

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 Credit Card DNA Security System (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 the transfer was effected for transmission to the purchaser or the transferee.

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CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LIMITED *(Incorporated in Bermuda with limited liability)*

Advised by

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

MAJOR AND CONNECTED TRANSACTIONS

**Proposed implementing, completing and giving effect to
the Subscription Agreement, the Shareholders' Agreement
and the Patent Licence Agreement**

and the transactions contemplated thereunder including

- (i) the subscription of a 30% interest in Ming Yuen by the Company and**
- (ii) the granting of a licence under the Patents by
Ming Yuen to the Company**

Independent financial adviser to the Independent Board Committee

ALTUS CAPITAL LIMITED

A letter dated 29th October, 2002 from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the proposed transactions is set out on pages 20 to 21 of this circular.

A letter dated 29th October, 2002 from Altus Capital Limited, the independent financial adviser to the Independent Board Committee, containing its advice in respect of the proposed transactions to the Independent Board Committee is set out on pages 22 to 32 of this circular.

A notice convening a special general meeting to be held at 10:00 a.m. on Friday, 15th November, 2002 at Chater Room IV, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong, is set out on pages 113 to 114 of this circular. A form of proxy for use in the special general meeting is enclosed. Whether or not you propose to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible 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 thereof. Delivery 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.

29th October, 2002

Credit Card DNA Security System (Holdings) Limited

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DEFINITIONS

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

“Altus”	Altus Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee
“Board”	the board of the Directors
“Company”	Credit Card DNA Security System (Holdings) Limited
“Completion”	completion of the Subscription Agreement
“Conditions”	conditions of the Subscription Agreement as summarised in section 2 headed “ THE SUBSCRIPTION AGREEMENT ” in the letter from the Board of this circular
“Convertible Note”	a convertible loan note due 2004 in an aggregate principal amount of HK\$13,800,000 issued by the Company on 16th July, 2001
“Director(s)”	the director(s) of the Company, including the independent non-executive directors of the Company
“Gross Revenue”	the invoiced price of Licensed Technologies charged by the Company or its sub-licensees to independent third parties in arm’s length transactions exclusively for money without deduction of normal trade discounts granted or any credits actually given, or any costs of packaging, insurance, carriage and freight, any value added tax or other sales tax, and any import duties or similar applicable government levies
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Patent”	the registered patent in Hong Kong to be registered in the name of Ming Yuen, details of which are summarised of the letter of the Board in sub-section 2.(a) headed “ Information on Ming Yuen ” in the letter from the Board of this circular
“Independent Board Committee”	an independent committee of the Board, comprising the independent non-executive Directors of the Company, namely Mr. Ha Ping and Mr. Lau Mun Chiu duly appointed by the Board for the purpose of advising the Independent Shareholders in respect of the proposed transactions as set out in this circular

DEFINITIONS

“Independent Shareholders”	the shareholders of the Company other than Mr. Wong, Sheung Hai Developments Limited, Super Biotech Enterprises Limited and their respective associates (as defined under the Listing Rules)
“Latest Practicable Date”	25th October, 2002, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Licensed Technology/Technologies”	the technologies and processes associated with the Patents
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mainland China”	the PRC which, for the purposes of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Ming Yuen”	Ming Yuen Assets Limited, a private company incorporated in the British Virgin Islands on 12th February, 2002 and is solely and beneficially owned by Mr. Wong
“Mr. Wong”	Mr. Wong Kam Fu who is the chairman, an executive director and the sole beneficial owner of Sheung Hai Developments Limited (a controlling shareholder of the Company) and is also a director and the sole beneficial owner of Ming Yuen
“Patents”	the Hong Kong Patent and the PRC Patent
“Patent Licence Agreement”	the conditional patent licence agreement dated 26th September, 2002 and entered into between the Company as licensee and Ming Yuen as licensor in relation to the Patents
“PRC”	the People’s Republic of China
“PRC Patent”	the registered patent in the PRC to be registered in the name of Ming Yuen, details of which are summarised in sub-section 2.(a) headed “ Information on Ming Yuen ” of the letter from the Board in this circular
“Proposed Subscription”	the proposed subscription of a 30% equity interest in Ming Yuen by the Company pursuant to the Subscription Agreement
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)

DEFINITIONS

“Special General Meeting”	the special general meeting of the Company to be held at 10:00 a.m. on Friday, 15th November, 2002 at Chater Room IV, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central and any adjournment thereof
“Shareholders’ Agreement”	the conditional shareholders’ agreement dated 26th September, 2002 and entered into between the Company, Ming Yuen and Mr. Wong by which the Company and Mr. Wong agreed to conduct their relationship as shareholders in Ming Yuen in accordance with the agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the conditional subscription agreement dated 26th September, 2002 and entered into between the Company, Ming Yuen and Mr. Wong relating to the proposed subscription of a 30% equity interest in Ming Yuen by the Company
“Territories”	Hong Kong and the Mainland China, each a “Territory”
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

For the purpose of illustration only and unless otherwise stated, the translation of US\$ into HK\$ is based on the exchange rate of US\$ \$1.00 = HK\$7.8. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.



CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Executive Directors:

Wong Kam Fu (*Chairman*)
Wong Hoi Keung (*Managing Director*)
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
Lau Mun Chiu

*Head office and principal
place of business in Hong Kong:*

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

29th October, 2002

To all the shareholders of the Company

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

**Proposed implementing, completing and giving effect to
the Subscription Agreement, the Shareholder Agreement
and the Patent Licence Agreement**

and the transactions contemplated thereunder including

(i) the subscription of a 30% interest in Ming Yuen by the Company and

(ii) the granting of a licence under the Patents by

Ming Yuen to the Company

1. INTRODUCTION

On 3rd October, 2002, the Directors announced, inter alia, that:

- (i) the Company entered into the Subscription Agreement with Ming Yuen on 26th September, 2002 whereby Ming Yuen agreed to issue and the Company agreed to subscribe a 30% equity interest in Ming Yuen for a consideration of HK\$30 million payable by the issue of a promissory note by the Company with a maturity date on the date falling 18 months from the date of Completion; and

LETTER FROM THE BOARD

- (ii) the Company also entered into the Shareholders' Agreement with Ming Yuen and Mr. Wong, and the Patent Licence Agreement with Ming Yuen, both on 26th September, 2002.

The Proposed Subscription, and the Shareholders' Agreement together constitute a major and connected transaction of the Company under the Listing Rules and are conditional upon approval by the Independent Shareholders at the Special General Meeting.

The proposed transactions contemplated under the Patent Licence Agreement constitute continuing connected transactions of the Company under the Listing Rules and are conditional upon granting by the Stock Exchange of a waiver from strict compliance with Chapter 14 of the Listing Rules subject to certain conditions including approval of the Patent Licence Agreement and the transactions contemplated thereunder by the Independent Shareholders at the Special General Meeting.

The Independent Board Committee comprising Mr. Ha Ping and Mr. Lau Mun Chiu has been formed to consider and (if appropriate) make a recommendation to the Independent Shareholders. Altus has been appointed as the independent financial adviser to the Independent Board Committee in this respect.

The purpose of this circular is to provide you with, inter alia, information relating to the proposed transactions, and to set out the advice of the Independent Board Committee, based on the advice from Altus, in respect of the Subscription Agreement, the Shareholders' Agreement and the Patent Licence Agreement and to give you notice of the Special General Meeting for the purpose of considering and, if thought fit, approving the proposed transactions by way of ordinary resolutions.

2. THE SUBSCRIPTION AGREEMENT

Date: 26th September, 2002

Parties: The Company, Ming Yuen and Mr. Wong

Under the Subscription Agreement, subject to the fulfilment (or waiver) of the Conditions and other terms summarised below, the Company agreed to subscribe for and Ming Yuen agreed to issue to the Company 3 new shares of US\$1.00 each which will represent a 30% equity interest in the enlarged issued share capital of Ming Yuen following Completion. Mr. Wong joined the Subscription Agreement to guarantee the performance of the obligations by Ming Yuen under that agreement.

(a) Information on Ming Yuen

Ming Yuen is a private company limited by shares incorporated in the British Virgin Islands on 12th February, 2002. It has, at the Latest Practicable Date, an authorised share capital of US\$50,000 consisting of 50,000 shares of US\$1.00 each and an issued share capital of US\$1.00 consisting of one fully paid share of US\$1.00 owned by Mr. Wong. On or before Completion, Mr.

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Wong will subscribe for further 6 shares of US\$1.00 each in Ming Yuen at an aggregate price of US\$6.00. Upon Completion, Mr. Wong and the Company will hold 70% and 30% of the issued share capital of Ming Yuen, respectively. The following is a summary of the shareholdings in Ming Yuen, in terms of percentage of share capital, before and following Completion:

	Prior to Completion		Following Completion		Percentage change
	% of voting rights	No. of shares	% of voting rights	No. of shares	% of voting rights
The Company	0	0	30	3	30
Mr. Wong	<u>100</u>	<u>1</u>	<u>70</u>	<u>7</u>	(30)
Total	<u><u>100</u></u>	<u><u>1</u></u>	<u><u>100</u></u>	<u><u>10</u></u>	

Mr. Wong and Mr. Wong Hoi Keung, both of whom are Directors, are the directors of Ming Yuen. Following Completion, they will remain as the directors of Ming Yuen unless otherwise agreed between the parties to the Shareholders’ Agreement as mentioned in section 3 headed “**THE SHAREHOLDERS’ AGREEMENT**” of this letter below, and Ming Yuen will become an associated company of the Company.

According to a patent assignment dated and effective on 3rd August, 2002 between Mr. Wong as assignor and Ming Yuen as assignee, the Patents were assigned by Mr. Wong to Ming Yuen. Pursuant to this assignment, Ming Yuen has become the beneficial owner of the Patents, details of which are as follows:

	Patent number	Date of commencement/ filing	Patent title
Hong Kong Patent	HK1000772	30th June, 1994	A security system 非現金即時付款的防盜保安系統 (Unofficial translation: A security system comprising technologies and processes in connection with a data processing for non-cash transactions)
PRC Patent	94105095.5	19th May, 1994	非現金即時付款的防盜保全的方法和設備系統 (Unofficial translation: A equipment system and a security infrastructure comprising technologies and processes in connection with a data processing for non-cash transactions)

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Following the said assignment, application was made to the relevant patent authorities in the Mainland China and Hong Kong, respectively, for the Patents to be registered in the name of Ming Yuen, as part of the Conditions to be fulfilled before Completion takes place. The Hong Kong Patent has been registered in the name of Ming Yuen since 2nd October, 2002. As at the Latest Practicable Date, the registration of the PRC Patent in the name of Ming Yuen in the Mainland China has not yet completed and Ming Yuen is not aware of any objection lodged against such registration. The Directors expect that, upon the Patent Licence Agreement becoming effect, the PRC Patent will have been registered in the name of Ming Yuen. Notwithstanding that the registration of the PRC Patent under the name of Ming Yuen has not yet completed, ownership of it by Ming Yuen is absolute and not subject or conditional on registration in Ming Yuen's name.

The Patents cover the technologies and processes in connection with a data processing intangible asset known as a security system for non-cash transactions. The intangible asset is an invention of Mr. Wong relating to a security system with which holders of debit/credit cards (including banking cards) can prevent other people from using their cards for payment without their authorisation. Each cardholder can give the authorisation by transmitting a secret code number known to the cardholder only through his/her mobile phone.

From the date of its incorporation up to the date of this circular, Ming Yuen has not commenced any business operation. Currently, its only business activity is acting as a holding company of the Patents.

Based on the accountants' report on Ming Yuen as set out in appendix I to this circular, the audited income statement of Ming Yuen recorded an aggregate net loss of HK\$5,148 for the period from 12th February, 2002 (being the date of incorporation) to 31st August, 2002, and the audited net liabilities of Ming Yuen as at 31st August, 2002 were approximately HK\$5,140 representing a net liability per share of approximately HK\$5,140.

Following the proposed issue of new shares in Ming Yuen to the Company and Mr. Wong and taking into account of the proceeds from the Proposed Subscription, Ming Yuen will record a net asset value of approximately HK\$29,994,907, representing a net asset value per share of approximately HK\$2,999,491.

(b) **Consideration**

The consideration for the Proposed Subscription is HK\$30 million payable by a promissory note to be issued by the Company to Ming Yuen. The date of maturity of the promissory note is the date falling 18 months from the date of Completion. The principal amount outstanding under the promissory note is repayable in full by the Company to Ming Yuen on any day from the first day of the 13th month from the date of Completion to the maturity date of the promissory note. Simple interest will be accrued on such principal amount at the rate of 2% per annum to be calculated on a monthly basis from the date of Completion. The Company has the absolute right (but not the obligation) to repay all outstanding principal and interest under the promissory note on any day prior to the date of commencement of the repayment period stated above.

