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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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Star Bio-Tech (Holdings) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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STAR BIO-TECH
星光生物科技

STAR BIO-TECH (HOLDINGS) LIMITED

星光生物科技(控股)有限公司*

(Incorporated in Bermuda with limited liability)

**CONNECTED TRANSACTION
INVOLVING
ISSUANCE OF NEW SHARES
CHANGE OF COMPANY NAME
AND
GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

**Independent financial adviser to
the Independent Board Committee of Star Bio-Tech (Holdings) Limited**

ALTUS CAPITAL LIMITED

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 19 of this circular.

A letter from Altus containing its advice to the Independent Board Committee is set out on pages 20 to 32 of this circular.

A notice convening the Special General Meeting of Star Bio-Tech (Holdings) Limited to be held at 10:00 a.m. on Friday, 19th April, 2002 at Chater Room III, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong is set out on pages 42 to 45 of this circular. A form of proxy for use at the Special General Meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon as soon as possible to Star Bio-Tech (Holdings) Limited's branch share registrar in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting should you so wish.

* for identification purpose only

26th March, 2002

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DEFINITIONS

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

“Acquisition Price”	the price of HK\$0.01 per Share in respect of the subscription for 2,500,000,000 New Shares by Win Channel pursuant to the Share Acquisition Agreement
“Agreements”	the Share Acquisition Agreement and the Subscription Agreement
“Altus”	Altus Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Announcement”	the announcement dated 27th February, 2002 jointly by Win Channel, Sheung Hai and the Company in respect of the Share Acquisition Agreement and the Subscription Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Code”	Hong Kong Code on Takeovers and Mergers
“Company”	Star Bio-Tech (Holdings) Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Completion”	completion of the Agreements
“Convertible Notes”	three convertible loan notes due 2004 in an outstanding aggregate principal amount of HK\$24,150,000 issued by the Company on 19th June, 2001 and 16th July, 2001
“Directors”	the directors of the Company
“Extension Mandate”	the proposed general mandate to be sought at the Special General Meeting to authorise the Directors to extend the Issue Mandate in the manner as set out in the notice of the Special General Meeting included in this circular
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising Ha Ping and Sum Mun Kid, Frederick, independent non-executive Directors, who was appointed by the Board for the purpose of advising the Independent Shareholders in relation to the Agreements

DEFINITIONS

“Independent Shareholders”	Shareholders other than Win Channel, Sheung Hai, their respective associates and parties acting in concert with them
“Issue Mandate”	the proposed general mandate to be sought at the Special General Meeting to authorize the Directors to allot and issue Shares in the manner as set out in the notice of the Special General Meeting included in this circular
“Latest Practicable Date”	19th March, 2002, 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”	Rules Governing the Listing of Securities on the Stock Exchange
“Kim Eng Securities”	Kim Eng Securities (Hong Kong) Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Kingston Securities”	Kingston Securities Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Mr. Chim”	Mr. Chim Pui Chung, the ultimate beneficial owner of Win Channel
“Mr. Wong”	Mr. Wong Kam Fu, the chairman of the Company and the sole director and shareholder of Sheung Hai, a controlling shareholder of the Company as at the Latest Practicable Date
“New Shares”	a total of 4,500,000,000 new Shares to be issued, 2,500,000,000 of which to be issued to Win Channel under the Share Acquisition Agreement and 2,000,000,000 of which to be issued to Sheung Hai under the Subscription Agreement
“Offer”	the possible unconditional cash offer by Kingston Securities and Kim Eng Securities on behalf of Win Channel and Sheung Hai for all the issued Shares other than those already held or agreed to be acquired by Win Channel, Sheung Hai or parties acting in concert with them
“Offer Document”	a composite offer document to be issued jointly by Win Channel, Sheung Hai and the Company containing, amongst others, details of the Agreements and the terms of the Offer
“Options”	options to subscribe for Shares granted under the share option scheme of the Company adopted on 11th April, 1994 and modified on 27th July, 2001

DEFINITIONS

“PRC”	the People’s Republic of China, excluding Hong Kong for the purposes of this circular
“Repurchase Mandate”	the proposed general mandate to be sought at the Special General Meeting to authorise the Directors to repurchase Shares in the manner as set out in the notice of the Special General Meeting included in this circular
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Settlement Agreement”	the agreement dated 6th July, 2000 and made between the SFC, Mr. Chim and the provisional liquidators of Mandarin Resources Corporation Limited in respect of the settlement of the Hong Kong High Court Companies Winding Up Proceedings No.348 of 1996
“SFC”	Securities and Futures Commission in Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Acquisition Agreement”	a conditional agreement entered into between Win Channel, the Company and Mr. Wong on 6th February, 2002 in connection with the subscription by Win Channel of 2,500,000,000 New Shares and the transfer to Win Channel of the Transfer Shares
“Shareholder(s)”	holder(s) of Share(s)
“Sheung Hai”	Sheung Hai Developments Limited, a company incorporated in the British Virgin Islands with limited liability which is interested in about 34.90% of the issued share capital of the Company as at the Latest Practicable Date and which is wholly and beneficially owned by Mr. Wong, and is a party acting in concert with Win Channel
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Special General Meeting”	a special general meeting of the Company to be convened and held on 19th April, 2002 to consider and, if thought fit, approve, among other matters, the Share Acquisition Agreement, the Subscription Agreement, the Issue Mandate, the Repurchase Mandate, the Extension Mandate and the change of company name
“Subscription Agreement”	a conditional agreement entered into between Sheung Hai and the Company on 6th February, 2002 in connection with the subscription by Sheung Hai of 2,000,000,000 New Shares

DEFINITIONS

“Subscription Price”	the price of HK\$0.01 per Share in respect of the subscription for 2,000,000,000 New Shares by Sheung Hai pursuant to the Subscription Agreement
“Transfer Shares”	a total of 88,187,919 Shares beneficially owned by Sheung Hai to be transferred to Win Channel pursuant to the Share Acquisition Agreement
“Win Channel”	Win Channel Investments Limited, a company incorporated in the British Virgin Islands with limited liability which, together with its beneficial owner, are parties acting in concert with Sheung Hai
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



STAR BIO-TECH

星光生物科技

STAR BIO-TECH (HOLDINGS) LIMITED

星光生物科技(控股)有限公司*

(Incorporated in Bermuda with limited liability)

Executive Directors:

Wong Kam Fu (*Chairman*)
Chan Kwong On, Daniel
Wong Kam Wing
Wang Zhao Bin
Zhao Hua
Lew Mon Hung

Registered Office:

Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Independent Non-executive Directors:

Ha Ping
Sum Mun Kid, Frederick

Principal Place of Business:

11th Floor, Tai Sang Bank Building
130-132 Des Voeux Road Central,
Hong Kong

26th March, 2002

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
INVOLVING
ISSUANCE OF NEW SHARES
CHANGE OF COMPANY NAME
AND**

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

INTRODUCTION

On 27th February, 2002, Win Channel, Sheung Hai and the Company jointly announced that (i) Win Channel, the Company and Mr. Wong entered into the conditional Share Acquisition Agreement pursuant to which (a) Win Channel will subscribe for 2,500,000,000 New Shares for a total cash consideration of HK\$25 million, equivalent to HK\$0.01 per Share, and (b) Mr. Wong will procure a transfer to Win Channel of the Transfer Shares beneficially owned by Sheung Hai, a company wholly and beneficially owned by Mr. Wong, for a total cash consideration of HK\$1.00; and (ii) Sheung Hai and the Company entered into the conditional Subscription Agreement pursuant to which Sheung Hai will subscribe for 2,000,000,000 New Shares for a total cash consideration of HK\$20 million equivalent to HK\$0.01 per Share. It was announced that, upon Completion, Kingston Securities and Kim Eng Securities will make the Offer on behalf of Win Channel and Sheung Hai as required under Rule 26 of the Code. The Offer Document will be despatched to Shareholders as soon as possible following Completion.

* for identification purpose only

LETTER FROM THE BOARD

The transactions contemplated under the Subscription Agreement constitute connected transactions for the Company under the Listing Rules and will be subject to the approval of the Independent Shareholders at the Special General Meeting. In compliance with paragraph 19 of the listing agreement entered into between the Company and the Stock Exchange and since Sheung Hai is a party to the Share Acquisition Agreement, the Share Acquisition Agreement is subject to the approval of the Independent Shareholders at the Special General Meeting.

The Company also proposes to change its name to “Credit Card DNA Security System (Holdings) Limited” and to adopt the Chinese name 信用卡防盜系統(控股)有限公司 for identification purpose in order to reflect further development and future focus of the Company’s business on credit card security related activities, which was first developed and conducted by the Group in April 2001.

The purpose of this circular is to provide you with further information on the Share Acquisition Agreement, the Subscription Agreement, to set out the advice of Altus to the Independent Board Committee and the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Agreements, and to give you notice of the Special General Meeting at which necessary resolutions will be proposed to seek your approval to the Share Acquisition Agreement, Subscription Agreement, the grant of the Issue Mandate, the Repurchase Mandate and the Extension Mandate and change of company name.

THE AGREEMENTS

SHARE ACQUISITION AGREEMENT

Date

6th February, 2002

Parties

- | | | |
|------------|---|--|
| Subscriber | : | Win Channel which, together with its beneficial owner Mr. Chim, are parties acting in concert with Sheung Hai, a controlling Shareholder. |
| Company | : | Star Bio-Tech (Holdings) Limited, a company incorporated in Bermuda with limited liability the ordinary shares of which are listed on the Stock Exchange. |
| Warrantor | : | Mr. Wong, the chairman of the Company, the sole director and shareholder of Sheung Hai and a controlling Shareholder as at the Latest Practicable Date, who has given certain representations, warranties and undertakings in respect of the financial condition of the Company. |

Shares to be acquired

Pursuant to the Share Acquisition Agreement, Win Channel will subscribe for a total of 2,500,000,000 New Shares, representing about 510.60% of the existing issued share capital of the Company, about 83.62% of its issued share capital as enlarged by the New Shares subscribed by Win Channel and about 50.10% of its issued share capital as enlarged by the New Shares subscribed by both Win Channel and Sheung Hai.

LETTER FROM THE BOARD

Pursuant to the Share Acquisition Agreement, Mr. Wong will also procure Sheung Hai to transfer to Win Channel a total of 88,187,919 Shares beneficially owned by Sheung Hai, representing about 18.01% of the existing issued share capital of the Company, about 2.95% of its issued share capital as enlarged by the New Shares subscribed by Win Channel and about 1.77% of its issued share capital as enlarged by the New Shares subscribed by both Win Channel and Sheung Hai.

