1.810
February	2.200	1.910
March	2.170	1.920
April	2.325	1.970
May	3.125	2.150
June	3.050	2.625
July (up to the Latest Practicable Date)	3.000	2.700

The biographical details of Mr. Siu Kam Chau and Mr. Wong Chun, Justein, who are eligible for re-election at the AGM, are set out below:

**Mr. Siu Kam Chau**, aged 40, joined the Group in September 2004 as an independent non-executive director of the Company. He is a fellow of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. He is also a Certified Public Accountant (Practising). During the past three years, Mr. Siu held no other directorship in listed company save as being an executive director of Town Health International Holdings Company Limited until his resignation on 6 January 2003.

As at the Latest Practicable Date, Mr. Siu did not have any relationship with any Directors, senior management, substantial or controlling Shareholders (as defined in the Listing Rules) of the Company or any interest in the Shares within the meaning of Part XV of the SFO.

As at the Latest Practicable Date, pursuant to the service contract entered into between the Company and Mr. Siu on 24 September 2004, the appointment of Mr. Siu is for a period of two years and is subject to retirement by rotation and re-election requirements at annual general meeting of the Company pursuant to the Bye-laws. Pursuant to the letter of appointment entered into between the Company and Mr. Siu, he will be only entitled to a director's fee in the amount of HK\$10,000 per month. Such fee is determined with reference to his duties as an independent non-executive director of the Company. He will be also entitled to a fee in the amount of HK\$20,000 per annum determined with reference to his duties as a member of the Company's audit committee.

**Mr. Wong Chun, Justein**, MBE, JP, aged 51, joined the Group in November 1993 as a non-executive director of the Company. He holds a bachelor's degree in Commerce and Computing Science from Simon Fraser University, Canada. He is a fellow of Institute of Canadian Bankers. He was a member of the Fight Crime Committee, the Independent Police Complaints Council and is currently a member of the Legal Aid Services Council, Energy Advisory Committee, Chairman of Quality Education Fund Assessment and Monitoring Committee and other government advisory bodies. During the past three years, Mr. Wong held no other directorship in listed public companies.

As at the Latest Practicable Date, Mr. Wong did not have any relationship with any Directors, senior management, substantial or controlling Shareholders (as defined in the Listing Rules) of the Company or any interest in the Shares within the meaning of Part XV of the SFO.

As at the Latest Practicable Date, pursuant to the service contract entered into between the Company and Mr. Wong on 1 February 1997, Mr. Wong's appointment is subject to the provisions of the Bye-laws and will hold office until the next annual general meeting of the Company to be held in 2006 and will be eligible for re-election at the meeting and thereafter he will be subject to rotation requirement as other Directors. Mr. Wong is entitled to a director's fee of HK\$197,000 per year. He is also entitled to a fee in the amount of HK\$20,000 per annum determined with reference to his duties as a member of the Company's audit committee.