(c) Basis on which the consideration was determined

The consideration amount of HK\$30 million for the Proposed Subscription was determined based on arm's length negotiations between the parties to the Subscription Agreement, and with reference to the fair market value of the entire equity interest of Ming Yuen. Based on the valuation report prepared by an independent professional valuer, LCH (Asia-Pacific) Surveyors Limited, with the effective date of the appraisal set at 23rd August, 2002, a copy of which is reproduced in appendix III to this circular, the fair market value of the entire equity interest of Ming Yuen (before taking into consideration any transaction costs such as legal cost, stamp duty, share registration fees and other statutory fees as imposed by the relevant authorities), as a going-concern business and with Ming Yuen being the owner of the Patents, was reasonably stated by the amount of HK\$120,000,000.

As mentioned in the sub-section 2.(a) headed “**Information on Ming Yuen**” above, the audited balance sheet of Ming Yuen as at 31st August, 2002 recorded net liabilities of approximately HK\$5,140.

The consideration amount of HK\$30 million represents a discount of approximately 16.7% of the fair market value of the entire equity interest of Ming Yuen attributable to the 30% equity interest of HK\$36,000,000 based on the valuation report from LCH (Asia-Pacific) Surveyors Limited as reproduced in appendix III to this circular.

(d) Waiver for past user of the Licensed Technologies

The Company has in the past conducted its businesses partly by utilising the Licensed Technologies based on the Patents then owned by Mr. Wong and now assigned to Ming Yuen. As disclosed in the circular dated 26th April, 2002 of the Company, “Since the DNA Security System (*ie, the Licensed Technologies in this circular*) requires further development before it can be launched on a large scale, Mr. Wong allows the Company to use the existing technology for DNA Security System without any charges.”. Subsequently, the Company, based on the above consent from Mr. Wong, further developed, marketed and launched pilot schemes of the products relating to the Licensed Technologies in preparation of rolling out of various products relating to the Licensed Technologies on a large scale. In consideration of the Company entering into the Subscription Agreement, Mr. Wong and Ming Yuen respectively confirmed and ratified the Company's past user of the Patents owned by Mr. Wong up to including 3rd August, 2002 and by Ming Yuen since that date in the businesses of the Group, and both Mr. Wong and Ming Yuen confirmed that there is no compensation, remuneration, fees or any payment due from the Company for such prior use, and waived all their respective rights to claim any compensation, remuneration, fees or payment against the Company, and undertook not to institute any claim or legal proceedings against the Company for such past user of the Patents by the Company at any time on or before the date of Completion or 31st December, 2002, whichever is the earlier to occur.

(e) Conditions

Completion of the Subscription Agreement is conditional upon the fulfilment or waiver of the following Conditions on or before 31st December, 2002 (or such later date as the parties thereto may agree in writing):

- (i) where necessary, the Independent Shareholders having passed the necessary resolutions to approve the Subscription Agreement, the Shareholders' Agreement and/or the Patent Licence Agreement at a special general meeting of the Company to be convened;
- (ii) registration by the Patents Registry of the Hong Kong Intellectual Property Department of the Hong Kong Patent in the name of Ming Yuen;
- (iii) registration by the Chinese Patent Office of the PRC State Intellectual Property Office of the PRC Patent in the name of Ming Yuen; and
- (iv) where necessary, all approvals from government and regulatory authorities (including but not limited to the Stock Exchange), corporate approvals and consents and third party consents for the transactions contemplated under the Subscription Agreement being obtained.

The Company, Ming Yuen and Mr. Wong are not obliged to complete the Subscription Agreement unless there is simultaneous completion of the Shareholders' Agreement and the Patent Licence Agreement.

The Company has confirmed that it will not proceed to complete the Subscription Agreement unless there is simultaneous completion of the Shareholders' Agreement and the Patent Licence Agreement.

(f) Completion

Completion shall take place not more than 3 days (other than a Saturday, Sunday or public holiday in Hong Kong) following the fulfilment or waiver, as the case may be, of the last unfulfilled Condition pursuant to the Subscription Agreement, or such other date on or before 31st December, 2002.

3. THE SHAREHOLDERS' AGREEMENT

Date: 26th September, 2002

Parties: the Company, Ming Yuen and Mr. Wong

Pursuant to the Shareholders' Agreement, the above parties agreed to govern the relationships between the Company and Mr. Wong as shareholders of Ming Yuen.

LETTER FROM THE BOARD

The Shareholders' Agreement will become effective upon Completion.

Under the Shareholders' Agreement, the business of Ming Yuen is proposed to be the holding of the Patents and such other businesses as may from time to time be agreed by the proposed shareholders of Ming Yuen.

Although the proposed equity shareholding by the Company is 30%, certain decision-making matters are subject to unanimous shareholder approval. Matters in Ming Yuen subject to unanimous shareholder approval are as follows:

- (a) amend or vary the memorandum or articles of Ming Yuen;
- (b) engage in or carry on any business which is not part of the business or do any thing which comprises or may comprise a material change in the nature of the business or in the manner in which it is conducted;
- (c) increase, consolidate, sub-divide, repurchase, cancel or convert any of Ming Yuen's share capital, or reduce any of Ming Yuen's share capital share premium account or reserves, or in any way alter the rights attaching to any class of shares;
- (d) issue or allot any shares or any securities convertible into or carrying a right of subscription in respect of shares or any share warrants or issue or grant any options or other rights over or in respect of any shares or which may require the issue of shares in the future;
- (e) borrow any sum other than from Ming Yuen's bankers in the ordinary and proper course of the business or issue any debenture or other debt security;
- (f) give any bond, guarantee, indemnity or suretyship to secure the liabilities or obligations of any person;
- (g) purchase, subscribe for or otherwise acquire, or dispose of, any shares or other securities of any nature (or any interest therein) in or of any person or enter into any partnership, joint venture or profit sharing agreement with any person;
- (h) sell, transfer, lease, assign or otherwise dispose of any part of the undertaking, property and/or assets (including without limitation intellectual property rights) of Ming Yuen (or any interest therein), or contract so to do;
- (i) enter into or vary any contract or transaction or assume any liability which is outside the ordinary and proper course of the business or not on arm's length terms or not at market value or which is long-term, unusual or onerous;
- (j) take or agree to take any interest in or licence over any real property;

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- (k) permit the creation of any contract or obligation to pay money or money's worth to any shareholder or connected person of such shareholder (including any renewal thereof or any variation in the terms of any existing contract or obligation) of Ming Yuen;
- (l) grant or enter into any licence, agreement or arrangement concerning any part of the goodwill attaching thereto or any part of the intellectual property rights of Ming Yuen;
- (m) establish any new branch, agency, trading establishment or business or close any branch, agency, trading establishment or business;
- (n) do or permit or suffer to be done any act or thing whereby Ming Yuen may be wound up (whether voluntarily or compulsorily);
- (o) establish any bonus, profit sharing, share option or other incentive scheme (whether legally binding or not) for any director and/or employee of Ming Yuen;
- (p) make any change in the financial year or the accounting policies adopted by Ming Yuen;
- (q) change its auditors unless they shall resign or voluntarily not seek re-election;
- (r) engage or pay to any director, employee or consultant of Ming Yuen a remuneration or benefits in kind of any form which exceed HK\$1,000,000 per annum; or
- (s) incur any expenditure on capital or income account exceeding HK\$1,500,000 per annum.

The Shareholders' Agreement contains a right of first refusal by either shareholder if the other shareholder proposes to transfer shares to a third party transferee. The offer is required to be made by the other shareholder to the first shareholder on the same (or more favourable) terms and will be open for acceptance for one month. If such offer is not accepted by the first shareholder, the offering shareholder may transfer such shares to the third party transferee but not on more favourable terms than those offered to the first shareholder.

The Shareholders' Agreement is terminable immediately, among other events, (a) by mutual agreement; (b) upon execution of distress; (c) appointment of a liquidator; (d) upon insolvency or resolution for winding up of Ming Yuen or any of its shareholders. The Shareholders' Agreement is also terminable by notice upon persistent breach of the same.

The board of directors of Ming Yuen comprises Mr. Wong and Mr. Wong Hoi Keung. Mr. Wong Hoi Keung is an executive Director and the managing director of the Company but has no relationship with Mr. Wong. Ming Yuen has no intention to change the composition of its board of directors following the Completion.

4. THE PATENT LICENCE AGREEMENT

Date: 26th September, 2002

Parties: the Company and Ming Yuen

Conditional on and upon Completion, Ming Yuen as licensor agreed to grant to the Company as licensee, and the Company agrees to accept, a licence under the Patents in accordance with the terms of the Patent Licence Agreement.

Upon the Licence Agreement becoming effective, Ming Yuen will grant an exclusive licence to the Company for the commercial application in the Territories of the Licensed Technology based on the Patents. Ming Yuen will pay registration renewal fees on the Patents as and when due.

The Company will also have, during the term of the Licence Agreement, the right to sub-licence the technology and processes associated with the Patents, provided that the sub-licensing royalties are not less than those under, and the sub-licensee has the like obligations as, the Patent Licence Agreement.

The Company will pay or accrue to Ming Yuen royalties equivalent to 15% of Gross Revenue received by or accrued to the Company or its sub-licensees calculated on a quarterly basis without deduction, such as any value-added or sales taxes, in Hong Kong dollars or its equivalent.

If there is an actual or potential infringement of the Patents, then unless Ming Yuen and the Company agree on a course of action, the Company has the right to take action on its own and is entitled to damages recovered.

The initial term of the Patent Licence Agreement shall expire on 31st January, 2006, unless there is early termination by one of the following methods:

- (i) immediate termination by mutual agreement;
- (ii) termination by 90 days' notice by Ming Yuen if the royalties under the Patent Licensing Agreement (a) are less than HK\$10,000,000 for the period commencing on the effective date of the Patent Licence Agreement and ending 31st December, 2003; or (b) represent a less than 20% year-on-year increase for the year ending 31st December, 2004 over the immediately preceding year; or (c) represent a less than 20% year-on-year increase for the year ending 31st December, 2005 over the immediately preceding year;

LETTER FROM THE BOARD

- (iii) termination after 90 days for non-remedial breach of the Patent Licence Agreement;
- (iv) termination if a party becomes insolvent or commences winding up;
- (v) termination by Ming Yuen if the Company challenges the Patents by legal proceedings;
and
- (vi) termination by Ming Yuen if the equity shareholding in the Company held by Mr. Wong (including his associates (as defined in the Listing Rules) but not including parties acting in concert (as defined in the Takeovers Code) with him) falls below 30% for any reason whatsoever.

The relevant provisions of the Patent Licence Agreement will continue in force until any Patent expires on a Territory by Territory basis, but without prejudice to the effectiveness of its provisions in respect of any Territory in which a Patent has not yet expired. The Hong Kong Patent registered in Hong Kong under the name of Ming Yuen will expire on 30th June, 2014. The expiry date of the PRC Patent is 14th May, 2014 and will remain the same after the registration of it under the name of Ming Yuen is completed in the Mainland China.

Following the expiry of the initial term of the Patent Licence Agreement on 31st January, 2006, the parties may renew the agreement on the same or other terms as may be agreed at that time, providing that the Company will have the exclusive priority to renewing any licence agreement with Ming Yuen to the exclusion of other parties.

Pursuant to a supplemental patent licence agreement that was subsequently entered into between Ming Yuen and the Company on 3rd October, 2002, the Company has the right to terminate the Patent Licence Agreement by giving written notice to Ming Yuen if the terms of the Patent Licence Agreement or any renewal or continuation thereof (whether on the same terms or otherwise) is not approved by a majority of independent shareholders at a general meeting of the Company convened for approving the Patent Licence Agreement as required by the Listing Rules.

Pursuant to a second supplemental patent license agreement dated 24th October, 2002 that was entered into between Ming Yuen and the Company, the early termination method as described in (vi) of this section 4 has been deleted from the Patent Licence Agreement.