The transfer of the Transfer Shares to Win Channel is based on a commercial decision reached between the parties having regard to the ultimate projected shareholdings of Win Channel and Sheung Hai (and parties acting in concert with it) in the Company following compliance with the minimum public float requirements in respect of the Shares under Rule 8.08 of the Listing Rules. Such ultimate projected shareholdings of Win Channel and Sheung Hai (and parties acting in concert with it) are estimated to be about 41.25% and 33.75% of the issued share capital of the Company as enlarged by the New Shares respectively.

The New Shares and the Transfer Shares will be free from all claims, charges, liens, options, encumbrances and other adverse rights and interests of all kinds and descriptions and together with all rights attached to these Shares as at Completion, including the right to all dividends and distributions which may be declared, paid or made at any time on or after Completion.

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

Consideration

Amount and payment terms

The total consideration payable by Win Channel for the 2,500,000,000 New Shares is a sum of HK\$25 million, equivalent to HK\$0.01 per Share, which will be paid to the Company in cash on Completion.

The total consideration payable by Win Channel for the Transfer Shares is a cash sum of HK\$1.00 which will be paid to Mr. Wong in cash on Completion.

Basis

The consideration for the New Shares was determined after arm's length negotiations between the parties. The price of HK\$0.01 per Share is equivalent to the par value of each Share and represents a discount of about 87% to the closing price per Share of HK\$0.078, being the closing price immediately before the suspension of trading of Shares on 5th February, 2002, a discount of about 89% to HK\$0.094, being the average closing price per Share for the ten trading days up to and including 5th February, 2002, a discount of about 44% to the net asset value per Share of about HK\$0.018 as at 30th June, 2001 (as derived from the latest published consolidated audited financial statements of the Group and adjusted by the issue of new Shares in an aggregate number of 125,000,000 at HK\$0.01 per Share on 20th July, 2001, 1st August, 2001 and 15th August, 2001 respectively) and a discount of about 95% to HK\$0.207, being the closing price per Share at the Latest Practicable Date. The price was determined after arm's length negotiation between the Company and Win Channel, based on (i) the low liquidity of the Shares; (ii) the difficulty encountered by the Company in procuring subscribers to subscribe bulk volume of Shares; and (iii) the Company's funding needs for its operations (details of which are set out below in the section headed "Reasons for the transactions").

Conditions

Completion of the Share Acquisition Agreement is conditional upon all of the following conditions being satisfied (or, as to condition (c), waived by Win Channel):

- (a) the Listing Committee of the Stock Exchange having granted listing of and permission to deal in the New Shares;
- (b) the passing by Independent Shareholders in general meeting of the necessary resolutions approving the Share Acquisition Agreement, the issue of the New Shares, the transactions contemplated in or incidental to the Share Acquisition Agreement and the implementation thereof; and
- (c) the Subscription Agreement having become unconditional in all respects (save for the fulfilment of the condition relating to the Share Acquisition Agreement becoming unconditional).

If the conditions set out above are not fulfilled (or waived as applicable) by 5:00 p.m. on the date falling 120 days after the date of the Agreements (i.e. 6th June, 2002) or such other date as the parties may agree, the Share Acquisition Agreement will lapse and no party to this agreement will have any claim against or liability to the other parties, save in respect of any antecedent breaches.

Completion

Completion will take place on the third business day after the conditions set out above are fulfilled (or waived as applicable) or such other date as the parties may agree prior to Completion.

Information on Win Channel

Win Channel is a company incorporated in the British Virgin Islands, having its registered office at Sea Meadow House, Blackburne Highway, Road Town, Tortola, British Virgin Islands, and is beneficially and wholly-owned by Mr. Chim. The Company was advised by Win Channel that, since its incorporation on 2nd January, 2002, it had not conducted any business activities save for its entry into the Share Acquisition Agreement.

Mr. Chim, aged 56, has been engaged in financial and securities industry for over 30 years. He is also active with public services. He holds senior titles of various native or commercial associations such as Honorary Adviser of Hong Kong Chiu Chow Chamber of Commerce (香港潮州商會名譽顧問) and Honorary President and Director of Hong Kong Swatow Merchants Association (香港汕頭商會名譽會長). He is a member of the Chinese People's Political Consultative Conference of Shantou (香港人民政治協商會議汕頭市委員).

Pursuant to the Settlement Agreement, Mr. Chim has undertaken to the SFC that he will not act or purport to act as a director or otherwise take part or purport to take part in the management of any company listed on the Stock Exchange in Hong Kong for three years from 7th July, 2000. Accordingly, Mr. Chim will be a passive investor in the Company following Completion and will have no

LETTER FROM THE BOARD

management function in the Company. Since Win Channel's shareholding in the Company following compliance with the public float requirements under Rule 8.08 of the Listing Rules is estimated to be about 41.25% of the then issued share capital of the Company and is therefore expected to be the largest Shareholder, Mr. Chim will be able to protect, through Win Channel, his interest in the Company by the exercises of voting rights attached to Win Channel's New Shares at general meetings of the Company.

SUBSCRIPTION AGREEMENT

Date

6th February, 2002

Parties

Subscriber : Sheung Hai, the controlling Shareholder, which is a company wholly and beneficially owned by Mr. Wong.

Company : Star Bio-Tech (Holdings) Limited, a company incorporated in Bermuda with limited liability the ordinary shares of which are listed on the Stock Exchange.

Shares to be acquired

Pursuant to the Subscription Agreement, Sheung Hai will subscribe for a total of 2,000,000,000 New Shares, representing about 408.48% of the existing issued share capital of the Company, about 80.33% of its issued share capital as enlarged by the New Shares subscribed by Sheung Hai and about 40.08% of its issued share capital as enlarged by the New Shares subscribed by both Win Channel and Sheung Hai.

Consideration

Amount and payment terms

The total consideration payable by Sheung Hai for the New Shares is a sum of HK\$20 million, equivalent to HK\$0.01 per Share, which will be paid to the Company in cash on Completion.

Basis

The consideration for the New Shares was determined after arm's length negotiations between the parties and is the same as the consideration per New Share payable by Win Channel. The price of HK\$0.01 per Share is equivalent to the par value of each Share and represents a discount of about 87% to the closing price per Share of HK\$0.078, being the closing price immediately before the suspension of trading of Shares on 5th February, 2002, a discount of about 89% to HK\$0.094, being the average closing price per Share for the ten trading days up to and including 5th February, 2002, a discount of about 44% to the net asset value per Share of about HK\$0.018 as at 30th June, 2001 (as derived from the latest published consolidated audited financial statements of the Group and adjusted by issue of new Shares in an aggregate number of 125,000,000 at HK\$0.01 per Share on 20th July, 2001, 1st

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August, 2001 and 15th August, 2001 respectively) and a discount of about 95% to HK\$0.207, being the closing price per Share at the Latest Practicable Date. The price was determined after arm's length negotiation between the Company and Sheung Hai, based on (i) the low liquidity of the Shares; (ii) the difficulty encountered by the Company in procuring subscribers to subscribe bulk volume of Shares; and (iii) the Company's funding needs for its operations (details of which are set out below in the section headed "Reasons for the transactions").

Conditions

Completion of the Subscription Agreement is conditional upon all of the following conditions being satisfied (or, as to condition (c), waived by Sheung Hai):

- (a) the Listing Committee of the Stock Exchange having granted listing of and permission to deal in the New Shares;
- (b) the passing by the Independent Shareholders in general meeting of the necessary resolutions approving the Subscription Agreement, the issue of the New Shares, the transactions contemplated in or incidental to the Subscription Agreement; and
- (c) the Share Acquisition Agreement having become unconditional in all respects (save for the condition relating to the Subscription Agreement becoming unconditional).

If the conditions set out above are not fulfilled (or waived as applicable) by 5:00p.m. on the date falling 120 days after the date of the Agreements (i.e. 6th June, 2002) or such other date as the parties may agree, the Subscription Agreement will lapse and no party to this agreement will have any claim against or liability to the other parties, save in respect of any antecedent breaches.

Completion

Completion will take place simultaneously with the completion of the Share Acquisition Agreement.

Information on Sheung Hai

Sheung Hai is a company incorporated in the British Virgin Islands, having its registered office at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands, and is beneficially and wholly-owned by Mr. Wong. The Company was advised by Sheung Hai that its principal business activity is the holding of its interest in the Company. Mr. Wong is currently the Chairman and Managing Director of the Company. Mr. Wong has extensive experience and connections in the electronic industry. He achieved numerous awards including the "Hong Kong Young Industrialist Awards 1990" and the 3rd and 4th "World Genius Convention" in 1989 and 1990 respectively and his inventions won extensive public recognition. From January 1996 to June 1999, he was the Chairman of Hong Kong Radio Paging Association. Due to his distinguished achievements in the paging industry and his contributions to Chinese affairs, he was appointed as a member of the First Election Committee for Hong Kong. Mr. Wong has been engaged in the telecommunications and internet related business for over 20 years.

LETTER FROM THE BOARD

PROFORMA STATEMENT OF ADJUSTED NET ASSET VALUE

Set out below is a proforma statement of the net asset value of the Group based on the latest audited financial statements of the Group, issue of Shares upon conversion of the Convertible Notes and on latest unaudited consolidated balance sheet as at 31 December 2001.

	<i>HK\$ '000</i>
Net asset value as at 30 June 2001 (Net asset value per share = HK\$0.016)	7,706
Issue of new Shares	
20 July 2001	500
1 August 2001	500
15 August 2001	<u>250</u>
Net asset value immediately before December 2001	8,956
Unaudited consolidated financial statements for six months ended 31 December 2001 Loss from operation	<u>(29,310)</u>
Proforma net asset/(liability) value as at December 2001 before capital injection	(20,354)
Injection of net capital fund pursuant to the Agreements	<u>44,000</u>
Proforma net asset/(liability) value as at December 2001 after capital injection (Net asset value per share = HK\$0.005)	<u>23,646</u>

LETTER FROM THE BOARD

SHAREHOLDINGS

As at the Latest Practicable Date, the Company has 489,615,679 Shares in issue. The following table illustrates the existing shareholding structure of the Company and the structure immediately after Completion.