LETTER FROM THE BOARD

5. FINANCIAL EFFECTS OF THE PROPOSED TRANSACTIONS

Set out below is the unaudited pro forma statement of the adjusted consolidated net tangible assets and the adjusted consolidated net asset value of the Group based on the audited consolidated net asset value of the Group as at 30th June 2001, adjusted to reflect the effects of the unaudited consolidated net loss of the Group for the six months ended 31st December, 2001, the Proposed Subscription and assuming the completion of the proposed transactions:

	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 30th June, 2001	7,706
Add: Conversion of three convertible loan notes (issued by the Company) on 20th July, 2001, 1st August, 2001 and 15th August, 2001, respectively	1,250
Less: Unaudited consolidated net loss of the Group for the six months ended 31st December, 2001 as disclosed in the Company interim results announced on 20th March, 2002	<u>(29,311)</u>
Unaudited consolidated net liabilities of the Group as at 31st December, 2002	(20,355)
Add: Completion of the capital injection by the existing controlling shareholders of the Company as announced on 23rd April, 2002	44,001
Add: Conversion of two convertible loan notes (issued by the Company) on 20th June, 2002	10,350
Add: Issue of 38,000,000 shares of the Company for HK\$0.085 each on 24th July, 2002	<u>3,230</u>
<i>Adjusted net tangible assets of the Group immediately before Completion</i>	37,226
Less: Issue of a promissory note for the Proposed Acquisition upon Completion	(30,000)
Add: Share of net tangible assets in Ming Yuen upon Completion	<u>8,998</u>
<i>Adjusted net tangible assets of the Group upon Completion</i>	16,224

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HK\$'000

Add: Share of net assets in Ming Yuen based on the valuation of the fair market value of the entire equity interest in Ming Yuen as at 23rd August, 2002 (<i>note 1</i>)	36,000
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<i>Adjusted net assets of the Group upon Completion</i>	<u>52,224</u>
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Adjusted net tangible asset value per share (<i>note 2</i>)	<u>HK\$0.0032</u>
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Adjusted net asset value per share (<i>note 2</i>)	<u>HK\$0.0102</u>
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Notes:

1. Based on the valuation of the fair market value of the entire equity interest in Ming Yuen by LCH (Asia-Pacific) Surveyors Limited as referred to in appendix III but which is not reflected in the accountants' report set out in appendix I and will not be included in the Group's accounts for the financial period ending 30th June, 2003.
2. The adjusted net tangible asset value per share and the adjusted net asset value per share is arrived at on the basis of 5,136,334,165 issued and fully paid ordinary shares of the Company as at the Latest Practicable Date.

6. REASONS FOR THE PROPOSED TRANSACTIONS

The Company and its subsidiaries are 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 related businesses.

As mentioned above, Ming Yuen owns the Patents. The Directors believe that this patented innovation is important to the Group's core businesses in the provision of credit card security and payment authorisation services. On the basis of the cooperative relationship with Ming Yuen established by the Proposed Subscription, the Company would be granted, upon Completion, the licence to commercialise and market the Licensed Technologies in the Territories pursuant to the Patent Licence Agreement.

LETTER FROM THE BOARD

The Directors note that there is no business operation in nor cash flow currently generated from Ming Yuen up to the date of this circular. Having considered that:

- (i) the Licensed Technologies would potentially replace the existing credit card security and payment authorisation infrastructure;
- (ii) there is also favourable national policy in the Mainland China to expedite the implementation of electronic and credit card payment network; and
- (iii) the encouraging results (including the signing of an agreement with a Hong Kong bank in 2001 for the provision of a platform for the Licensed Technologies and three agreements with three Mainland China banks in 2002 by the Company or its wholly-owned subsidiary, respectively, in respect of trial uses of the Licensed Technologies) from the preliminary marketing of the Licensed Technologies by the Company,

the Directors believe that the Licensed Technologies have a high growth potential which is expected to improve the Group's overall performance.

7. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In the circular dated 26th April, 2002 issued by the Company to its shareholders, it was stated that the Company believe, with the use of credit cards becoming more widespread and with credit card frauds becoming increasingly rampant, the Licensed Technologies should have significant growth potential, especially in the PRC. At present, the Directors maintain this belief and therefore have decided to concentrate majority of the Group's efforts to diligently promote the Licensed Technologies in Hong Kong and the Mainland China market, and to proactively develop the provision of credit card security services using the Licensed Technologies as the core business of the Group at least within the initial term of the Patent Licence Agreement expiring 31st January, 2006, or such shorter period of time should the Patent Licence Agreement be early terminated before 31st January, 2006 in accordance with the Patent Licence Agreement. Apart from the four agreements signed with a Hong Kong bank and three Mainland China banks in relation to the Licensed Technologies as mentioned in section 6 headed “**REASONS FOR THE PROPOSED TRANSACTIONS**” in this letter, the Group is also marketing the Licensed Technologies to other banks in the PRC, the Directors consider the preliminary results from which are fairly positive.

The Directors expect that, with the successful completion of the Subscription Agreement, the Shareholders' Agreement and the Patent Licence Agreement, the Licensed Technologies will contribute significantly to the Group's results in the future.

8. IMPLICATION UNDER THE LISTING RULES

(a) Major and connected transaction

Pursuant to the Listing Rules, the Proposed Subscription constitutes a major transaction of the Company and therefore subject to the approval of the Independent Shareholders at the Special General Meeting.

As Mr. Wong is (i) the chairman and an executive director of the Company; and (ii) the sole beneficial owner of a controlling shareholder of the Company, Sheung Hai Developments Limited which holds 32.68% of the issued share capital in the Company, as well as (iii) the sole beneficial owner of Ming Yuen, Ming Yuen is therefore a connected person of the Company under the Listing Rules. Accordingly, the Proposed Subscription also constitutes a connected transaction of the Company and, together with the Shareholders' Agreement, is subject to the approval of the Independent Shareholders at the Special General Meeting.

(b) Continuing connected transactions

Following Completion, Ming Yuen will be owned as to 70% by Mr. Wong and 30% by the Company. By virtue of Mr. Wong being a director and controlling shareholder of the Company, and a beneficial owner of 70% equity interest in Ming Yuen following Completion, Ming Yuen will be a connected person of the Company under the Listing Rules. Accordingly, the proposed payment of royalties by the Company to Ming Yuen under the Patent Licence Agreement constitutes connected transactions of the Company which will take place repeatedly until the expiry or termination (whichever happens earlier) of the Patent Licence Agreement.

The Directors expect that the aggregate amount of the royalties payable to Ming Yuen pursuant to the Patent Licence Agreement will not exceed HK\$8.4 million, HK\$15.8 million and HK\$19.4 million for each of the three financial years ending 30th June, 2005, respectively (the "Cap Amounts" or individually "Cap Amount"). The Cap Amounts are estimated by the Company based on the projected Gross Revenue derived from the commercialisation of the Patents (with reference to the agreement with a Hong Kong bank for the provision of a platform for the Licensed Technologies and the three agreements with three Mainland China banks as mentioned in section 6 headed "**REASONS FOR THE PROPOSED TRANSACTIONS**" in this letter) times 15% being the royalty percentage.

For these continuing connected transactions, the Company has applied from the Stock Exchange a waiver from strict compliance with Chapter 14 of the Listing Rules and the Stock Exchange has granted such a waiver subject to the following conditions:

- (i) the Patent Licence Agreement and the transactions contemplated thereunder shall be subject to approval by the Independent Shareholders in the Special General Meeting;
- (ii) the continuing connected transactions shall be entered into (a) in ordinary and usual course of business of the Group; (b) on normal commercial terms or, where there is no available comparison, on terms that are fair and reasonable so far as the Independent Shareholders are concerned; and (c) in accordance with terms of the Patent Licence Agreement;

LETTER FROM THE BOARD

- (iii) the aggregate amount of the royalties payable to Ming Yuen for each of the three financial years ending 30th June, 2005 shall be within the respective Cap Amounts;
- (iv) the independent non-executive directors of the Company will review the continuing connected transactions annually and confirm in the Company's next annual report that they are not aware of any of these transactions which were not conducted in the manner as stated in conditions (ii) and (iii) above;
- (v) the Company's auditors shall review the continuing connected transactions annually and confirm in a letter to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether (a) the continuing connected transactions have been entered into in accordance with the Patent Licence Agreement and (b) the relevant Cap Amount has been exceeded;
- (vi) details of the continuing connected transactions in each financial year as specified under Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in the annual report of the Company for that financial year; and
- (vii) any subsequent change of major term(s) in the Patent Licence Agreement shall be subject to approval of the Independent Shareholders at a special general meeting and other requirements under the Listing Rules.

(c) **Abstention from voting**

Sheung Hai Developments Limited and Super Biotech Enterprises Limited, the entire issued share capital of each of which is wholly and beneficially owned by Mr. Wong, hold approximately 32.78% of the issued share capital of the Company. Mr. Wong, Sheung Hai Developments Limited, Super Biotech Enterprises Limited and their associates will abstain from voting in respect of the Subscription Agreement, the Shareholder Agreement and the Patent Licence Agreement at the Special General Meeting. Ming Yuen has confirmed that it does not own any share in the Company.

9. SPECIAL GENERAL MEETING

A notice of the Special General Meeting is set out on pages 113 to 114 of this circular. The meeting will be held at 10:00 a.m. on Friday, 15th November, 2002 at Chater Room IV, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong. Ordinary resolutions will be proposed to approve the proposed implementing, completing and giving effect to the Subscription Agreement, the Shareholder Agreement and the Patent Licence Agreement and the transactions contemplated thereunder including (i) the subscription of a 30% interest in Ming Yuen by the Company and (ii) the granting of a licence under the Patents by Ming Yuen to the Company.

LETTER FROM THE BOARD

A form of proxy for use at the Special General Meeting is enclosed with this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed on it to the share registrar of the Company, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the Special General Meeting. Completion of the form of proxy will not preclude you from attending and voting at the Special General Meeting should you so wish.

10. ADVICE

Your attention is drawn to: (i) the letter from the Independent Board Committee set out on pages 20 to 21 of this circular which contains its advice to the Independent Shareholders, based on the advice from Altus, in respect of the Subscription Agreement, the Shareholders' Agreement, and the Patent Licence Agreement and the transactions contemplated thereunder; and (ii) the letter from Altus on pages 22 to 32 of this circular which contains its advice to the Independent Board Committee as well as the principal factors and reasons considered by Altus in arriving at its advice.

Taking into account the interests of the Company's shareholders as a whole, the Board considers that the Subscription Agreement, the Shareholders' Agreement and the Patent Licence Agreement and the transactions contemplated thereunder are fair and reasonable and are bona fide in the commercial interests of the Group and the Company's shareholders as a whole and therefore recommend the shareholders of the Company to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting. You are advised to read the letter from the Independent Board Committee and the letter from Altus mentioned above before deciding as to how to vote at the Special General Meeting.

11. ADDITIONAL INFORMATION

Please refer to the appendices to this circular for additional information.

By order of the Board
Credit Card DNA Security System (Holdings) Limited
Wong Hoi Keung
Managing Director



CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)

29th October, 2002

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

**Proposed implementing, completing and giving effect to
the Subscription Agreement, the Shareholder Agreement
and the Patent Licence Agreement**

and the transactions contemplated thereunder including

(i) the subscription of a 30% interest in Ming Yuen by the Company and

(ii) the granting of a licence under the Patents by

Ming Yuen to the Company

We refer to the circular to the shareholders of the Company dated 29th October, 2002 (the “Circular”) issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As we have no interest in the proposed implementing, completing and giving effect to the Subscription Agreement, the Shareholders’ Agreement and the Patent Licence Agreement (collectively, the “Agreements”) and the transactions contemplated thereunder including (i) the Proposed Subscription and (ii) the granting of a licence under the Patents by Ming Yuen to the Company, and we are not connected with Mr. Wong, Sheung Hai Developments Limited, Super Biotech Enterprises Limited, Ming Yuen or their respective associates, we have been appointed by the Board as the Independent Board Committee to consider the terms of the Agreements.

Altus has been appointed by the Company to advise the Independent Board Committee as to whether the terms of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 22 to 32 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 19 of the Circular and the additional information set out in the appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Agreements and the advice of Altus, we consider that the terms of the Agreements are fair and reasonable as far as the Independent Shareholders are concerned and that the Agreements are in the interests of the Company and the Independent Shareholders. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions as set out in the notice of the Special General Meeting attached to the Circular to approve the proposed implementing, completing and giving effect to the Agreements and the transactions contemplated thereunder including (i) the Proposed Subscription and (ii) the granting of a licence under the Patents by Ming Yuen to the Company.

Yours faithfully,
Independent Board Committee of
Credit Card DNA Security System (Holdings) Limited

Ha Ping
Independent
Non-Executive Director

Lau Mun Chiu
Independent
Non-Executive Director

LETTER FROM ALTUS

The following is the text of the letter of advice to the Independent Board Committee from Altus dated 29th October, 2002 prepared for incorporation in this circular, in connection with its advice to the Independent Board Committee in relation to the Subscription Agreement, the Shareholders' Agreement and the Patent Licence Agreement.

ALTUS CAPITAL LIMITED

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

Tel : (852) 2522 6122
Fax: (852) 2522 6992

29th October 2002

The Independent Board Committee
Credit Card DNA Security System (Holdings) Limited
11th Floor, Tai Sang Bank Building
130-132 Des Voeux Road Central
Hong Kong

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS

**Proposed implementing, completing and giving effect to
the Subscription Agreement, the Shareholders' Agreement
and the Patent Licence Agreement**

and the transactions contemplated thereunder including

- (i) the subscription of a 30% interest in Ming Yuen by the Company and**
- (ii) the granting of a licence under the Patents by Ming Yuen to the Company
(collectively, the "Proposed Agreements")**

INTRODUCTION

We refer to the circular dated 29th October 2002 (the "Circular") issued by the Company to its shareholders of which this letter forms part and to our appointment as independent financial adviser to the Independent Board Committee in respect of the Proposed Agreements, the details of which are set out in the Letter from the Board contained in the 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 3rd October 2002, the Company announced that on 26th September 2002, the Company entered into the Subscription Agreement with Ming Yuen whereby Ming Yuen has conditionally agreed to issue and the Company has conditionally agreed to subscribe for a 30 per cent. equity interest in Ming Yuen for a consideration of HK\$30 million. The consideration will be payable by the Company by the issue of a promissory note with a maturity date on the date falling 18 months from the date of Completion.

On the same date, the Company entered into the Shareholders' Agreement pursuant to which the Company and Mr. Wong agreed to govern their relationship as shareholders of Ming Yuen upon completion of the Subscription Agreement. In addition, the Company also entered into the Patent Licence Agreement, pursuant to which Ming Yuen as licensor conditionally agreed to grant the Company as licensee, and the Company conditionally agreed to accept, an exclusive licence in respect of the Licensed Technologies under the Patents for an initial term ending 31st January, 2006, renewable upon agreement.

Pursuant to the Listing Rules, the Subscription Agreement and the Shareholders' Agreement constitute major and connected transactions of the Company and are subject to, among other things, the approval of Independent Shareholders.

The proposed transactions under the Patent Licence Agreement constitute continuing connected transactions under the Listing Rules and are conditional upon the Stock Exchange granting a waiver from strict compliance with Chapter 14 of the Listing Rules. The Stock Exchange has granted the aforesaid waiver subject to, among other things, the approval of Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion, we have relied to a considerable extent on the information, statements, opinion 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, unless otherwise stated, 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 the 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 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 Agreements 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

In formulating our recommendation and arriving at our opinion as to the fairness and reasonableness of the terms of the proposed Subscription Agreement, the Shareholders' Agreement and the Patent Licence Agreement, we have considered the factors set out below:

1. **Reasons and effects of the Subscription Agreement and Patent Licenced Agreement**

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, internet and mobile phones and investments in high-tech related businesses.

(i) *Patents held by Ming Yuen*

Ming Yuen is a private company owned by Mr. Wong which is the beneficial owner of the Patents which cover the technologies and processes in connection with a data processing intangible asset known as a security system for non-cash transactions. Invented by Mr. Wong, the intangible asset is a security system where holders of debit/credit cards (including banking cards) can prevent other people from using their cards for payment without their authorisation. Each cardholder can give the authorisation by transmitting a secret code number known to the cardholder only, through his/her mobile phone.

According to a patent assignment dated and effective on 3rd August, 2002 between Mr. Wong as assignor and Ming Yuen as assignee, the aforesaid Patents were assigned by Mr. Wong to Ming Yuen and pursuant to the assignment, Ming Yuen has become the beneficial owner of the Patents.

Application has been made to the relevant patent authorities in both the Mainland China and Hong Kong for the Patents to be registered in the name of Ming Yuen. The completion of such registration by both relevant authorities in Mainland China and Hong Kong constitutes part of the conditions to be fulfilled for the completion of the Subscription Agreement.

As of the date of the Circular, Ming Yuen has not commenced any business operation and its only business activity is acting as a holding company of the Patents.

(ii) *Business development of the Group and commercialisation of the Licensed Technologies*

The provision of credit card security and payment authorisation services (the "DNA Security System") is one of the Group's key business development areas. The Company recognises that plastic money will be widely used and acceptable through various transactions regularly. The Directors are of the view that the Licensed Technologies would potentially replace current credit card security and payment authorisation infrastructure and the national policy in the Mainland China to expedite the implementation of electronic and

credit card payment network is favourable. In addition, the results from preliminary marketing of the Licensed Technologies (which include an agreement with a bank in Hong Kong for the provision of a platform for the Licensed Technologies and three agreements with three banks in Mainland China for trial uses of the Licensed Technologies) are encouraging. Based on the foregoing, the Directors reckon that the Licensed Technologies have high growth potential and is expected to improve the Group's overall performance. Therefore, it is the Group's intention to further develop and focus its business on the DNA Security System and in turn, this will require the utilisation of the Licensed Technologies and the Patents which are owned by Ming Yuen. Based on the above, we are of the view that the Subscription Agreement and the Patent Licence Agreement are consistent with the Group's business strategy.

(iii) Benefits of the subscription of shares in Ming Yuen

Whilst it will be premature to assess the financial benefits to the Group through the subscription of shares in Ming Yuen as it has no business operation nor has it generated any cash flow as at the Latest Practicable Date, the subscription of 30% equity interest in Ming Yuen by the Company under the Subscription Agreement and the granting of the exclusive licence to the Company for commercial application in the Territories of the Licensed Technologies upon Completion will ensure access to the Licensed Technologies over the long term and the sharing of any benefits derived from the Patents at Ming Yuen's level.

In addition, pursuant to the Subscription Agreement, Mr. Wong and Ming Yuen confirm and ratify, among other things, the Company's past user of the Patents. Thus, the Company is relieved from any potential claims and obligations that may arise due to the use of the Licensed Technologies in the past.

Furthermore, Completion is condition upon, among other things, simultaneous completion of the Shareholders' Agreement. Pursuant to this agreement, the Company will be accorded with equal voting rights in respect of certain decision-making matters of Ming Yuen including, among other things, arrangements for intellectual property rights (including the Patents), thus the Company's interest in securing the user rights of the Licensed Technologies is further protected.

(iv) Funding required to develop and commercialise the Licensed Technologies

The Directors informed that additional funds required for the development and commercialisation of the Licensed Technologies will be minimal as the technology has been substantially developed. The Directors confirmed that, after taking into account the expected cash flow to be generated from the services provided using the Licensed Technologies under the Patents and the financial support from one of the controlling shareholders of the Company, and taking into consideration the repayment of the promissory note pursuant to the Subscription Agreement, there would be sufficient working capital for the ongoing requirements of the Company's operations.

We have reviewed the cashflow projection of the Company for the period up to 30th June, 2004 prepared by the Company, including its key underlying assumptions and we concur with the view of the Directors.

(v) *Waiver of past user of the Licensed Technologies*

According to the Letter from the Board, the Company has in the past conducted its businesses partly by utilising the Licensed Technologies based on the Patents then owned by Mr. Wong and now assigned to Ming Yuen. Mr. Wong has allowed the Company to utilise the Licensed Technologies without any charges on the basis that the DNA Security System requires further development before it can be launched on a large scale basis.

In consideration of the Company entering into the Subscription Agreement, Mr. Wong and Ming Yuen respectively confirms and ratifies the Company's past user of the Patents owned by Mr. Wong up to including 3rd August, 2002 and by Ming Yuen since that date in the businesses of the Group. Furthermore, Mr. Wong and Ming Yuen respectively confirms that (a) there will be no compensation, remuneration, fees or any payment due from the Subscriber; (b) they waive all their respective rights to claim any compensation, remuneration, fee or payment; and (c) they undertake not to institute any claim or legal proceedings against the Company for such past user of the Patents by the Company at any time on or before the date of Completion or 31st December, 2002, whichever is earlier. The waiver is beneficial to the Company as it relieves the Company from any potential claims and liabilities in respect of the use of the Licensed Technologies in the past.

2. **Valuation of the Patents**

As set out in Appendix III to the Circular, LCH (Asia-Pacific) Surveyors Limited, an independent professional valuer (the "Valuer"), has been appointed by the Company to prepare a valuation report to investigate the fair market value of the entire equity interest of Ming Yuen (including monetary assets, tangible and intangible assets) as at 23rd August, 2002 (the "Valuation Report"). According to the Directors, Ming Yuen is a private company limited by shares incorporated in the British Virgin Islands in February 2002 and has not commenced any business operations since its incorporation and its only business activity currently is the holding of the Patents. From the audited financial information of Ming Yuen, it recorded a net loss of HK\$5,148 since incorporation to 31st August 2002 and has net liabilities of HK\$5,140 as at 31st August 2002. The aforesaid financial information did not take into consideration the value of the Patents.

The consideration of the Proposed Subscription is determined based on arm's length negotiations between the parties to the Subscription Agreement, and with reference to 30% of the valuation of the fair market value of the entire equity interest of Ming Yuen according to the Valuation Report of approximately HK\$120 million. In assessing the fairness and reasonableness of the valuation, we have reviewed the methodology, bases and assumptions underlying the Valuation Report.

(i) *Methodology*

As stated in the Valuation Report, the Valuer has identified three acceptable valuation approaches to value Ming Yuen namely (a) the Market Approach; (b) the Asset-based Approach; and (c) the Income Approach.

Having considered that (a) only limited numbers of listed companies in the Stock Exchange of Hong Kong have similar nature of business of that of Ming Yuen; (b) to its best knowledge, there had not been any merger and acquisition activities of similar business ventures in Hong Kong; and (c) Ming Yuen has very minimal assets, the Valuer is of the view that the Income Approach is the most appropriate approach in valuing the fair market value of Ming Yuen.

Whilst the Valuer is of the view that Income Approach is the most appropriate approach in deriving the value of Ming Yuen, Independent Shareholders should note that under the Income Approach, valuation is sensitive to the underlying assumptions and many of those assumptions cannot be easily assessed due to (a) the limited operating history of Ming Yuen and the fact that its only business activity is acting as a holding company of the Patents; and (b) the lack of sufficient information on, and certainty to, the potential financial benefits, such as income generation, as a result of successful commercialisation of the Licensed Technologies.

(ii) *Factors considered in Valuation Report*

We have discussed and reviewed the basis of the valuation and the underlying assumptions, including expected sales turnover, expense structure and discount factors taken into account for closely-held company, with the Valuer and are of the view that the factors considered by the Valuer in arriving at the valuation are adequate and appropriate.

3. Consideration of the Subscription

Pursuant to the Subscription Agreement, the aggregate consideration for the subscription in Ming Yuen is HK\$30 million. This consideration has been determined after arm's length negotiations between the parties to the Subscription Agreement, and with reference to the Valuation Report. Compared with the value of 30% equity interest of Ming Yuen of HK\$36 million according to the Valuation Report, the consideration represents a discount of approximately 16.7%. As such, we are of the view that the consideration is fair based on the Valuation Report.

The consideration under the Subscription Agreement will be satisfied by the issuance of a promissory note by the Company which will mature on the date falling 18 months from the date of Completion. The Directors confirmed that payments in respect of the promissory note will be financed by the Group's internal resources.

4. Conditions of the Proposed Subscription

As stated in the Letter from the Board, completion of the Subscription Agreement is conditional upon, among other things, (a) the Independent Shareholders having passed the necessary resolutions to approve the Subscription Agreement, the Shareholders' Agreement and the Patent Licence Agreement at the Special General Meeting; (b) registration by the Patents Registry of the Hong Kong Intellectual Property Department of the Hong Kong Patent in the name of Ming Yuen; and (c) registration by the Chinese Patent Office of the PRC State Intellectual Property Office of the PRC Patent in the name of Ming Yuen.

The Directors undertake that the Company will not proceed to complete the Subscription Agreement unless there is simultaneous completion of the Shareholders' Agreement and the Patent Licence Agreement. Thus, in the event that any of the above agreements is/are not approved by the Independent Shareholders, the Subscription Agreement will be terminated.

5. Financial effects of the Subscription Agreement on the Group

The following sets out the impact of the Subscription Agreement on the financial position of the Group:

(i) *Net asset value*

As stated in the Letter from the Board, the audited net asset value of the Group as at 24th July, 2002, as disclosed in the Company's circular date 24th August, 2002 was about HK\$37 million. Upon Completion, the pro forma consolidated net asset value of the Group will be reduced to about HK\$16 million. However, if the valuation of Ming Yuen as stated in the Valuation Report is taken into consideration, the Company's adjusted net asset value would be approximately HK\$52 million upon Completion.

In summary, the reduction in net tangible asset value of the Group upon Completion is a consequence of the acquisition of an asset which is intangible in nature, which value is in the possible generation of profits in the future. Thus, we are of the view that this is acceptable. Moreover, in respect of net asset value of the Group, there will be an increase upon Completion.

(ii) *Profit and loss account*

As Ming Yuen will become an associated company of the Company, any future profits or losses of Ming Yuen will be equity accounted for in the Company's financial statement. There will be no immediate impact on the Group's profit and loss statement upon Completion. Any future profits or losses of Ming Yuen will be equity accounted for in the Group's financial statement.

The Directors confirmed that Ming Yuen's main source of income will be royalties derived from its Patents. Other income, such as interest income, is expected to be minimal.

(iii) *Working capital*

As the consideration of the Subscription Agreement will be satisfied by the issuance of a promissory note, there will be no immediate impact on the Company's working capital upon Completion. The Directors have reviewed the operations of the Group and confirmed that it has sufficient internal resources to satisfy the payments in respect of the promissory note when it becomes due. They also confirmed that, taking into account the above payments, and after taking into consideration of the expected cash flow to be generated from the services provided using the Licensed Technologies and the financial support from one of the controlling shareholders of the Company, there will be sufficient working capital for the ongoing requirements of the Group's operations, including the development and commercialisation of the Licensed Technologies.