Shareholders	Existing shareholding structure		Shares to be issued and transferred pursuant to the Share Acquisition Agreement and the Subscription Agreement Number of Shares	Shareholding structure ^(Note) immediately after Completion	
	Number of Shares	%		Number of Shares	%
Win Channel and parties acting in concert with it	—	—		2,588,187,919	51.87%
subscription transfer			2,500,000,000		
			<u>88,187,919</u>		
			2,588,187,919		
Sheung Hai and parties acting in concert with it	176,375,839	36.02%		2,088,187,920	41.85%
subscription transfer			2,000,000,000		
			<u>(88,187,919)</u>		
			<u>1,911,812,081</u>		
Total shareholding of Win Channel, Sheung Hai and parties acting in concert with them	176,375,839	36.02%	4,500,000,000	4,676,375,839	93.72%
Public	<u>313,239,840</u>	<u>63.98%</u>		<u>313,239,840</u>	<u>6.28%</u>
Total:	<u><u>489,615,679</u></u>	<u><u>100.00%</u></u>		<u><u>4,989,615,679</u></u>	<u><u>100.00%</u></u>

Note: This structure assumes that no conversion of the Convertible Notes or exercise of the Options will have taken place.

LETTER FROM THE BOARD

Immediately upon Completion, Win Channel and Sheung Hai and parties acting in concert with them will together be interested in a total of 4,676,375,839 Shares, representing about 93.72% of the issued share capital of the Company as enlarged by the New Shares. On Completion, Win Channel, Sheung Hai and parties acting in concert with them would be obliged under Rule 26 of the Code to make a mandatory unconditional cash offer for all the issued Shares other than those already held or agreed to be acquired by Win Channel, Sheung Hai and parties acting in concert with either of them. The Offer is a possibility only and will only be made if the conditions precedent in the Agreements are fulfilled or waived, as applicable, and Completion takes place.

Shareholders and investors should exercise caution when dealing in the Shares.

BOARD COMPOSITION

At present, the Board comprises Mr Wong, Mr Chan Kwong On, Daniel, Mr Wong Kam Wing, Mr Wang Zhao Bin, Ms Zhao Hua, Mr Lew Mon Hung, Ms Ha Ping and Mr Sum Mun Kid, Frederick. There will not be any changes to the composition of the Board as a result of Completion or the transactions contemplated in the Agreements.

Pursuant to the Settlement Agreement, Mr. Chim has undertaken to the SFC that he will not act or purport to act as a director or otherwise take part or purport to take part in the management of any company listed on the Stock Exchange in Hong Kong for three years from 7th July, 2000. Mr. Chim has also undertaken that he will not act as or purport to act as a Director or otherwise take part or purport to take part in the management of the Company pursuant to the undertaking in the Settlement Agreement with the SFC or appoint any director to the Board at least up to 7th July, 2003.

Accordingly, Mr. Chim will be a passive investor in the Company following Completion and will have no management function in the Company. Since Win Channel's shareholding in the Company following compliance with the public float requirements under Rule 8.08 of the Listing Rules is estimated to be about 41.25% of the then issued share capital of the Company and is therefore expected to be the largest Shareholder, Mr. Chim will be able to protect, through Win Channel, his interest in the Company by the exercises of voting rights attached to Win Channel's New Shares at general meetings of the Company.

MAINTAINING THE LISTING OF THE SHARES

It is the intention of Win Channel and Sheung Hai that the listing of the Shares on the Stock Exchange be maintained after the close of the Offer. Rule 8.08 of the Listing Rules requires that at least 25% of the issued Shares from time to time are held by the public and that failure to do so may result in the Stock Exchange suspending trading in the Shares.

Upon Completion, Win Channel, Sheung Hai, their respective associates and parties acting in concert with them will collectively be interested in about 93.72% of the issued share capital of the Company following Completion. Their shareholding interest may further increase during the period of the Offer as a result of valid acceptances received under the Offer. Accordingly, the Company will not be able to comply with the requirements of Rule 8.08 of the Listing Rules during the period immediately following Completion until the public float for the Shares is restored. The Stock

LETTER FROM THE BOARD

Exchange has indicated that a waiver from compliance with Rule 8.08 of the Listing Rules during that period will not be granted to the Company. **As a result, trading of the Shares on the Stock Exchange will be suspended immediately after Completion until 25% of the issued Shares are maintained in public hands. Win Channel and Sheung Hai have jointly and severally undertaken to the Stock Exchange to take appropriate steps within one month following the close of the Offer to ensure that a sufficient public float exists for the Shares as required under the Listing Rules. Therefore, it is presently expected that trading in the Shares on the Stock Exchange will be suspended from the date of Completion to a date not later than the end of one month following the close of the Offer when 25% of the issued Shares are maintained in public hands. Shareholders should note that suspension of trading in the Shares will only be uplifted when the public float is restored.**

The Stock Exchange has also stated that, if the Company remains a listed company on the Stock Exchange, any further acquisitions or disposals of assets by the Company and its subsidiaries will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to the Shareholders irrespective of the size of the proposed transactions, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions and any such transaction may result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

REASONS FOR THE TRANSACTIONS

The Group is principally engaged in the provision of credit cards security services, trading of electronic products such as electronic dictionaries, provision of financial information through pagers, internet and mobile phones and investments in high-tech and bio-technology related businesses.

Win Channel has long been looking for investment opportunities with great potential and was impressed by the credit card security services provided by the Company. Both Win Channel and Sheung Hai believe that the credit cards security services provided by the Group will be further enhanced in terms of technology, marketability and eventually profitability with this new capital injection. The Company expects that plastic money will be widely used and acceptable through various transactions regularly and will present good business and investment opportunities for the Company in this area, particularly in the local and the PRC market. Therefore, it is the intention of the Company to further develop and put its business focus on the credit card security services.

For these reasons, both the Company and Sheung Hai, the existing controlling Shareholder, had been seeking for suitable financial investors for the Company so as to provide the necessary capital injection for the Company to develop its business in this area. Through discussions with various potential investors, the Company had encountered difficulties in securing parties who had the financial capabilities to provide the capital sought for by the Company. Sheung Hai had therefore decided to contribute a portion of the Company's capital by itself subscribing for Shares under the Subscription Agreement. The Company and Sheung Hai believe that the extent of the capital injection provided by

LETTER FROM THE BOARD

Win Channel under the Share Acquisition Agreement, when coupled with the capital to be injected by Sheung Hai under the Subscription Agreement, would provide the Company with the necessary funding to focus on an area that is expected to generate profitable business potentials for the Group in the longer term.

The Company's credit card security system ("DNA Security System") is a specially designed alert system for credit card security. Information of credit card payment transactions such as payment amounts will be sent to cardholders who are using the DNA Security System through mobile communication network operators in alert messages. This will alert the cardholder of unauthorized uses or credit card frauds. The DNA Security System project was launched in September 2001 and is currently used by Dah Sing Bank, which incorporates the DNA Security System into their credit cards as part of the services offered to credit cardholders. The Company is under negotiation with other banks in Hong Kong and the PRC for the use of the DNA Security System.

The Company is currently experiencing a tight liquidity situation. The Board expects that the injection of capital by Win Channel and Sheung Hai pursuant to the Agreements will assist in improving the cash flow position of the Group and provide working capital for its daily operations. In addition, it will also assist the Group to reduce the level of its indebtedness and repay overdue bank borrowings. The net proceeds of about HK\$44 million from the subscription of New Shares will be used as to about HK\$5 million for developing existing businesses of the Group, about HK\$25 million for developing its credit card security services, and as to about HK\$14 million for general working capital purposes, including repaying outstanding debts and payables.

The Board is of the view that the issue of New Shares pursuant to the Agreements is an expedient and practicable method for the Group to raise funds to further develop its business particularly in the credit card security services. The Board had considered other fund raising alternatives such as bank borrowings or a rights issue of Shares. However, the Board considers that raising funds by means of bank borrowings or issuance of debt securities will further increase the level of the Group's indebtedness.

The Board had approached four institutions in respect of rights issue of Shares between December 2001 and January 2002. Even before the pricing of a rights issue was discussed, these institutions indicated they had no interest in underwriting or participating in a rights issue for the Company. The Board therefore concluded that the level of participation in any proposed rights issue exercises of the Company would be uncertain in view of the declining trend of the market price of the Shares prior to the Company's entry into the Agreements.

Mr. Wong has indicated that given his financial resources, it would not be feasible for him to underwrite a rights issue of HK\$45 million. Mr. Chim was not a shareholder of the Company and since the outset of the discussions with the Company, Mr. Chim's role had always been that of a passive investor in the Company and not an underwriter.

The transfer of the Transfer Shares to Win Channel is based on a commercial decision reached between the parties having regard to the ultimate projected shareholdings of Win Channel and Sheung Hai (and parties acting in concert with it) in the Company following compliance with the minimum public float requirements in respect of the Shares under Rule 8.08 of the Listing Rules. Such ultimate projected shareholdings of Win Channel and Sheung Hai (and parties acting in concert with it) are estimated to be about 41.25% and 33.75% of the issued share capital of the Company as enlarged by the New Shares respectively. Since the Transfer Shares are already in issue, the transfer of these Shares to Win Channel will itself have no dilution effect on the shareholding interest held by the public in the Company.

IMPLICATIONS UNDER THE LISTING RULES

As Sheung Hai is the controlling Shareholder and is wholly and beneficially owned by Mr. Wong, a Director, the transactions contemplated under the Subscription Agreement constitute connected transactions of the Company under the Listing Rules and is subject to the approval of the Independent Shareholders at a special general meeting to be convened.

In compliance with paragraph 19 of the listing agreement entered into between the Company and the Stock Exchange and since Sheung Hai is a party to the Share Acquisition Agreement, the Share Acquisition Agreement is subject to the approval of the Independent Shareholders at a special general meeting to be convened. Win Channel, Mr. Wong, Sheung Hai, their respective associates and parties acting in concert with them will abstain from voting on the resolutions to approve each of the Share Acquisition Agreement and the Subscription Agreement.

The Independent Board Committee, comprising Ms. Ha Ping and Mr. Sum Mun Kid, Frederick who are the independent non-executive Directors, has been appointed to advise the Independent Shareholders and Altus has been appointed to advise the Independent Board Committee in connection with the Agreements.

CHANGE OF NAME OF THE COMPANY

The Company proposes to change its name to “Credit Card DNA Security System (Holdings) Limited” and adopt the Chinese name 信用卡防盜系統(控股)有限公司 for identification purposes in order to reflect further development and future focus of the Company’s business on credit card security related activities.

Conditions and Expected Effective Date

The change of the Company’s name will be subject to the approval of the Registrar of Companies in Bermuda and the Shareholders at the Special General Meeting and will take effect from the date on which the new name is entered on the register in place of the former name by the Registrar of Companies in Bermuda. Thereafter, the Company will carry out the necessary filing procedure with the Registrar of Companies in Hong Kong. Once the proposed change of name becomes effective, the Chinese translation of the new name of the Company will be “信用卡防盜系統(控股)有限公司” for the purposes of identification.

Trading Arrangement of Share Certificate

The change of name of the Company will not affect any right of the Shareholders. All existing share certificates in issue bearing the existing name of the Company will after the change of name continue to be evidence of title to the Shares and will continue to be valid for trading, settlement and delivery for the same number of Shares in the new name of the Company. Once the change of name becomes effective, any issue of share certificates thereafter will be issued in the new name of the Company. A further announcement will be made should the proposed change of name becomes effective.

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

General mandates were granted to the Directors to exercise the power of the Company to allot, issue and repurchase Shares pursuant to ordinary resolutions passed by the Shareholders at the annual general meeting of the Company held on 17th January, 2002. Ordinary resolutions will be proposed at the Special General Meeting to grant new general mandates to the Directors, which will be conditional on Completion and in substitution for those granted on 17th January, 2002, to:

- (i) allot and issue new Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of such resolution as enlarged by the issue of the New Shares;
- (ii) repurchase securities not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of such resolution as enlarged by the New Shares; and
- (iii) add to the Issue Mandate any Shares repurchased pursuant to the Repurchase Mandate (up to 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of such resolution as enlarged by the issue of the New Shares).

The authority conferred on the Directors by the Issue Mandate, the Repurchase Mandate and the Extension Mandate would continue in force until the earlier 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 law or the bye-laws of the Company to be held; and (iii) its revocation or variation by ordinary resolution of the Shareholders in general meeting.

An explanatory statement to provide Shareholders with all the information reasonably necessary for them to make an informed decision on whether to vote for or against the proposed resolution for the granting of the Repurchase Mandate as required by the Listing Rules is set out in Appendix I to this circular.

SPECIAL GENERAL MEETING

Set out on pages 42 to 45 of this circular is a notice convening the Special General Meeting which will be held at 10:00 a.m. on 19th April, 2002 at Chater Room III, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong at which resolutions will be proposed to approve, among other things, the transactions contemplated under the Agreements, the change of company name, the Issue Mandate, the Repurchase Mandate and the Extension Mandate. Win Channel, Sheung Hai and their respective associates will abstain from voting on the resolution approving the Agreements.

The form of proxy for use at the Special General Meeting is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Company's branch share registrar in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre,

LETTER FROM THE BOARD

111 Connaught Road Central, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting or any adjourned meeting. Completion and return of a form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting should you so desire.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 19 which contains its recommendation to the Independent Shareholders on the terms of the Agreements, the letter from Altus, the text of which is set out on pages 20 to 32 of this circular, containing its advice to the Independent Board Committee and the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Wong Kam Fu
Chairman



STAR BIO-TECH

星光生物科技

STAR BIO-TECH (HOLDINGS) LIMITED

星光生物科技(控股)有限公司*

(Incorporated in Bermuda with limited liability)

26th March, 2002

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS
INVOLVING ISSUANCE OF NEW SHARES**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Agreements, details of which are set out in the letter from the Board in the circular dated 26th March, 2002 (the “Circular”) to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of Altus in respect of the transactions contemplated under the Agreements as set out in the letter from Altus in the Circular. Having taken into account the advice of Altus, we consider the terms of each of the Agreements to be fair and reasonable so far as the interests of the Independent Shareholders are concerned and that the entering into of the Agreements is in the interests of the Company and the Independent Shareholders.

Yours faithfully,

Ha Ping Sum Mun Kid, Frederick

Independent Board Committee

** for identification purpose only*

LETTER FROM ALTUS CAPITAL LIMITED

The following is the text of the letter of advice to the Independent Board Committee from Altus dated 26th March, 2002 prepared for incorporation in this circular.

ALTUS CAPITAL LIMITED

8/F Hong Kong Diamond Exchange Building
8 Duddell Street, Central
Hong Kong

Tel : (852) 2522 6122

Fax: (852) 2522 6992

26th March, 2002

The Independent Board Committee
Star Bio-Tech (Holdings) Limited
11/F., Tai Sang Bank Building
130-132 Des Voeux Road
Central, Hong Kong

Dear Sirs,

CONNECTED TRANSACTION ACQUISITION OF SHARES AND SUBSCRIPTION OF SHARES

INTRODUCTION

We refer to the circular to the Shareholders dated 26th March, 2002 (the “Circular”) issued by the Company of which this letter forms part and to our appointment as independent financial adviser to the Independent Board Committee in respect of the proposed Share Acquisition Agreement and Subscription Agreement, the details of which are set out in the Letter from the Board contained in this Circular. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular of which this letter forms part unless the context otherwise requires.

On 27th February, 2002, Win Channel, Sheung Hai and the Company jointly announced that:

- (i) Win Channel, the Company and Mr. Wong entered into the conditional Share Acquisition Agreement pursuant to which (a) Win Channel will subscribe for 2,500,000,000 New Shares for a total cash consideration of HK\$25 million, equivalent to HK\$0.01 per Share; and (b) Mr. Wong will procure a transfer to Win Channel of the Transfer Shares beneficially owned by Sheung Hai, a company wholly-owned by Mr. Wong, for a total cash consideration of HK\$1.00; and
- (ii) Sheung Hai and the Company entered into the conditional Subscription Agreement pursuant to which Sheung Hai will subscribe for 2,000,000,000 New Shares for a total cash consideration of HK\$20 million, equivalent to HK\$0.01 per Share.

Pursuant to paragraph 19 of the Listing Agreement entered into between the Company and the Stock Exchange and due to the fact that Sheung Hai is a party to the Share Acquisition Agreement, the transactions contemplated under the Share Acquisition Agreement is subject to the approval of Independent Shareholders at the Special General Meeting.

Pursuant to the Listing Rules, the Subscription Agreement constitutes connected transactions of the Company and is therefore subject to the approval of Independent Shareholders at the Special General Meeting.

BASIS OF OUR OPINION

In formulating our opinion, we have relied to a considerable extent on the information, statements, opinions and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true and accurate and complete at the time they were made and continue to be true at the date of the Circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board in this Circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. We have also discussed with the management of the Group their plans for the Group and the prospects of the businesses of the Group.

We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the proposed Share Acquisition Agreement and the Subscription Agreement and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinions. We have no reason to suspect that any material facts or information (which is known to the Company) have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and its directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

PRINCIPAL FACTORS CONSIDERED

(I) *Background*

The Group is engaged principally in the provision of credit card security services, trading of electronic products such as electronic dictionaries, provision of financial information through pagers, the Internet and mobile phones and investment in high-tech and bio-technology related businesses.

The current Board took over control and management of the Company around June 2000, after which, the Company has undergone various reorganisations, acquisitions and joint ventures including, among other things, restructuring of its debts, which involved waiver by financial creditors of certain debts owed to them by the Group, and changes to the capital structure of the Company involving reduction of capital, consolidation of shares and issue of new shares. The Company has formed various joint ventures including a web site specialising in trade information in the PRC and a Chinese character input software joint venture. The Company has acquired businesses including the distribution and marketing of language translation products, service provider of financial information, manufacturer of electronics and telecommunication products and credit card security system. The

LETTER FROM ALTUS CAPITAL LIMITED

Group has also ventured into the bio-technology business which includes the manufacture and marketing of health food products. According to the Directors, for the six months ended 31st December, 2001, the aforesaid businesses and ventures had not been profitable and had not contributed profit to the Group.

(II) *Conditions of the Agreements*

Independent Shareholders should note that the Share Acquisition Agreement is conditional upon the Subscription Agreement becoming unconditional (save for the fulfilment of the condition relating to the Share Acquisition Agreement becoming unconditional); the Subscription Agreement is conditional upon the Share Acquisition Agreement becoming unconditional (save for the fulfilment of the condition relating to the Subscription Agreement becoming unconditional); and both the aforesaid agreements must be completed contemporaneously. Sheung Hai, being a party to the Share Acquisition Agreement and the Subscription Agreement, may not vote in respect of the relevant resolutions to be proposed at the Special General Meeting.

(III) *Effects of the transactions under the Agreements*

(a) **Impact on the Group's financial position**

Set out below are the abridged unaudited consolidated balance sheet of the Group as at 31st December, 2001 and the abridged audited consolidated balance sheet as at 30th June, 2001.

	As at 30th June, 2001 (audited) <i>HK\$'000</i>	As at 31st December, 2001 (unaudited) <i>HK\$'000</i>
Property, plant and equipment	27,255	20,461
Inventories, investments and other assets	15,319	15,322
Debtors, deposits and prepayments	28,729	29,161
Cash and bank balances	<u>13,595</u>	<u>6,964</u>
Total assets	<u>84,898</u>	<u>71,908</u>
Creditors, payables and accrued charges	(42,457)	(46,365)
Convertible notes	(4,800)	(24,150)
Loan	(12,500)	(12,500)
Bank borrowings	(11,556)	(4,591)
Minority interests	<u>(5,879)</u>	<u>(4,657)</u>
Total liabilities	<u>(77,193)</u>	<u>(92,263)</u>
Shareholders' funds	<u>7,706</u>	<u>(20,355)</u>
Net asset value/(Deficit) per Share (HK\$)	<u>0.016</u>	<u>(0.042)</u>

Net asset/liability

From the abridged unaudited consolidated balance sheets of the Group above, the Group's financial position deteriorated from a net asset position of approximately HK\$7.7 million as of 30th June, 2001 to a net liability position of approximately HK\$20.4 million as of 31st December, 2001. The deterioration was due mainly to losses from operations.

We have analysed the effects of the Share Acquisition Agreement and the Subscription Agreement on the net asset value of the Group. Assuming completion of the Share Acquisition Agreement and the Subscription Agreement, as a result of the issue and allotment of the New Shares, shareholders' funds would become approximately HK\$23.6 million, an improvement from the net liability position of HK\$20.4 million. Net liability of HK\$0.042 per Share as at 31st December, 2001 would therefore improve to net asset HK\$0.005 per Share. We consider such improvement in net asset value favourable to the Company and the Independent Shareholders. However, we wish to point out that the shareholding interest of Independent Shareholders will be materially diluted following the Completion. Further details are set out in the paragraph headed "Dilution effect on the shareholdings in the Company".

Gearing

As of 31st December, 2001, the Group had deficit in shareholders' funds of approximately HK\$20.4 million and total financial debts, comprising convertible notes, loan and bank borrowings, of approximately HK\$41.3 million. Upon Completion, shareholders' funds would improve to approximately HK\$23.6 million, and after repayment of all bank borrowings, total financial debts would become approximately HK\$36.7 million. The gearing ratio would therefore become approximately 156%.