We have reviewed the cashflow projection of the Company for the period up to 30th June, 2004 prepared by the Company, including its key underlying assumptions and we concur with the view of the Directors.

6. Reasons and effects of the Shareholders' Agreement

As stated in the Letter from the Board, the Company and Mr. Wong agreed to govern their relationship as shareholders of Ming Yuen through the Shareholders' Agreement, which will become effective upon Completion.

Pursuant to the Shareholders' Agreement, although the Company's equity holding in Ming Yuen is 30%, certain decision-making matters are subject to unanimous shareholder approval. These include, among other things, amendment of the memorandum and articles of association, material changes in the nature of the business and variation of share capital and arrangements for intellectual property rights (including the Patents). In addition, the Shareholders' Agreement contains a right of first refusal by either shareholder if the other shareholder proposes to transfer its shares to a third party transferee.

Given that the Company's interest in Ming Yuen is 30% upon Completion but is accorded equal voting rights in respect of certain decision-making matters, the Company's interest in Ming Yuen is further protected under Shareholders' Agreement. Consequently, we are of the view that the Shareholders' Agreement is fair and reasonable so far as the Company is concerned.

7. Reasons and effects of the Patent Licence Agreement

As discussed previously, the Company has conducted its businesses partly by utilising the Licensed Technologies based on the Patents then owned by Mr. Wong and now assigned to Ming Yuen. With the agreement of Mr. Wong, the Company has utilised the Patents for its DNA Security System without any charges.

In order to formalise the aforesaid arrangement, pursuant to the Patent Licence Agreement, Ming Yuen will grant an exclusive licence to the Company for the commercial application of the Licensed Technologies based on the Patents in the Territories. During the term of the Patent

Licence Agreement, which shall expire on 31st January 2006, the Company will also have the right to sub-licence the technologies and processes associated with the Patents. Upon expiry of the Patent Licence Agreement, the Company will have the exclusive priority to renewing any licence agreement with Ming Yuen to the exclusion of other parties.

In return, the Company will pay or accrue to Ming Yuen, royalties equivalent to 15% of the Gross Revenues received by or accrued to the Company or its sub-licencees calculated on a quarterly basis without deduction, such as any value-added or sales taxes, in Hong Kong dollars or its equivalent. The royalty rate and the manner of payments have been agreed between the parties based on arm's length negotiations.

As aforesaid, royalty payment under the Patent Licence Agreement is calculated on the basis of 15% of the Gross Revenue received by or accrued to the Company or its sub-licencees. Thus, there is no fixed up-front royalty payment in respect of the Patent Licence Agreement and royalties are only payable in the event that the Company generates revenues from the DNA Security System. As such, the royalty payment represents a variable cost to the Company and will allow the Company to have more financial flexibility in the event that there is a delay in launching and commercialising the DNA Security System. We are of the view that the variable royalty payment arrangement is beneficial to the Company as the DNA Security System is still at the initial stage of commercialisation and fixed up-front payment will be a financial burden to the Company.

Based on the experience of the Directors and having considered the nature and the potential of the business, the Directors consider that the royalty rate of 15 per cent. of the Gross Revenue is fair and reasonable. Due to the lack of comparable system, and the fact that the DNA Security System is in the initial stage of commercialisation, comparison of the royalty rate cannot be made. However, during our discussions with the Directors and our review of the cashflow and profit projections of the Company, we noted that a healthy profit margin will be maintained by the Company after taking into account such royalty payments. On this basis, we are of the view that the royalty rate is fair and reasonable.

The Patent Licence Agreement may be terminated under certain circumstances as stated in the Letter from the Board. In particular, Ming Yuen may terminate the Patent Licence Agreement if the royalties to Ming Yuen fail to attain certain pre-determined levels after a period of time. However, we note that this will take place only if the Group failed in its commercialisation of the DNA Security System. Having considered the termination clauses of the Patent Licence Agreement, we are of the view that they are fair and reasonable.

8. Basis of the Waiver Application

The continuing connected transactions contemplated under the Patent Licence Agreement is subject to the following conditions:

- (i) the Patent Licence Agreement and the transactions contemplated thereunder shall be subject to approval by the Independent Shareholders in the Special General Meeting;

- (ii) the continuing connected transactions shall be entered into (a) in ordinary and usual course of business of the Group; (b) on normal commercial terms or, where there is no available comparison, on terms that are fair and reasonable so far as the Independent Shareholders are concerned; and (c) in accordance with terms of the Patent Licence Agreement;
- (iii) the aggregate amount of the royalties payable to Ming Yuen for each of the three financial years ending 30th June, 2005 shall be within the respective Cap Amounts;
- (iv) the independent non-executive Directors will review the continuing connected transactions annually and confirm in the Company's next annual report that they are not aware of any of these transactions which were not conducted in the manner as stated in conditions (ii) and (iii) above;
- (v) the Company's auditors shall review the continuing connected transactions annually and confirm in a letter to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether (a) the continuing connected transactions have been entered into in accordance with the Patent Licence Agreement and (b) relevant Cap Amount has been exceeded;
- (vi) details of the continuing connected transactions in each financial year as specified under Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in the annual report of the Company for that financial year; and
- (vii) any subsequent change of major term(s) in the Patent Licence Agreement shall be subject to approval of the Independent Shareholder at a special general meeting and other requirements under the Listing Rules.

The Cap Amount is within the range of the revenue projection of the DNA Security System which, in our view, has been prepared by the Company on a reasonable basis. Given the above, we are thus of the view that the Cap Amount is fair and reasonable.

The above conditions serve to monitor the future transactions to be carried out under the Patent Licence Agreement, thereby safeguarding the interest of the Company and the Independent Shareholders as a whole.

LETTER FROM ALTUS

RECOMMENDATION

Having considered the above principal factors, we are of the view that the terms and conditions of Subscription Agreement, the Shareholders' Agreement and the Patent Licence Agreement are fair and reasonable so far as the Independent Shareholders are concerned and would therefore advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolutions to approve the Subscription Agreement, the Shareholders' Agreement and the Patent Licence Agreement.

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

The following is the text of a report, prepared for the purpose of incorporation in this circular, from the auditors and reporting accountants of Ming Yuen, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

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**Deloitte
Touche
Tohmatsu**

29th October, 2002

The Directors
Credit Card DNA Security System (Holdings) Limited

Dear Sirs,

We set out below our report on the financial information regarding Ming Yuen Assets Limited (“Ming Yuen”) for the period from 12th February, 2002 (date of incorporation) to 30th June, 2002 and two months ended 31st August, 2002 (the “Relevant Periods”) for inclusion in the circular dated 29th October, 2002 (the “Circular”) of Credit Card DNA Security System (Holdings) Limited (“Credit Card DNA”) in connection with the acquisition by Credit Card DNA of Ming Yuen.

Ming Yuen was incorporated in the British Virgin Islands (“BVI”) under the International Business Companies Act. Ming Yuen is a limited company and its sole activity is holding the intellectual property rights in respect of a credit card security system.

Ming Yuen has not prepared any audited financial statements since its incorporation as it was incorporated in a country where there is no statutory audit requirement. However, for the purpose of this report, we have carried out independent audit procedures as we considered necessary on Ming Yuen’s management accounts (the “Underlying Financial Statements”) for the Relevant Periods in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants (“HKSA”) and we have examined the Underlying Financial Statements in accordance with the Auditing Guideline “Prospectus and the Reporting Accountant” as recommended by the HKSA.

The financial information of Ming Yuen for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements of Ming Yuen on the basis set out in note 1 to the financial information.

The Underlying Financial Statements are the responsibility of the directors of Ming Yuen. The directors of Ming Yuen are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 to the financial information, the financial information together with the notes thereon give, for the purpose of this report, a true and fair view of the results and cash flows of Ming Yuen for the Relevant Periods and of the state of affairs of Ming Yuen as at 30th June, 2002 and 31st August, 2002.

I. FINANCIAL INFORMATION

The followings are the financial information of Ming Yuen for the Relevant Periods and as at 30th June, 2002 and 31st August, 2002:

Income statement	<i>Notes</i>	12.2.2002 to 30.6.2002 HK\$	1.7.2002 to 31.8.2002 HK\$
Administrative expenses for the period		5,070	78
Deficit brought forward		<u>—</u>	<u>5,070</u>
Deficit carried forward		<u>5,070</u>	<u>5,148</u>
Balance sheets		30.6.2002 HK\$	31.8.2002 HK\$
NON-CURRENT ASSET			
Intangible asset	7	<u>—</u>	<u>—</u>
CURRENT ASSET			
Cash		8	8
NON-CURRENT LIABILITY			
Amount due to a shareholder	8	<u>5,070</u>	<u>5,148</u>
		<u>(5,062)</u>	<u>(5,140)</u>
CAPITAL AND RESERVE			
Share capital	9	8	8
Deficit		<u>(5,070)</u>	<u>(5,148)</u>
		<u>(5,062)</u>	<u>(5,140)</u>
Cash flow statements		12.2.2002 to 30.6.2002 HK\$	1.7.2002 to 31.8.2002 HK\$
OPERATING ACTIVITY			
Cash used in operation		(5,070)	—
INVESTING ACTIVITY			
Purchase of intangible asset		—	(78)
FINANCING ACTIVITIES			
Issue of share capital		8	—
Advance from a shareholder		<u>5,070</u>	<u>78</u>
Cash generated from financing activities		<u>5,078</u>	<u>—</u>
Net increase in cash		8	—
Cash at beginning of the period		<u>—</u>	<u>8</u>
Cash at end of the period		<u>8</u>	<u>8</u>

Notes to the financial information**1. Basis of preparation of financial statements**

The financial statements have been prepared on a going concern basis because the shareholder has agreed to provide adequate funds to enable Ming Yuen to meet in full its financial obligations as they fall due for the foreseeable future.

2. Significant accounting policies

The financial information set out in this report has been prepared under the historical cost convention and in accordance with the accounting principles which conform with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Impairment

At each balance sheet date, Ming Yuen reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

The charge for taxation is based on the results for the Relevant Periods as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial information. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial information to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

3. Segmental information

The sole business activity of Ming Yuen is holding the intellectual property rights in respect of a credit card security system and Ming Yuen has no turnover during the Relevant Periods. All the identifiable asset and liability of Ming Yuen are located in Hong Kong.

4. Taxation

No provision for taxation has been made as the Company has no taxable income in the Relevant Periods.

There was no significant unprovided deferred taxation for the Relevant Periods or at the respective balance sheet dates.

5. Dividends

No dividend had been paid or declared by the Company during the Relevant Periods.

6. Directors' and employees' remunerations

There were no emoluments paid to director or employees of Ming Yuen for the Relevant Periods. No emoluments were paid by Ming Yuen to the directors or five highest paid individuals as an inducement to join or upon joining Ming Yuen or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

7. Intangible asset

Intangible asset represents the intellectual property rights in respect of a credit card security system previously held by Mr. Wong Kam Fu (“Mr. Wong”). According to an assignment dated 3rd August, 2002 between Mr. Wong and Ming Yuen, the intellectual property rights were assigned from Mr. Wong to Ming Yuen at a consideration of US\$10. The cost of acquisition was subsequently charged to the income statement.

8. Amount due to a shareholder

The amount is unsecured, interest-free and has no fixed repayment terms. As confirmed with the shareholder, the amount is not repayable within one year and is therefore shown as non-current.

9. Share capital

<i>Authorised:</i>	
50,000 ordinary shares of US\$1 each	
At incorporation, 30th June, 2002 and 31st August, 2002	<u>US\$50,000</u>
<i>Issued and fully paid:</i>	
1 ordinary shares of US\$1 each	
At incorporation, 30th June, 2002 and 31st August, 2002	<u>US\$1</u>
As shown in the financial statements	<u>HK\$8</u>

Ming Yuen was incorporated with an authorised share capital of 50,000 ordinary shares at US\$1 each. At the time of incorporation, 1 ordinary share of US\$1 was issued at par, to the subscriber to provide the initial capital of Ming Yuen.

10. Capital commitments

At 30th June, 2002 and 31st August, 2002, Ming Yuen did not have any significant capital commitments.

11. Contingent liabilities

At 30th June, 2002 and 31st August, 2002, Ming Yuen did not have any significant contingent liabilities.

12. Pledge of assets

At 30th June, 2002 and 31st August, 2002, Ming Yuen had no pledge of asset.

13. Post balance sheet event

On 26th September, 2002, Ming Yuen entered into a share subscription agreement with Mr. Wong and Credit Card DNA to allot and issue 6 new ordinary shares at par to Mr. Wong and 3 new ordinary shares at a consideration of HK\$30,000,000 to Credit Card DNA, satisfied by the issue of a promissory note bearing interest at 2% per annum with a maturity date on the date falling 18 months from the date of completion of the Share Subscription.