Cash position

According to the Board, cash and bank balances declined from approximately HK\$13.6 million as at 30th June, 2001 to approximately HK\$7.0 million as at 31st December, 2001 mainly because the Group's operations, most of which were still loss making, had not contributed sufficient funds to the Group. The Board also confirmed that current bank borrowings of approximately HK\$4.2 million had been overdue for repayment and the Board has given an undertaking to the relevant banks to repay the overdue amount as soon as practicable. Over the six months ended 31st December, 2001, the Group's liabilities in outstanding convertible loan notes increased from HK\$4.8 million to HK\$24.2 million as a result of the issue of additional convertible notes since 30th June, 2001.

The issue of New Shares pursuant to the Agreements would result in net proceeds of approximately HK\$44 million. The proceeds would enable the Group to (a) repay overdue bank borrowings; (b) provide working capital for the existing businesses; and (c) finance the development of the DNA Security System (as described below) and existing businesses of the Group. It is intended that up to HK\$25 million will be applied for the development of the DNA Security System and up to HK\$5 million will be used for the development of existing businesses.

LETTER FROM ALTUS CAPITAL LIMITED

Based on our discussion with the management of the Group, given the sustained operating losses of its principal business activities and in the absence of the aforesaid proceeds, the Group will not be able to meet its financial obligations and working capital requirements.

(IV) *Trading record of the Group*

The table below sets out the abridged unaudited consolidated results of the Group for the six months ended 31st December, 2001 and the audited consolidated results of the Group for the year ended 30th June, 2001.

	Year ended 30th June, 2001 (audited) HK\$'000	6 months ended 31st December, 2001 (unaudited) HK\$'000
Turnover	30,071	16,909
Loss from operations	(67,007)	(28,264)
Net loss	(92,483)	(29,310)

During the year ended 30th June, 2001, the Group's principal business activities included the manufacture and sale of food products, manufacture and sale of electronic products, sale of health products, provision of financial information services and provision of Internet consultancy services. All such principal business activities recorded operating losses, which contributed to the Group's loss from operations of approximately HK\$67.0 million for the year ended 30th June, 2001.

The Group recorded loss from operations of approximately HK\$28.3 million for the six months ended 31st December, 2001 as its principal business activities continued to sustain losses from operations. In other words, these principal business activities have not contributed operating profit to the Group.

The proceeds from the issue of New Shares upon Completion will provide the required funds for the Group to repay overdue bank borrowings and meet its working capital requirements, and to finance the development of existing businesses, in particular, the DNA Security System.

(V) *Dilution effect on the shareholdings in the Company*

The effects of the Agreements on the shareholding structure of the Company is set out in the letter from the Board under the sub-paragraph "Shareholdings" on page 12 of this circular. Sheung Hai, which is wholly and beneficially owned by Mr. Wong, currently holds Shares representing approximately 36.02% of the issued share capital of the Company. The balance of approximately 63.98% of the issued share capital of the Company is held by the Independent Shareholders. Upon Completion, the shareholding of Independent Shareholders will be diluted significantly from approximately 63.98% to approximately 6.28% of the issued share capital of the Company as enlarged by the issue of the New Shares.

As discussed in the “Proforma statement of adjusted net asset value” in the Letter from the Board, the unaudited net deficit in the shareholders’ funds prior to Completion is approximately HK\$20.4 million, implying that no assets will be attributable to the Independent Shareholders in the event of distribution of assets. Upon Completion, the financial position of the Group will improve to net tangible assets of approximately HK\$23.6 million, representing net asset per Share of about HK\$0.005.

We noted that Completion will result in significant dilution to the shareholding of Independent Shareholders. However, the Directors have considered and explored alternative methods of fund raising, including a rights issue of Shares, but concluded that in view of the existing financial position of the Group, being a deficit in shareholders’ funds and current operating losses, and the declining trend of the Share price prior to the Announcement, the level of participation in a rights issue, and hence, the likelihood of raising the required funds, would be uncertain. It is also unlikely for the Company to be able to secure an underwriter for a rights issue.

The subscription level of a rights issue may be encouraged by setting the rights issue price at a significant discount to the market price. We have analysed certain recent rights issues of companies listed on the Stock Exchange and found, for reference, three companies: Quality Healthcare Asia Limited; Kin Don Holdings Limited; and Victory Group Limited, which had deficit in shareholders’ funds at the time of announcement of their rights issues. While the rights prices of the rights issues were at discounts to the market prices prior to their announcements, all three rights issues were undersubscribed by their shareholders and the unsubscribed rights shares had to be taken up or placed out by the relevant underwriters.

From our discussions with the Company, between December 2001 and January 2002, the Company approached four institutions in respect of a rights issue of Shares. Even before the pricing of a rights issue was discussed, these institutions indicated that they had no interest in underwriting or participating in a rights issue for the Company. As regards the possibility of Mr. Wong underwriting a rights issue of Shares, Mr. Wong has indicated that given his financial resources it would not be feasible for him to underwrite a rights issue of HK\$45 million.

The Directors have also considered further borrowings or issue of new debt instruments. However, given the current net liabilities position of the Group, these may not be feasible. Indeed, given the Group’s financial circumstances, and its immediate requirement for working capital to meet overdue financial obligations and requirements for businesses, we concur and are of the view that it is not practicable for the Group to raise funds via such alternative avenues.

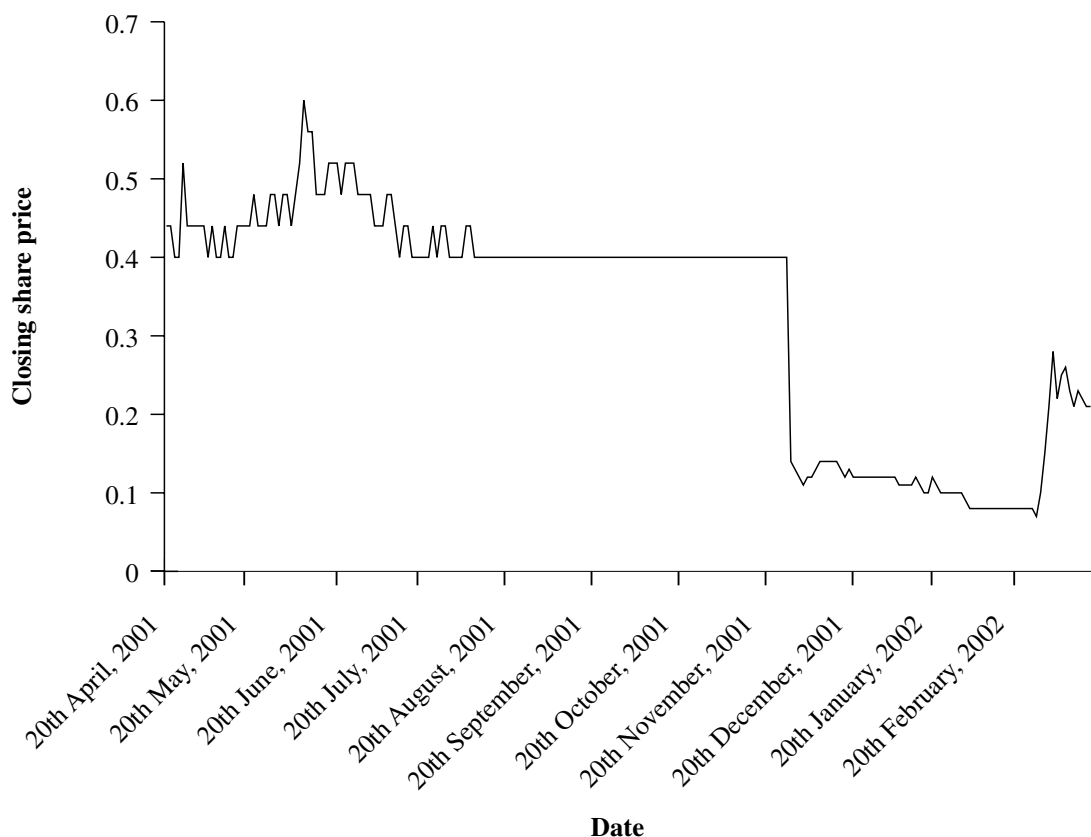
LETTER FROM ALTUS CAPITAL LIMITED

The proceeds from the issue of New Shares pursuant to the Agreements will result in net assets attributable to Independent Shareholders, an improvement from a net deficit position prior to Completion. We noted that despite the significant discount, the Share Acquisition Price and Subscription Price of HK\$0.01 per Share represent approximately 100% premium to the net asset per Share of about HK\$0.005 after the Completion. Given the above reasons and, as explained in a later paragraph headed “Alternative fund raising exercises”, the difficulty in raising funds via alternative avenues for the urgent working capital requirement of the Group to meet, amongst others, overdue financial obligations, notwithstanding the material dilution effect on the shareholdings in the Company, we consider the proposed issue of New Shares pursuant to the Agreements to be a practicable fund-raising method.

(VI) *Share price and trading volume*

A chart illustrating the Share price for the one year up to the Latest Practicable Date is as follows:

Chart I

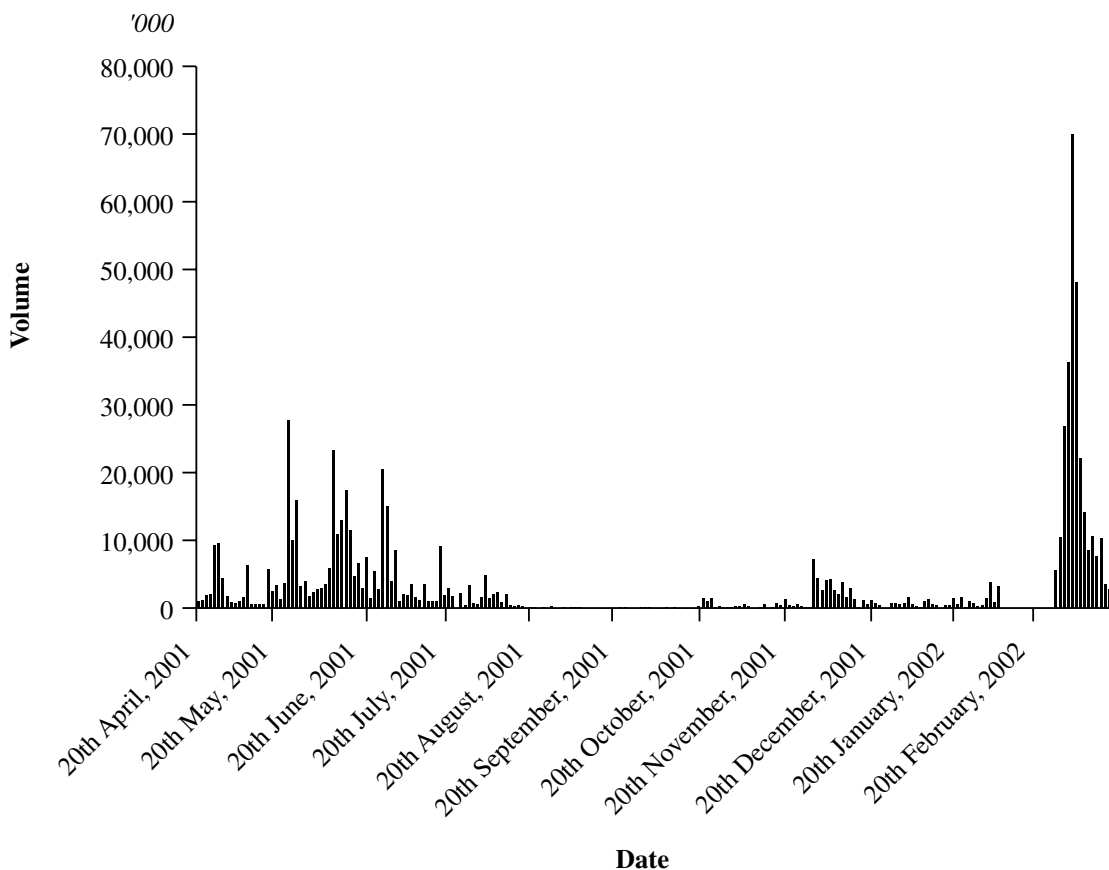


The price has been adjusted to reflect the consolidation of 40 shares of HK\$0.01 each in the then share capital of the Company into one Share in November 2001.

LETTER FROM ALTUS CAPITAL LIMITED

A chart illustrating the Share trading volume for the one year up to the Latest Practicable Date is as follows:

Chart II



The volume has been adjusted to reflect the consolidation of 40 shares of HK\$0.01 each in the then share capital of the Company into one Share in November 2001.

We noted from Chart II above that between 3rd December, 2001 and 5th February, 2002, being a period prior to the Announcement, the average daily trading volume of the Shares had been low at approximately 1.24 million Shares, representing about 0.25% of the Shares in issue. Trading volume increased significantly after the Announcement and resumption in trading on 28th February, 2002 with an average daily trading volume of the Shares of over 26.5 million Shares or about 5.48% of the total issued Shares.

From Chart I above we also noted that between 3rd December, 2001 and 5th February, 2002, being a period prior to the Announcement, the Shares had traded at prices between HK\$0.155 and HK\$0.06 per Share. After the Announcement and resumption of trading, the traded Share price increased significantly and reached a high of HK\$0.36 per Share on 6th March, 2002. As at the Latest Practicable Date, the closing market price was HK\$0.207 per Share. The Share Acquisition Price and the Subscription Price of HK\$0.01 per Share represents:

- (a) a discount of approximately 87.2% to HK\$0.078, being the closing market price of the Shares prior to the suspension in trading of Shares on 5th February, 2002 pending the Announcement;
- (b) a discount of approximately 89.4% to HK\$0.0947, being the average closing market price for the 10 trading days up to and including 5th February, 2002; and
- (c) a discount of approximately 95.2% to the closing market price of the Share of HK\$0.207 on the Latest Practicable Date.

The Share Acquisition Price and the Subscription Price of HK\$0.01 is equal to the nominal value of the Share.

Based on the above, we noted that the Share Acquisition Price and the Subscription Price represent significant discounts to the prevailing market prices. However, considering the sustained loss attributable to Shareholders and the net liability position of the Group in its interim result announcement for the six month ended 31st December, 2001, the current Share price and trading volume may not truly reflect the fundamentals and fair valuation of the Company. We are of the view that increased trading volume in the Shares and the increases in Share price after the Announcement may be attributable to investors' expectation or speculation of future developments of the Group after Completion.

Based on the above, although the Share price has ranged from HK\$0.06 to HK\$0.36 in the period from 3rd December, 2001 to the Latest Practicable Date, which represented a premium of between 500% and 3,500% to the Share Acquisition Price and the Subscription Price, we attribute such premium, to a large extent, to speculative activities. The current market price of the Shares may not reflect the fundamentals of the Group or its financial position and trading results. . In assessing the fairness and reasonableness of the Share Acquisition Price and the Subscription Price of HK\$0.01 per Share, we have considered, besides the current traded Share price, the deficit in shareholders' funds of the Group prior to Completion and the fact that the Share Acquisition Price and Subscription Price of HK\$0.01 per Share represents approximately 100% premium to the net asset per Share of about HK\$0.005 after Completion.

(VII) *Intention of Win Channel and Sheung Hai*

The Group is principally engaged in the provision of credit card security services, trading of electronic products such as electronic dictionaries, provision of financial information through pagers, internet and mobile phones and investments in high-tech and bio-technology related businesses. The intention of Win Channel upon the Completion are set out in the letter from the Board in this circular, the main points are summarised below:

- (a) Win Channel and Sheung Wai intend to maintain the existing principal activities of the Group and have no intention to inject any assets or businesses into the Group nor dispose of any major assets. Win Channel and Sheung Wai intend to hold their interests in the Company as a long-term investment.
- (b) Both Win Channel and Sheung Hai believe that the DNA Security System will be further enhanced in terms of technology, marketability and profitability following the capital injection and intends to further develop and place its business focus on the DNA Security System.
- (c) The net proceeds of about HK\$44 million will be used as to approximately HK\$30 million for the development of existing businesses of the Group, in particular, the DNA Security System and the balance of approximately HK\$14 million for general working capital purposes, including repayment of outstanding debts and payables.
- (d) There will not be any changes to the composition of the Board following the Completion.
- (e) Mr. Chim, the ultimate beneficial owner of Win Channel, will be a passive investor in the Company and will have no management function in the Company after Completion. There is not any form of agreement, arrangement or understanding between Mr. Chim and Mr. Wong or other Directors on how the Company should be managed.

Description of the DNA Security System, which will become the main business focus of the Group upon Completion, can be found in the letter from the Board of this Circular. The Board believes that as the use of credit cards is becoming more widespread and with credit card frauds becoming increasingly rampant, the DNA Security System has significant growth potential, especially in the PRC. Nevertheless, the management note that further development and enhancement of the DNA Security System will require substantial capital for research and development. The existing management will continue to manage the businesses of the Group, including the DNA Security System.

Despite the aforesaid future plans and prospects of the DNA Security System and the fact that it is currently being used by Dah Sing Bank, we note that further research and development efforts are required to commercialise and launch this service on a large scale and there is no certainty as to the success of the DNA Security System, which will become the main business focus of the Group upon Completion. On this basis, Independent Shareholders are advised to assess their investment objectives and review their investment strategies in conjunction with this future plan of the Group. In view of the effect of dilution on shareholdings in the Company following the issue of New Shares, Independent Shareholders should note that any profit derived from the successful development of the DNA Security System attributable to them will be significantly diluted.

(VIII) Listing status of the Company upon Completion

Win Channel and Cheung Wai intends to maintain the listing of the Shares on the Stock Exchange after the Completion and the Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure a sufficient public float as required under the Listing Rules.

Upon Completion, Win Channel, Sheung Hai, their respective associates and parties acting in concert with them will collectively be interested in about 93.72% of the issued share capital of the Company following Completion. Their shareholding interest may further increase during the period of the Offer as a result of valid acceptances received under the Offer. Accordingly, the Company will not be able to comply with the requirements of Rule 8.08 of the Listing Rules during the period immediately following Completion until the public float for the Shares is restored. The Stock Exchange has indicated that a waiver from compliance with Rule 8.08 of the Listing Rules during that period will not be granted to the Company. **As a result, trading of the Shares on the Stock Exchange will be suspended immediately after Completion until 25% of the issued Shares are maintained in public hands. Win Channel and Sheung Hai have jointly and severally undertaken to the Stock Exchange to take appropriate steps within one month following the close of the Offer to ensure that a sufficient public float exists for the Shares as required under the Listing Rules. Therefore, it is presently expected that trading in the Shares on the Stock Exchange will be suspended from the date of Completion to a date not later than the end of one month following the close of the Offer when 25% of the issued Shares are maintained in public hands. Shareholders should note that suspension of trading in the Shares will only be uplifted when the public float is restored.**

Independent Shareholders should take note that there is no definite period before which such suspension will be lifted by the Stock Exchange.

The Stock Exchange has also stated that, if the Company remains a listed company on the Stock Exchange, any further acquisitions or disposals of assets by the Company and its subsidiaries will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to the Shareholders irrespective of the size of the proposed transactions, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions and any such transaction may result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

Independent Shareholders should note that there is no certainty that such new application for listing will be approved by the Stock Exchange.

(IX) Alternative fund raising exercises

In addition to issuing New Shares pursuant to the Agreements, other alternatives to raise funds include bank borrowings or a rights issue of Shares. Given the net liabilities position of the Group, that over HK\$4 million bank borrowings are due for immediate repayment and that there are convertible notes totaling over HK\$24 million outstanding, the Directors are of the view that it will be unlikely for the Group to obtain, if at all, further borrowings or to issue new debt instruments on favourable terms.

LETTER FROM ALTUS CAPITAL LIMITED

The Directors have also considered a rights issue of Shares but concluded that given the existing financial position of the Group, the level of participation in a rights issue would be uncertain, in particular, in view of the declining trend of the Share price prior to the Announcement. Furthermore, the Company was not able to secure an underwriter for a rights issue. We note that the subscription level of a rights issue may be encouraged by setting the rights issue price at a significant discount to the market price. We have analysed certain recent rights issues of companies listed on the Stock Exchange and found, for reference, three companies: Quality Healthcare Asia Limited; Kin Don Holdings Limited; and Victory Group Limited, which had deficit in shareholders' funds at the time of announcement of their rights issues. We noted that while the rights prices of the rights issues were at discounts to the market prices prior to their announcements, all three rights issues were undersubscribed by their shareholders and the unsubscribed rights shares had to be taken up or placed out by the relevant underwriters.