II. SUBSEQUENT FINANCIAL INFORMATION

No audited financial information have been prepared by Ming Yuen in respect of any period subsequent to 31st August, 2002.

Yours faithfully,
DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

1. INDEBTEDNESS

As at the close of business on 31st August, 2002 being the latest practicable date for purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding obligations under a finance lease of approximately HK\$238,000 and convertible note of HK\$13,800,000.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade debts payable, the Group did not have, as at the close of business on 31st August, 2002, any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, obligations under finance leases, guarantees or other material contingent liabilities. (Please refer to section 6 headed “**LITIGATION**” under appendix IV of this circular for details of any litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against any members of the Group.)

All the outstanding borrowings of the Group denominated in foreign currencies have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31st August, 2002 for the purpose of this indebtedness statement.

2. MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 30th June, 2001, the date to which the latest audited financial statements of the Company were made up.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the expected cash inflow to be generated from the services provided using the Licensed Technologies under the Patents and the financial support from one of the controlling shareholders of the Company, the Group has sufficient working capital for its present requirements in the absence of unforeseen circumstances.

4. FINANCIAL INFORMATION

The following is a summary of the audited consolidated profit and loss accounts of the Group for the period from 1st April, 1998 to 31st March, 1999, from 1st April, 1999 to 30th June, 2000 and from 1st July, 2000 to 30th June, 2001 as extracted from the relevant annual reports of the Group for the years presented.

RESULTS

	1.7.2000 to 30.6.2001	1.4.1999 to 30.6.2000	1.4.1998 to 31.3.1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>30,071</u>	<u>13,810</u>	<u>109,825</u>
(Loss)/profit before taxation and extraordinary items	(92,704)	34,349	(500,196)
Extraordinary items	—	—	—
Taxation (charge) credit	<u>(251)</u>	<u>(129)</u>	<u>479</u>
(Loss)/profit before minority interests	(92,955)	34,220	(499,717)
Minority interests	<u>472</u>	<u>—</u>	<u>—</u>
Net (loss)/profit for the year/period	<u>(92,483)</u>	<u>34,220</u>	<u>(499,717)</u>
Earning/(loss) per Shares	<u>(0.63 cent)</u>	<u>1.99 cents</u>	<u>(42.05 cents)</u>
Dividend proposed	<u>—</u>	<u>—</u>	<u>—</u>
Dividend paid	<u>—</u>	<u>—</u>	<u>—</u>

ASSETS AND LIABILITIES

	30.6.2001	30.6.2000	31.3.1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	84,898	107,912	59,502
Total liabilities	(71,313)	(72,859)	(231,172)
Minority interests	<u>(5,879)</u>	<u>(2,140)</u>	<u>(550)</u>
Shareholders' funds	<u>7,706</u>	<u>32,913</u>	<u>(172,220)</u>

5. AUDITED ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 2001

Set out below are the consolidated profit and loss account, the consolidated statement of recognised gains and losses, the consolidated cash flow statement for the period from 1st April, 1999 to 30th June, 2000 and the year ended 30th June, 2001, and the balance sheet as at 30th June, 2000 and 30th June, 2001 of the Group together with the relevant auditors’ opinions and notes as extracted from the annual reports of the Group for the period from 1st April, 1999 to 30th June, 2000 and for the year ended 30th June, 2001.

Chung Hwa Development Holdings Limited, Star Cyberpower Holdings Limited and Star Bio-Tech (Holdings) Limited are the former names of the Company.

The following is the auditors' opinion as extracted from the annual report of the Group for the period from 1st April, 1999 to 30th June, 2000.

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**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF STAR CYBERPOWER HOLDINGS LIMITED (FORMERLY CHUNG HWA DEVELOPMENT HOLDINGS LIMITED)

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited in respect of the matters relating to those subsidiaries and associates as set out below:

- (i) included in the consolidated balance sheet as at 31st March, 1999 was the Group's share of net liabilities of associates of HK\$24,060,222. However, the auditors' report on the financial statements of the associates for the year ended 31st March, 1999 upon

which the above figure was based contained qualifications arising from limitations in scope relating to access to the books and records, to the valuation of trademarks and to the valuation of a subsidiary not consolidated. Accordingly, we were unable to satisfy ourselves that the above amount was fairly stated as at 31st March, 1999.

- (ii) The consolidated balance sheet as at 31st March, 1999 included net liabilities of HK\$7,260,000 in respect of a subsidiary, Chung Hwa Media Holdings Limited, on the basis of unaudited management accounts. Similarly, included in consolidated income statement for the period from 1st April, 1999 to 30th June, 2000 was loss on the disposal of Chung Hwa Media Holdings Limited of HK\$9,324,000, again on the basis of unaudited management accounts. Accordingly, we were unable to satisfy ourselves that these amounts were fairly stated in the financial statements.
- (iii) The consolidated financial statements include net liabilities of HK\$34,794,000 and HK\$35,481,000 as at 31st March, 1999 and 30th June, 2000 respectively and a loss of HK\$687,000 for the period from 1st April, 1999 to 30th June, 2000 in respect of a subsidiary, Vincent Honour Limited, on the basis of the unaudited management accounts. Accordingly, we were unable to satisfy ourselves that these amounts were fairly stated.

Any adjustments to the figures in (i) to (iii) above would have a consequential effect as appropriate on the net assets of the Group as at 30th June, 2000 and/or on the profit of the Group for the period from 1st April, 1999 to 30th June, 2000.

QUALIFIED OPINION ARISING FROM LIMITATIONS OF AUDIT SCOPE

Except for any adjustments that might have found to be necessary had we been able to obtain sufficient evidence concerning the matters set out in paragraphs (i) to (iii) of the basis of opinion section of this report, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June, 2000 and of the profit and cash flows of the Group for the period from 1st April, 1999 to 30th June, 2000 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion we draw attention to the following matter. Included in the consolidated income statement for the year ended 31st March, 1999 were turnover, loss from operations and taxation of HK\$71,519,900, HK\$4,379,000 and HK\$479,000 respectively based on unaudited management accounts of a subsidiary, Leading Edge Packaging, Inc. ("LEPI") which was de-consolidated with effect from 25th January, 1999. Also, the auditors' report of the financial statements of LEPI for the year ended 31st March, 1999 was qualified as a result of a limitation of scope relating to access to the books and records of a major subsidiary of LEPI. As part of the financial restructuring of the Group described in note 2 to the financial statements, LEPI was disposed of on 14th June, 2000. However, for the reasons described above, we were unable to satisfy ourselves as to the classification of the consolidated income statement for the year ended 31st March, 1999 between loss from operations and loss attributable to discontinued operations and the analysis of turnover disclosed in note 6.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- (ii) we are unable to determine whether proper books of account have been kept.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 30th October, 2000

The following is the auditors' opinion as extracted from the annual report of the Group for the year ended 30th June, 2001.

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**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF STAR BIO-TECH (HOLDINGS) LIMITED (FORMERLY STAR CYBERPOWER HOLDINGS LIMITED) *(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 18 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited. The consolidated balance sheet as at 30th June, 2000 included net liabilities of HK\$35,481,000 in respect of a subsidiary, Vincent Honour Limited an inactive subsidiary, on the basis of the unaudited management accounts. Accordingly, we were unable to satisfy ourselves that the gain on disposal of Vincent Honour Limited of HK\$7,468,000,

included in the consolidated income statement for the year ended 30th June, 2001 was fairly stated in the financial statements. Any adjustments to these figures would have a consequential effect on the retained reserves of the Group as at 30th June, 2000 and on the loss of the Group for the year ended 30th June, 2001.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosure made in note 3 to the financial statements. The Group is, through its financial advisors, conducting discussions with certain potential strategic investors with a view to potential equity injection. Provided that the negotiations can be successfully completed with potential investors for the injection of new equity capital, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from a failure to obtain such funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT AND LIMITATION OF AUDIT SCOPE

As explained in note 26 in the financial statements, under an agreement (“Cooperation Agreement”) with a third party (the “Partner”) the Group was required to inject an agreed amount of US\$3,000,000 (equivalent to approximately HK\$23,400,000) into an investee company within the specified period of time (“Period”) in return for a 25% equity interest in that investee company. However, having failed to make the injection within the Period, the Group is subject to a forfeiture of US\$1,000,000 (approximately HK\$7,800,000). The directors have not made any provision for any amount to be forfeited in these financial statements on the basis that the Company is currently in the process of negotiation with the Partner for the extension of the Period. However, in our opinion, a provision of HK\$7,800,000 should have been made in these financial statements to reflect the obligations of the Group under the Cooperation Agreement thereby increasing loss before taxation for the year and reducing the net assets as at 30th June, 2001 by that amount.

Except for any adjustments that might have found to be necessary had we been able to obtain sufficient evidence concerning Vincent Honour Limited and except for the absence of the provision referred to above, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June, 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to Vincent Honour Limited:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

(ii) we are unable to determine whether proper books of account have been kept.

Without qualifying our opinion we draw to your attention that included in the consolidated income statement for the period from 1st April, 1999 to 30th June, 2000 was a loss on the disposal of Chung Hwa Media Holdings Limited of HK\$9,324,000, which prior to disposal had been included in the financial statements on the basis of unaudited management accounts. Accordingly, we were unable to satisfy ourselves that the amount was fairly stated in the financial statements for the year ended 30th June, 2000.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 30th November, 2001

CONSOLIDATED INCOME STATEMENT

		For the period from	
	NOTES	1.7.2000 to 30.6.2001 HK\$'000	1.4.1999 to 30.6.2000 HK\$'000
Turnover	6	30,071	13,810
Cost of sales		<u>(26,473)</u>	<u>(12,551)</u>
Gross profit		3,598	1,259
Other revenue		3,364	1,348
Distribution costs		(3,683)	(925)
Administrative expenses		(69,566)	(21,037)
Loss attributable to properties	7	<u>(720)</u>	<u>(1,005)</u>
Loss from operations	8	(67,007)	(20,360)
Finance costs	9	(2,549)	(1,335)
Share of losses of associates		—	(31,358)
Loss attributable to investments	11	(26,737)	(17,240)
Gain on waiver of obligations	12	8,069	—
Gain attributable to financial restructuring	13	—	133,651
Impairment loss recognised in respect of property, plant and equipment	14	(4,480)	(23,338)
Provision for payments under guarantee	15	<u>—</u>	<u>(5,671)</u>
(Loss) profit before taxation		(92,704)	34,349
Taxation	16	<u>(251)</u>	<u>(129)</u>
(Loss) profit after taxation		(92,955)	34,220
Minority interests		<u>472</u>	<u>—</u>
Net (loss) profit for the year/period	17	<u><u>(92,483)</u></u>	<u><u>34,220</u></u>
(Loss) earnings per share	18		
— Basic		<u><u>(0.63 cents)</u></u>	<u><u>1.99 cents</u></u>
— Diluted		<u><u>N/A</u></u>	<u><u>1.89 cents</u></u>

CONSOLIDATED BALANCE SHEET

	NOTES	30.6.2001 HK\$'000	30.6.2000 HK\$'000
NON-CURRENT ASSETS			
Investment properties	19	2,220	5,431
Property, plant and equipment	20	25,284	18,100
Interest in a subsidiary not consolidated	22	—	—
Interests in associates	23	—	—
Investments in securities	24	4,150	150
		<u>31,654</u>	<u>23,681</u>
CURRENT ASSETS			
Inventories	25	7,779	1,100
Debtors, deposits and prepayments	26	28,729	10,181
Investments in securities	24	3,141	—
Bank balances and cash		13,595	72,950
		<u>53,244</u>	<u>84,231</u>
CURRENT LIABILITIES			
Creditors and accrued charges	27	42,363	39,716
Taxation		94	128
Loan	28	12,500	12,500
Bank loans-secured		11,556	20,515
		<u>66,513</u>	<u>72,859</u>
NET CURRENT (LIABILITIES) ASSETS		<u>(13,269)</u>	<u>11,372</u>
		<u>18,385</u>	<u>35,053</u>
CAPITAL AND RESERVES			
Share capital	29	194,596	129,802
Reserves	31	(186,890)	(96,889)
		<u>7,706</u>	<u>32,913</u>
MINORITY INTERESTS		<u>5,879</u>	<u>2,140</u>
NON-CURRENT LIABILITIES			
Convertible note	32	4,800	—
		<u>18,385</u>	<u>35,053</u>