Company	Date of rights issue announcement	Rights issue price per share (HK\$)	Market price before announcement (HK\$)	Discount to market price (%)	Published shareholders' funds/(deficit) at time of rights issue (HK\$'000)	Level of subscription (times)
Quality Healthcare Asia Limited	1st August, 2001	0.25	0.46	45.65	(137,945)	0.5133
Kin Don Holdings Limited	4th August, 2001	0.02	0.06	66.67	(153,189)	0.7137
Victory Group Limited	19th December, 2001	0.10	0.167	40.10	(15,540)	0.6664

From our discussion with the Company, between December 2001 and January 2002, the Company approached four institutions in respect of a rights issue of Shares. Even before the pricing of a rights issue was discussed, these institutions indicated that they had no interest in underwriting or participating in a rights issue for the Company.

As regards the possibility of Mr. Wong underwriting a rights issue of Shares, Mr. Wong has indicated that given his financial resources it would not be feasible for him to underwrite a rights issue of HK\$45 million.

Having considered the deficit in shareholders' funds of the Group prior to Completion and the sustained loss from operations, notwithstanding the fact that the Share Acquisition Price and Subscription Price of HK\$0.01 per Share represents approximately 100% premium to the net asset per Share of about HK\$0.005 after Completion, we concur with the Directors that the outcome of a rights issue, hence the amount that could be raised for the Group to meet its financial obligations and funding requirements, would be uncertain. Given the Group's financial circumstances, and its immediate requirement for working capital, we are of the view that it is not practicable for the Group to raise funds via such alternative avenues. The issue of New Shares pursuant to the Agreements is a practicable method for the Group to raise the required funds with certainty to enable it to repay overdue bank borrowings, meet working capital requirements and finance the development of existing businesses.

RECOMMENDATION

Having considered the above principal factors, including the material dilution effect on the shareholdings of the Independent Shareholders, for the Acquisition Agreement and the Subscription Agreement, and the Group's financial circumstances and its requirement for immediate working capital, we conclude that the issue of New Shares pursuant to the Agreements is a practicable and reasonable method for the Group to raise the required funds. Given the tight liquidity position of the Group and the urgent funding requirement to meet overdue bank borrowings, we are of the view that it is not practicable for the Group to raise funds via alternative avenues, for instance a rights issue of Shares. We are of the view that the terms of the Acquisition Agreement and the Subscription Agreement are fair and reasonable and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the Special General Meeting in respect of the Acquisition Agreement and the Subscription Agreement.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Arnold Ip **Patrick Sun**
Director *Director*

This explanatory statement contains all the information required pursuant to rule 10.06(1)(b) and other relevant provisions of the Listing Rules.

THE SHARE REPURCHASE RULES

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their fully-paid up shares on the Stock Exchange subject to certain restrictions. In this regard, the definition of “Shares” in the Listing Rules would, and where used below in this explanatory statement (including the use of the word “Share”) shall (unless the context otherwise requires), include shares of all classes and securities which carry a right to subscribe or purchase shares of the Company.

EXERCISE OF THE REPURCHASE MANDATE

As at the Latest Practicable Date, there were an aggregate of 489,615,679 Shares in issue. Immediately upon Completion, there will be in issue an aggregate of 4,989,615,679 Shares. Subject to the passing of the resolution granting the Repurchase Mandate and on the basis that no further Shares will be issued and repurchased prior to the date of the Special General Meeting, exercise in full of the Repurchase Mandate will allow the Company to repurchase a maximum of 498,961,567 Shares during the period from the date of the passing of the resolution granting the Repurchase Mandate and ending on the earliest of the date of the next annual general meeting of the Company, the date by which the next annual general meeting of the Company is required to be held by law or its bye-laws or the date upon which such authority is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

REASONS FOR REPURCHASES

The Directors believe that it is in the best interests of the Company and its shareholders to have a general authority from shareholders to enable the Directors to repurchase securities of the Company in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per share of the Company and will only be made if the Directors believe that such repurchases will benefit the Company and its shareholders.

FUNDING OF REPURCHASES

In repurchasing its securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association, bye-laws and the laws of Bermuda.

Under Bermuda law, purchases may only be effected out of the capital paid up on the purchased shares or out of funds of the Company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the Company otherwise available for dividend or distribution or out of the Company’s share premium account.

As compared with the position as disclosed in the Company’s most recent published audited accounts for the year ended 30th June, 2001, and taking into account the current working capital position of the Company, the Directors consider that no material adverse effect on the working capital and gearing position of the Company may result in the event that the Repurchase Mandate was to be exercised in full in the period before the Repurchase Mandate expires. The Directors however do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

GENERAL

None of the Directors, and to the best of their knowledge having made all reasonable enquiries, any associates of any Director, have any present intention in the event that the Repurchase Mandate is approved by Shareholders to sell any of the Shares to the Company.

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

If, as a result of a share repurchase, 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 the Code. In certain circumstances, a shareholder or a group of shareholders acting in concert could as a result of an increase of its or their interest, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code.

As at the Latest Practicable Date, the following persons hold the following percentages of Shares:

Name	Number of Shares	Percentage holding
Sheung Hai (<i>Note</i>)	170,900,839	34.9%
Super Biotech Enterprises Limited (<i>Note</i>)	5,475,000	1.12%

Note: Sheung Hai and Super Biotech Enterprises Limited are companies wholly owned by Mr. Wong.

Apart from these Shareholders, the Directors were not aware of any single Shareholder who holds more than 10% of the issued share capital of the Company as at the Latest Practicable Date.

Upon Completion, Sheung Hai and Win Channel together will be interested in approximately 93.72% of the enlarged issued share capital of the Company, which interest may be increased following the closing of the Offer required to be made on their behalf under Rule 26 of the Code. Rule 8.08 of the Listing Rules requires that at least 25% of the issued Shares from time to time are held by the public and that failure to do so may result in the Stock Exchange suspending trading in the Shares. The Stock Exchange has indicated that a waiver from compliance with Rule 8.08 of the Listing Rules during the period immediately following Completion until the public float for the Shares is

restored will not be granted to the Company. **As a result, trading of the Shares on the Stock Exchange will be suspended immediately after Completion until 25% of the issued Shares are maintained in public hands.** Win Channel and Sheung Hai have jointly and severally undertaken to the Stock Exchange that they willtake appropriate steps within one month following the close of the Offer to ensure that not less than 25% of the Shares in issue will be held by the public.

If, which is not presently contemplated, the Company is to exercise the Repurchase Mandate in full after Completion and assuming that 25% of the Shares then in issue will be held by the public, the percentage shareholding of Sheung Hai and Win Channel in the Company will increase from 75% to about 83%. The Directors believe that such an increase would not give rise to an obligation to make a mandatory offer under Rule 26 of the Code. If the Repurchase Mandate is granted, the Directors do not intend to exercise it in such a manner that would give rise to such an obligation to make a mandatory offer. Sheung Hai and Win Channel are fully aware of the requirements under Rule 8.08(1) of the Listing Rules and will ensure that not less than 25% of the Shares in issue will be held by the public within one month following the close of the Offer.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate was approved by Shareholders.

The Company has not repurchased any of its shares, whether on the Stock Exchange or otherwise, during the six months preceding the Latest Practicable Date.

The highest and lowest prices at which the Shares have traded on the Stock Exchange during the twelve months preceding the Latest Practicable Date were as follows:—

	Shares	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
March 2001	0.560	0.400
April 2001	0.560	0.400
May 2001	0.520	0.400
June 2001	0.640	0.440
July 2001	0.480	0.400
August 2001	0.440	0.400
September 2001	0.400	0.400
October 2001	0.400	0.400
November 2001	0.400	0.105
December 2001	0.146	0.108
January 2002	0.128	0.090
February 2002	0.085	0.057

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 information contained in this circular relating to Win Channel and Sheung Hai and their directors is supplied by them respectively. The Directors jointly and severally 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, their opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in the circular (other than that relating to Win Channel and Sheung Hai and their directors), the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

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

		HK\$
<i>Authorised:</i>		
60,000,000,000	Shares	600,000,000
<i>Issued and fully paid:</i>		
489,615,679	Shares as at the Latest Practicable Date	4,896,157
<i>Based on the issued share capital as at the Latest Practicable Date and upon issue of the New Shares, conversion in full of the Convertible Notes (based on a conversion price of HK\$0.185 per Share) and exercise in full of the Options, the issued share capital will be:</i>		
489,615,679	Shares as at the Latest Practicable Date	4,896,157
4,500,000,000	New Shares	45,000,000
130,540,540	Shares to be issued on conversion in full of the Convertible Notes	1,305,405
<u>24,225,000</u>	Shares to be issued on exercise in full of the Options	<u>242,250</u>
<u>5,144,381,219</u>		<u>51,443,812</u>

Convertible Notes

The Company had, on 19th June, 2001 and 16th July, 2001 respectively, issued the Convertible Notes and, as at the Latest Practicable Date, an aggregate principal amount of HK\$24.15 million under the Convertible Notes remains outstanding. HK\$3.55 million outstanding under the Convertible Notes are convertible into Shares at an initial conversion price that represents a 20% discount to the average closing price per Share on the Stock Exchange for the last ten trading days immediately preceding the conversion date on which dealings in the Shares took place. The remaining HK\$20.6 million outstanding under the Convertible Notes are convertible into Shares at an adjusted initial conversion price per Share that equals the lower of:

- (a) 80% of the average closing price per Share on the Stock Exchange for the last 10 trading days immediately preceding the conversion date on which dealings in the Shares took place or may have taken place; and
- (b) HK\$0.40.

Assuming that all of the Convertible Notes are converted into Shares at a price of HK\$0.185, being 80% of the average closing price per Share for the ten trading days up to and including the Latest Practicable Date, 130,540,540 Shares will be issued, representing about 2.62% of the total issued share capital of the Company as enlarged by the New Shares. Shares issued on an exercise of the conversion rights attaching to the Convertible Notes will rank pari passu in all respects with the then existing issued Shares.

Options

On 11th April, 1994, the Company adopted a share option scheme (which was modified on 27th July, 2001) under which the Directors may, at their discretion, invite any employees or directors of the Group to take up options to subscribe for Shares at any time during the period of ten years from the date on which the share option scheme was adopted.

The number of Shares fall to be issued pursuant to an exercise of all outstanding Options as at the Latest Practicable Date was 24,225,000 with an exercise price of between HK\$0.4 and HK\$1.5368 per Share.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company or any associated corporation (within the meaning of the SDI Ordinance) notifiable to the Company and the Stock Exchange under Section 28 of the SDI Ordinance and including interests in which a Director has taken under Section 31 of or Part I of the Schedule to the SDI Ordinance or required to be entered into the register under Section 29 of the SDI Ordinance or required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules were as follows:

Name of Directors	Number of Shares held		Numbers of Options (Note 2)
	Personal	Corporate	
Wong Kam Fu, Nelson	—	176,375,839 (Note 1)	9,968,750
Chan Kwong On, Daniel	—	—	1,250,000
Wong Kam Wing	—	—	5,000,000
Wang Zhao Bin	—	—	750,000
Zhao Hua	—	—	700,000

Notes:

- 170,900,839 of these Shares were beneficially owned by Sheung Hai, the remaining 5,475,000 Shares are beneficially owned by Super Biotech Enterprises Limited ("Super Biotech"). The entire share capital of both Sheung Hai and Super Biotech are held by Mr. Wong.
- These Options are exercisable during the period from 21st February, 2001 to 31st August, 2004 respectively with exercise prices of between HK\$0.4 to HK\$1.5368 per Share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has for the purposes of section 28 of SDI Ordinance, nor are they taken to or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance, any interests in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) or any interests which are required to be entered in the register kept by the Company pursuant to section 29 of the SDI Ordinance or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the following persons (not being a Director or the chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholders	Number of shares held	Percentage holding
Sheung Hai (<i>Note</i>)	170,900,839	34.9%

Note: The entire share capital of Sheung Hai is held by Mr. Wong.

4. ARRANGEMENTS AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (i) none of the Directors has or proposes to have a service agreement with any member of the Group, other than contracts expiring or determinable by the Company or its subsidiaries within one year without payment of compensation, other than statutory compensation;
- (ii) none of the Directors is directly or indirectly interested in any assets which have, since 30th June, 2001, the date to which the latest audited financial statements of the Group were made up, been 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; and
- (iii) none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

5. MATERIAL ADVERSE CHANGE

There has been no material adverse change in the financial position or prospects of the Group since 30th June, 2001, the date to which the latest audited financial statements of the Group were made up.

6. LITIGATION

The following sets out information on those litigation or claims engaged in by or, to the knowledge of the Directors, pending or threatened by or against members of the Group as the Latest Practicable Date which are in the opinion of the Directors of material importance:

1. On 19th August, 1998, T Y Lee & Associate commenced proceedings against Chung Hwa Food & Beverages Limited (“Chung Hwa Food”), a wholly-owned subsidiary of the Company, for a sum of HK\$520,000 together with interest accrued and costs. Chung Hwa Food paid an aggregate of HK\$364,000 to the plaintiff on 31st August, 1998 and 7th October, 1998 respectively. As at the Latest Practicable Date, no acknowledgement of service and defence have been filed in respect of the claim.
2. On 6th July, 1998, Network Foods (Hong Kong) Limited commenced proceedings against Vincent Honour Limited (“Vincent Honour”), a subsidiary of the Company, for the sum of HK\$276,719.30. As at the Latest Practicable Date, Vincent Honour had not filed or served any defence and was not aware of any further actions from Network Foods (Hong Kong) Limited.
3. On 6th July, 1998, Lam Kwok Hing commenced proceedings against Vincent Honour for the sum of HK\$5,989,590.40 and HK\$35,000 together with interest and costs. Vincent Honour has filed an acknowledgement of service with the court indicating that it will not defend the claim. As at the Latest Practicable Date, Vincent Honour was not aware of any further actions from Lam Kwok Hing.
4. On 12th January, 2002, a writ was issued against Star Bio-Tech (Holdings) Limited (BVI) and Real Well Investments Limited, wholly-owned subsidiaries of the Company, by The Center (45) Limited claiming a total sum of approximately HK\$3,726,000 plus interest in relation to an alleged breach of a lease agreement for 45th Floor of The Center. Defences were filed by the defendants on 8th February, 2002 and 6th March, 2002 and since then no further action was taken by any party to the proceedings.

Save as disclosed above, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or claims which is in the opinion of the Directors of material importance and no litigation or claims which is in the opinion of the Directors of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

7. EXPERTS

- (a) Altus is an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong).
- (b) Altus is not directly or indirectly interested in any assets which have, since 30th June, 2001, the date to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group or proposed to be acquired or disposed of by or leased to any member of the Group.

- (c) As at the Latest Practicable Date, Altus had no direct or indirect shareholding in any member of the Group or any right to subscribe for or to nominate persons to subscribe for shares in any member of the Group.
- (d) Altus has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business in Hong Kong of the Company at 11/F., Tai Sang Bank Building, 130-132 Des Voeux Road Central, Hong Kong up to and including 19th April, 2002:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Share Acquisition Agreement and the Subscription Agreement; and
- (c) the letter from Altus dated 21st March, 2002, the text of which is set out on pages 20 to 32 of this circular.

9. MISCELLANEOUS

- (a) The secretary of the Company is Ms. Tam Pui Ling, Elaine, who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.
- (b) The registered office of the Company is at Cedar House, 41 Cedar Avenue, Hamilton HM12, Bermuda and its head office and principal place of business in Hong Kong is at 11/F., Tai Sang Bank Building, 130-132 Des Voeux Road Central, Hong Kong.
- (c) The share registrar and transfer office of the Company in Hong Kong is Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road, Central, Hong Kong.



STAR BIO-TECH
星光生物科技

STAR BIO-TECH (HOLDINGS) LIMITED

星光生物科技(控股)有限公司*

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN THAT a special general meeting of the Company will be held at Chater Room III, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong at 10:00 a.m. on 19th, April, 2002 to consider and, if thought fit, pass with or without amendments the following resolutions of which Resolutions Nos. 1 to 4 will be proposed as ordinary resolutions and Resolution No. 5 will be proposed as a special resolution:

ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the agreement dated 6th February, 2002 (the “Share Acquisition Agreement”) made between Win Channel Investments Limited (“Win Channel”), the Company and Mr. Wong Kam Fu relating to, *inter alia*, the subscription by Win Channel of 2,500,000,000 shares of HK\$0.01 each in the Company, a copy of which has been produced to the meeting marked “A” and has been signed by the Chairman of the meeting for the purpose of identification;
- (b) the agreement dated 6th February, 2002 (the “Subscription Agreement”) made between Sheung Hai Developments Limited (“Sheung Hai”) and the Company relating to the subscription by Sheung Hai of 2,000,000,000 shares of HK\$0.01 each in the Company, a copy of which has been produced to the meeting marked “B” and has been signed by the Chairman of the meeting for the purpose of identification; and

all transactions contemplated under the Share Acquisition Agreement and the Subscription Agreement (together, the “Agreements”) be and are hereby approved, confirmed and ratified; and the directors of the Company or any of them be and are hereby authorised on behalf of the Company:

- (i) to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Agreements;
- (ii) subject to completion of the Agreements, to allot and issue 4,500,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company (“New Shares”) in accordance with the respective terms and conditions of the Agreements, such New Shares to be issued credited as fully paid and ranking *pari passu* in all respects with all the existing issued Shares;

* for identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (iii) to exercise or enforce all of the rights of the Company under the Agreements; and
- (iv) to complete the Agreements in accordance with their respective terms.”

2. “**THAT**, conditional upon completion of the Agreements (as such term is defined in Resolution No. 1 set out in the notice convening this meeting):—

- (a) subject to paragraph (c) of this Resolution and the consent of the Bermuda Monetary Authority (if required), the exercise by the directors of the Company (“Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company (“Shares”) and to allot, issue or grant securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities and to make or grant offers, agreements and options which might require the exercise of such power whether during or after the end of the Relevant Period be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall be in addition to any other authorisations given to the Directors and shall authorise the Directors 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 amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval given in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue; (ii) an issue of Shares as scrip dividends pursuant to the bye-laws of the Company from time to time; (iii) an issue of Shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or (iv) an issue of Shares pursuant to the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into Shares, shall not exceed 20% of the aggregate of (1) the nominal amount of the issued share capital of the Company at the date of passing of this Resolution and (2) the nominal amount of all Shares which may be issued pursuant to and/or as contemplated under the Agreements (as such term is defined in Resolution No.1 set out in the notice convening this meeting) and the said approval shall be limited accordingly;
- (d) subject to the passing of each of paragraphs (a), (b) and (c) of this Resolution, any prior approvals of the kind referred to in paragraphs (a), (b) and (c) of this Resolution which had been granted to the Directors and which are still in effect be and are hereby revoked; and

NOTICE OF SPECIAL GENERAL MEETING

- (e) for the purpose of this Resolution:

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

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law or the Bye-laws of the Company to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares 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 exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange applicable to the Company, or the cost or delay in ascertaining the extent and applicability of any such restrictions, obligations or requirements).”

3. **“THAT**, conditional upon completion of the Agreements (as such term is defined in Resolution No. 1 set out in the notice convening this meeting):—

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares in the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10% of the aggregate of (i) the nominal amount of the share capital of the Company in issue at the date of passing of this Resolution; and (ii) the nominal amount of all shares which may be issued pursuant to and/or as contemplated under the Agreements (as such term is defined in Resolution No.1 set out in the notice convening this Meeting) and the said approval shall be limited accordingly;
- (c) subject to the passing of each of paragraphs (a) and (b) of this Resolution, any prior approvals of the kind referred to in paragraphs (a) and (b) of this Resolution which had been granted to the directors of the Company and which are still in effect be and are hereby revoked; and

NOTICE OF SPECIAL GENERAL MEETING

- (d) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law or the Bye-laws of the Company to be held; and
 - (iii) the date on which the authority set out in this resolution is revoked or varied by way of ordinary resolution of the shareholders of the Company in general meeting.”
4. “**THAT**, subject to the passing of Resolutions Nos. 2 and 3 as set out in the notice convening this meeting, the general mandate granted to the directors of the Company to issue and dispose of additional shares pursuant to Resolution No.2 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No.3 set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the aggregate of (i) the nominal amount of the share capital of the Company in issue at the date of passing of this Resolution; and (ii) the nominal amount of all shares which may be issued pursuant to and/or as contemplated under the Agreements (as such term is defined in Resolution No.1 set out in the notice convening this Meeting).”

SPECIAL RESOLUTION

5. “**THAT**, subject to the approval of the Registrar of Companies in Bermuda, the name of the Company be changed from “Star Bio-Tech (Holdings) Limited” to “Credit Card DNA Security System (Holdings) Limited”

By Order of the Board
Tam Pui Ling, Elaine
Company Secretary

Hong Kong, 26th March, 2002.

Notes:

1. A member entitled to attend and vote at the Special General Meeting is entitled to appoint a proxy to attend and on a poll vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company’s Registrars in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time fixed for holding the Special General Meeting or adjourned meeting.
3. Delivery of an instrument appointing a proxy will not preclude a member from attending and voting in person at the Special General Meeting or adjourned meeting.