BALANCE SHEET

	NOTES	30.6.2001 HK\$'000	30.6.2000 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	20	3,908	454
Interests in subsidiaries	21	<u>6,107</u>	<u>—</u>
		<u>10,015</u>	<u>454</u>
CURRENT ASSETS			
Debtors, deposits and prepayments		6,351	8,015
Bank balances and cash		<u>2,782</u>	<u>71,649</u>
		<u>9,133</u>	<u>79,664</u>
CURRENT LIABILITIES			
Creditors and accrued charges		10,191	15,217
Bank loans secured		<u>11,556</u>	<u>20,515</u>
		<u>21,747</u>	<u>35,732</u>
NET CURRENT (LIABILITIES) ASSETS		<u>(12,614)</u>	<u>43,932</u>
		<u>(2,599)</u>	<u>44,386</u>
CAPITAL AND RESERVES			
Share capital	29	194,596	129,802
Reserves	31	<u>(201,995)</u>	<u>(85,416)</u>
		<u>(7,399)</u>	<u>44,386</u>
NON-CURRENT LIABILITIES			
Convertible note	32	<u>4,800</u>	<u>—</u>
		<u>(2,599)</u>	<u>44,386</u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	1.7.2000 to 30.6.2001 <i>HK\$'000</i>	1.4.1999 to 30.6.2000 <i>HK\$'000</i>
Net (loss) profit and total recognised (losses)		
gains for the year/period	(92,483)	34,220
(Goodwill) capital reserve arising on acquisition		
of interest in subsidiaries and associates	<u>(41,539)</u>	<u>9,052</u>
	<u>(134,022)</u>	<u>43,272</u>

CONSOLIDATED CASH FLOW STATEMENT

	NOTES	1.7.2000 to 30.6.2001 HK\$'000	1.4.1999 to 30.6.2000 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	34	<u>(70,582)</u>	<u>(16,858)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(2,462)	(1,310)
Interest on hire purchase contracts		—	(25)
Interest received		<u>903</u>	<u>202</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(1,559)</u>	<u>(1,133)</u>
TAXATION			
Hong Kong Profits Tax refunded		660	—
Hong Kong Profits Tax paid		(328)	—
Overseas tax paid		<u>—</u>	<u>(272)</u>
NET TAX REFUNDED (PAID)		<u>332</u>	<u>(272)</u>
INVESTING ACTIVITIES			
Purchase of subsidiaries	35	(22,563)	2
Deposits paid for investments		(14,586)	—
Purchase of investments in securities		(10,054)	—
Purchase of property, plant and equipment		(9,204)	(1,683)
Purchase of associates		(9,000)	—
Proceeds from sale of subsidiaries (net of cash and cash equivalents disposed of)	36	(11)	(51)
Proceeds from disposal of investment property		2,491	—
Proceeds from disposal of property, plant and equipment		1,166	698
Proceeds from disposal of investment in securities		<u>1,061</u>	<u>—</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(60,700)</u>	<u>(1,034)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		<u>(132,509)</u>	<u>(19,297)</u>

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

	NOTES	1.7.2000 to 30.6.2001 HK\$'000	1.4.1999 to 30.6.2000 HK\$'000
FINANCING ACTIVITIES	37		
Issue of convertible notes for cash		42,600	—
Issue of shares for cash		40,960	100,000
Repayment of bank loans		(8,959)	(9,758)
Expenses paid in connection with the issue of shares		(1,447)	(3,256)
Repayment of obligations under hire purchase contracts		<u>—</u>	<u>(469)</u>
NET CASH INFLOW FROM FINANCING ACTIVITIES		<u>73,154</u>	<u>86,517</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(59,355)	67,220
AMOUNT RECLASSIFIED FROM BANK OVERDRAFT AND TRUST RECEIPT AND PACKING LOAN		—	22,039
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		<u>72,950</u>	<u>(16,309)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD - represented by Bank balances and cash		<u>13,595</u>	<u>72,950</u>

NOTES TO THE FINANCIAL STATEMENTS**1. GENERAL**

The Company is incorporated and registered as an exempted company in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries and associates are set out in notes 21 to 23 to the financial statements.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements for the current year cover a twelve-month period from 1st July, 2000 to 30th June, 2001. The corresponding amounts for the consolidated income statement, consolidated cash flow statement, consolidated statement of recognised gains and losses and related notes covered a fifteen-month period from 1st April, 1999 to 30th June, 2000 and therefore may not be comparable with amounts shown for the current year. After taken into account the statutory financial year end date of all those group companies in the People's Republic of China ("PRC"), i.e. 31st December, the directors resolved to change the Group's financial year end date to 30th June to allow the Group to prepare and update its financial results on a semi-annual basis so as to rationalise its internal resources.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of HK\$13,269,000 as at 30th June, 2001. The directors are currently considering various options for the future financing of the Group. In particular, the Group is, through its financial advisers, conducting discussions with certain potential strategic investors with a view to potential equity injection. The Group, its bankers and its advisers are currently considering various proposals. Provided that the negotiations can be successfully completed with the Group's bankers to restructure the Group's borrowing facilities and with the potential investors for the injection of new equity capital, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

4. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first, time, the revised Statement of Standard Accounting Practice ("SSAP") No. 14 "Leases" issued by the Hong Kong Society of Accountants.

Adoption of this SSAP has resulted in amendment to the related disclosures but with no effect on the results for the current or prior periods.

5. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries other than those excluded for the reasons referred to below made up to the balance sheet date.

Where the Group holds more than half of the issued share capital of a subsidiary, but does not control the composition of the board of directors or equivalent governing body, the financial statements of the subsidiary are not consolidated because to do so would be misleading. Where the Group is in a position to exercise significant influence or joint control, such investments are dealt with as associates or jointly controlled entities as appropriate. Otherwise, they are dealt with as investments in securities.

The results of the subsidiaries and associates which are acquired or disposed of during the year/period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill arising on acquisition of subsidiaries.

On disposal of investments in subsidiaries and associates, goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or associate.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less identified impairment losses.

The results of the subsidiaries not consolidated are accounted for at the carrying amount of the Group's interest in them at the date of deconsolidation less any identified impairment losses.

Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year/period. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

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

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when the relevant services are rendered.

Sales of investments in securities are recognised when the sales contract become unconditional.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the relevant lease term.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance of the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation and amortisation is provided on investment properties except where the unexpired term, including the renewal period, of the relevant lease is twenty years or less.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation are provided to write off the costs of the assets over their estimated useful lives, using the straight line method, at the following rates per annum:

Land held on long leases	Over the terms of the leases
Land held on medium term leases	2.5% or over the terms of the leases whichever is shorter
Buildings	2.5% or over the terms of the leases whichever is shorter
Leasehold improvement	10% or over the terms of the leases whichever is shorter
Furniture, fixture and equipment	10-20%
Plant and machinery	10%
Motor vehicles	20%

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year/period.

Club debenture

Club debenture is stated at cost less any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of the subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year/period after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Retirement benefit scheme

The retirement benefit scheme contributions relating to the mandatory provident fund scheme charged to the income statement represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

The amount of contributions payable to pension schemes in jurisdictions other than Hong Kong are charged to the income statement.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

6. TURNOVER AND SEGMENTAL INFORMATION

An analysis of the Group's turnover and contributions to operating results by principal activity and geographical market is as follows:

	1.7.2000 to 30.6.2001		1.4.1999 to 30.6.2000	
	Contributions to loss from		Contributions to loss from	
	Turnover	operations	Turnover	operations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacture and sales of food products	9,058	(6,192)	13,810	(5,589)
Manufacture and sales of electronic products	15,328	(2,518)	—	—
Sales of health products	370	(957)	—	—
Provision of financial information services	5,102	(1,471)	—	—
Provision of internet consultancy services	213	(3,406)	—	—
	<u>30,071</u>	<u>(14,544)</u>	<u>13,810</u>	<u>(5,589)</u>
Unallocated corporate expenses		<u>(52,463)</u>		<u>(14,771)</u>
Loss from operations		(67,007)		(20,360)
Finance costs		(2,549)		(1,335)
Share of losses of associates		—		(31,358)
Loss attributable to investments		(26,737)		(17,240)
Gain on waiver of obligations		8,069		—
Gain attributable to financial restructuring		—		133,651
Provision for impairment in value of property, plant and equipment		(4,480)		(23,338)
Provision for payments under guarantee		<u>—</u>		<u>(5,671)</u>
(Loss) profit before taxation		<u>(92,704)</u>		<u>34,349</u>
By geographical market:				
Hong Kong	16,075	(6,841)	—	—
People's Republic of China, excluding Hong Kong ("PRC")	12,041	(7,488)	13,810	(5,589)
Other Asian countries	<u>1,955</u>	<u>(215)</u>	<u>—</u>	<u>—</u>
	<u>30,071</u>	<u>(14,544)</u>	<u>13,810</u>	<u>(5,589)</u>
Unallocated corporate expenses		<u>(52,463)</u>		<u>(14,771)</u>
Loss from operations		(67,007)		(20,360)
Finance costs		(2,549)		(1,335)
Share of losses of associates		—		(31,358)
Loss attributable to investments		(26,737)		(17,240)
Gain on waiver of obligations		8,069		—
Gain attributable to financial restructuring		—		133,651
Provision for impairment in value of property, plant and equipment		(4,480)		(23,338)
Provision for payments under guarantee		<u>—</u>		<u>(5,671)</u>
(Loss) profit before taxation		<u>(92,704)</u>		<u>34,349</u>

7. LOSS ATTRIBUTABLE TO PROPERTIES

	1.7.2000 to 30.6.2001 <i>HK\$'000</i>	1.4.1999 to 30.6.2000 <i>HK\$'000</i>
Deficit on revaluation of investment properties	(320)	(1,054)
(Loss) gain on disposal of investment properties	<u>(400)</u>	<u>49</u>
	<u><u>(720)</u></u>	<u><u>(1,005)</u></u>

8. LOSS FROM OPERATIONS

	1.7.2000 to 30.6.2001 <i>HK\$'000</i>	1.4.1999 to 30.6.2000 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Staff costs:		
Directors' remuneration (note 10)	27,530	3,730
Other staff costs	<u>13,830</u>	<u>2,948</u>
Total staff costs	<u>41,360</u>	<u>6,678</u>
Auditors' remuneration:		
Current year	1,100	900
Overprovision in prior year	—	(49)
Depreciation and amortisation		
Owned assets	4,238	4,015
Assets held under hire purchase contracts	—	23
Loss on disposal of property, plant and equipment	2,342	612
Operating lease payments in respect of rented premises	8,424	1,991
and after crediting:		
Interest income	903	202
Rental income from properties under operating leases, net of outgoings of HK\$10,000 (2000: HK\$15,000)	<u>533</u>	<u>65</u>

9. FINANCE COSTS

	1.7.2000 to 30.6.2001 <i>HK\$'000</i>	1.4.1999 to 30.6.2000 <i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	2,462	1,310
Convertible notes	87	—
Hire purchase contracts	<u>—</u>	<u>25</u>
	<u>2,549</u>	<u>1,335</u>

10. DIRECTORS' REMUNERATION

	1.7.2000 to 30.6.2001 <i>HK\$'000</i>	1.4.1999 to 30.6.2000 <i>HK\$'000</i>
Directors' fees:		
Executive	—	—
Non-executive	—	—
Independent non-executive	<u>—</u>	<u>—</u>
	—	—
Other emoluments		
Executive		
Salaries and other benefits	11,828	3,330
Discretionary bonus	14,936	—
Contributions to retirement benefit scheme	28	—
Compensation for loss of office	551	—
Independent non-executive	<u>187</u>	<u>400</u>
	<u>27,530</u>	<u>3,730</u>

The emoluments of the directors were within the following bands:

	No. of directors	
	1.7.2000 to 30.6.2001	1.4.1999 to 30.6.2000
Nil to HK\$1,000,000	9	10
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$3,500,001 to HK\$4,000,000	2	—
HK\$15,000,001 to HK\$15,500,000	<u>1</u>	<u>—</u>

The five highest paid individuals of the Group for the year ended 30th June, 2001 and for the period from 1st April, 1999 to 30th June, 2000 were all directors of the Company and details of their emoluments are set out above.

During the year, an amount of HK\$551,000 (2000: nil) was paid to one director as compensation for loss of office. Other than that, no emoluments were paid by the Group to any of the directors as an inducement to join the Group or as compensation for loss of office.

11. LOSS ATTRIBUTABLE TO INVESTMENTS

	1.7.2000 to 30.6.2001 HK\$'000	1.4.1999 to 30.6.2000 HK\$'000
Gain (loss) on disposal/dilution of subsidiaries (a)	7,316	(9,324)
Less: Goodwill previously written off against reserves	<u>(568)</u>	<u>—</u>
	6,748	(9,324)
Gain on disposal of investments in securities	156	—
Provision for payments made in connection with investment projects (b)	(13,633)	—
Impairment loss recognised in respect of goodwill (c)	(18,000)	—
Unrealised loss in investments in securities	(2,008)	—
Loss arising in connection with committed acquisition of additional interests in associate (d)	—	(5,965)
Loss arising in connection with committed repurchase of interest in a subsidiary (e)	<u>—</u>	<u>(1,951)</u>
	<u><u>(26,737)</u></u>	<u><u>(17,240)</u></u>

- (a) The net gain on disposal/dilution of subsidiaries during the year comprises (i) the gain on disposal of the Group's entire interest in Vincent Honour Limited of HK\$7,468,000; and (ii) the net loss on dilution of the Group's interest in Thinking Group Holdings Limited of HK\$720,000.

During the period from 1st April, 1999 to 30th June, 2000, the amount represented loss on disposal of the Group's entire interest in Chung Hwa Media Holdings Limited ("Chung Hwa Media") and those subsidiaries held under Chung Hwa Media.

- (b) During the year, the Group entered into an agreement ("Acquisition Agreement") with a third party to acquire a 25% equity interest in a company which operates a website for provision of trade information in the PRC. A payment of HK\$13,000,000 was made by the Group for such investment.

As the transfer of equity interest has not been completed, and following an assessment of business prospects of the web site, the Group entered into agreement to terminate the Acquisition Agreement and the payment made, which was accordingly treated as deposit and prepayment, will be refunded to the Group. A provision of HK\$9,500,000 was made during the year in view of the uncertainty on the recoverability of the outstanding amount.

The Group entered into agreement with two other third parties to establish an internet based business to business trading platform for online trading of sugar and wine in the PRC. An initial payment of HK\$4,133,000 was made for this investment project. Due to changes in market conditions, the investment project was temporarily suspended and a provision of HK\$4,133,000 was accordingly made against the initial payment.

- (c) The amount represented an impairment loss recognised in respect of all of the goodwill relating to the acquisition of the entire interest in Cheung On Consultants Limited and 20% interest in Coriolan Limited during the year.
- (d) At the time of the formation of Chung Hwa Food & Beverages Limited (“CHFBL”) on 25th May, 1996, the Group and the other investors of CHFBL (“JV Partners”) signed an agreement (“JV Agreement”) which stated that CHFBL would seek a listing on an appropriate stock exchange within three years from the date of signing of the JV Agreement. In the event that such listing did not take place, the JV Agreement provided that the JV Partners have an option to exchange their shares in CHFBL for the Company’s shares, during the period commencing from the third anniversary (i.e. 25th May, 1999) and ending on the fourth anniversary of the date of the JV Agreement. The number of shares to be issued pursuant to the exercise of the option by the JV Partners would depend on the prevailing market price of the Company’s shares at the time when the option notice is served by the JV Partners.

On 29th December, 1999, the Group entered into a supplementary agreement to the JV Agreement with the JV Partners whereby the Group agreed to issue and allot 504,505,807 shares of HK\$0.10 per share to the JV Partners to discharge in full all the obligations of the Group under the JV Agreement and a provision of HK\$50,451,000 for the purchase of shares in CHFBL was made in the financial statements for the year ended 31st March, 1999.

During the period from 1st April, 1999 to 30th June, 2000, the Company issued and allotted 504,505,807 shares of HK\$0.10 each to the JV Partners in exchange for its 50% shareholding in CHFBL, which then became a wholly-owned subsidiary of the Group. An additional loss of approximately HK\$5,965,000 arose from such acquisition of interests in CHFBL.

- (e) On 26th February, 1997, the Group entered into an agreement (the “CHFB Agreement”) with a third party (“Investor”) for the sale of its 21.01% interest in Chung Hwa Food & Beverages Holdings Limited (“CHFBHL”), a wholly-owned subsidiary of the Group. Pursuant to the CHFB Agreement, if this subsidiary failed to obtain a listing status three years from the date of the CHFB Agreement, the Investor would be granted a put option one year thereafter which requires the Group to repurchase the 21.01% interest in CHFBHL from the Investor at a consideration of approximately HK\$27,300,000. The consideration would be satisfied by either issue and allotment of the Company’s shares or by payment in cash plus interest thereon at 20% per annum charging from the date the CHFB Agreement was completed. The number of shares to be issued pursuant to the exercise of the option by the Investor would depend on the prevailing market price of the Company’s shares at the time when the option notice was served by the Investor.

Following the exercise of the put option by the Investor, the Group agreed with the Investor to repurchase the 21.01% interests in CHFBHL in cash. Accordingly, a provision of HK\$32,008,000 was made in the financial statements for the year ended 31st March, 1999.

During the period from 1st April, 1999 to 30th June, 2000, a further amount of HK\$1,951,000 in respect of accrued interest was provided in the financial statements.

12. GAIN ON WAIVER OF OBLIGATIONS

The amount represents the waiver of the Group’s outstanding obligations to certain creditors during the year.

13. GAIN ATTRIBUTABLE TO FINANCIAL RESTRUCTURING

	1.7.2000 to 30.6.2001	1.4.1999 to 30.6.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Waiver of unsecured financial obligations by banks, a financial institution and creditors	—	125,985
Gain on discharge of a secured financial obligation*	—	7,000
Waiver of accrued interest	<u>—</u>	<u>2,545</u>
	—	135,530
Less: Expenses incurred in connection with the financial restructuring	<u>—</u>	<u>(1,879)</u>
	<u>—</u>	<u>133,651</u>

* The gain arose when the obligation was satisfied by transferring the collateral to a bank. The amount represents the difference between the agreed value of the collateral to satisfy the obligation to the bank and the carrying value of such collateral as stated in the Group's financial statements.

14. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF PROPERTY, PLANT AND EQUIPMENT

The amount represents the impairment loss recognised in respect of property, plant and equipment in respect of certain subsidiaries in the PRC following a rationalisation of the Group's business.

15. PROVISION FOR PAYMENTS UNDER GUARANTEE

During the period from 1st April, 1999 to 30th June, 2000, the amount represented provision for obligations crystallising on guarantees given by the Group to third parties.

16. TAXATION

The charge for the year/period represented underprovision of Hong Kong Profits Tax in prior year.

No provision for taxation has been made in the financial statements as the Group had incurred tax loss for the year/period.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. As the Company's PRC subsidiaries are Sino-foreign joint venture enterprises, they are eligible for certain tax holidays and concessions. Accordingly, certain of the PRC subsidiaries were subject to PRC income tax at reduced rates. No provision for taxation has been made in the financial statements as the PRC subsidiaries had incurred tax losses for the year.

The Group has no other assessable income subject to income tax in other jurisdictions.

Details of unrecognised deferred taxation are set out in note 33.

17. NET (LOSS) PROFIT FOR THE YEAR/PERIOD

Of the Group's net loss for the year of HK\$92,483,000 (1st April, 1999 to 30th June, 2000: a profit of HK\$34,220,000), a loss of HK\$142,032,000 (1.4.1999 to 30.6.2000: a profit of HK\$60,259,000) has been dealt with in the financial statements of the Company.

18. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the net loss for the year of HK\$92,483,000 (1st April, 1999 to 30th June, 2000: profit of HK\$34,220,000) and on the weighted average number of 14,608,274,971 (1st April, 1999 to 30th June, 2000: weighted average number of 1,719,225,884) ordinary shares in issue.

No diluted loss per share has been presented for the current year as the exercise of the share options and conversion of the convertible notes would result in a decrease in the loss per share.

The diluted earnings per share for the period from 1st April, 1999 to 30th June, 2000 was based on the profit for the period of HK\$34,220,000 and on the adjusted weighted average number of 1,806,370,942 ordinary shares in issue during the period, after adjustment for the effect of dilutive potential ordinary shares on unexercised share options during the period.

19. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
AT VALUATION	
At 1st July, 2000	5,431
Disposals	(2,891)
Deficit arising on revaluation (note 7)	(320)
At 30th June, 2001	2,220

The Group’s investment properties were revalued at 30th June, 2001 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional property valuers, on an open market value basis. The deficit arising on revaluation has been charged to the income statement.

The Group’s investment properties were vacant during the year.

The carrying value of the investment properties comprises:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Properties held under long term leases in Hong Kong	2,220	3,870
Properties held under medium-term leases in Hong Kong	—	1,561
	2,220	5,431

20. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST						
At 1st July, 2000	13,076	14,816	4,283	34,166	1,334	67,675
Additions	—	1,918	6,328	461	497	9,204
On acquisition of subsidiaries	7,364	750	1,547	672	172	10,505
Disposals	<u>(3,723)</u>	<u>(1,918)</u>	<u>(269)</u>	<u>—</u>	<u>(547)</u>	<u>(6,457)</u>
At 30th June, 2001	<u>16,717</u>	<u>15,566</u>	<u>11,889</u>	<u>35,299</u>	<u>1,456</u>	<u>80,927</u>
DEPRECIATION AND AMORTISATION						
At 1st July, 2000	4,714	13,311	4,020	26,399	1,131	49,575
Impairment	4,480	—	—	—	—	4,480
Provided for the year	487	958	1,047	1,706	40	4,238
Eliminated on disposals	<u>(1,811)</u>	<u>(383)</u>	<u>(91)</u>	<u>—</u>	<u>(365)</u>	<u>(2,650)</u>
At 30th June, 2001	<u>7,870</u>	<u>13,886</u>	<u>4,976</u>	<u>28,105</u>	<u>806</u>	<u>55,643</u>
NET BOOK VALUES						
At 30th June, 2001	<u>8,847</u>	<u>1,680</u>	<u>6,913</u>	<u>7,194</u>	<u>650</u>	<u>25,284</u>
At 30th June, 2000	<u>8,362</u>	<u>1,505</u>	<u>263</u>	<u>7,767</u>	<u>203</u>	<u>18,100</u>

The net book value of properties of the Group shown above comprises leasehold properties held in the PRC under medium-term leases.

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
COST			
At 1st July, 2000	255	206	461
Additions	3,862	123	3,985
Disposals	<u>—</u>	<u>(206)</u>	<u>(206)</u>
At 30th June, 2001	<u>4,117</u>	<u>123</u>	<u>4,240</u>
DEPRECIATION			
At 1st July, 2000	4	3	7
Provided for the year	318	31	349
Eliminated on disposals	<u>—</u>	<u>(24)</u>	<u>(24)</u>
At 30th June, 2001	<u>322</u>	<u>10</u>	<u>332</u>
NET BOOK VALUES			
At 30th June, 2001	<u>3,795</u>	<u>113</u>	<u>3,908</u>
At 30th June, 2000	<u>251</u>	<u>203</u>	<u>454</u>

21. INTERESTS IN SUBSIDIARIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost less provision	2,000	—
Amounts due from subsidiaries	164,939	59,469
Less: Provision	<u>(160,832)</u>	<u>(59,469)</u>
	<u>6,107</u>	<u>—</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts are unlikely to be repaid within one year from the balance sheet date and are therefore classified as non-current.

Details of the principal subsidiaries as at 30th June, 2001 are as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Cheung On Consultants Limited	British Virgin Islands (“BVI”)	US\$100	—	100%	Investment holding
CHFBHL	BVI	Ordinary shares US\$5,760	100%	—	Investment holding
		Preference shares “A” US\$3,498,790, non-voting, priority on liquidation to ordinary shares and Preference shares “B”	100%	—	
		Preference shares “B” US\$13,199,450, non-voting, priority on liquidation to ordinary shares	100%	—	
CHFBL	Hong Kong	Ordinary shares HK\$10,000	100%	—	Investment holding
		Preference shares “A” HK\$37,995,000			
		Preference shares “B” HK\$37,995,000			
China Eastern Investment Limited	BVI	US\$1	—	100%	Investment holding
Cosmos Wealth Investment Limited	Hong Kong	HK\$2	—	100%	Property holding
Fu Yuk DNA Holistic Limited	Hong Kong	HK\$2	—	100%	Trading of health products
Full Support Technology Limited	BVI	US\$1	—	100%	Investment holding
Harbin Dongfang (Hong Kong) Food Company Limited (“Harbin Dongfang”)	PRC	RMB16,905,299	—	100%	Manufacture and sale of food products
Harbin HDL (New Zealand) Limited	PRC	RMB5,618,976	—	100%	Manufacture and sale of food products

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Name	Place of incorporation/ registration and operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
High Stone Assets Limited (“High Stone”)	BVI	US\$1	—	100%	Investment holding
iTech Investments Inc. (“iTech”)	BVI	US\$10	—	80%	Investment holding
Jamison Group Limited	BVI	HK\$75,000,000	—	100%	Investment holding
Rich City Investments Limited	Hong Kong	HK\$2	100%	—	Investment holding
Six Forest Bio-Science Holdings Limited	BVI	US\$1	100%	—	Investment holding
Credit Card DNA Security System Limited (Formerly known as Star Cyber DNA Limited)	Hong Kong	HK\$2	—	100%	Development of e-business security
Star Cyberpower Limited	BVI	US\$1	100%	—	Investment holding
Star Cyberpower Management Limited	Hong Kong	HK\$10,000	100%	—	Provision of management services
Star Cyberpower V.F. Limited	BVI	US\$1	100%	—	Investment holding
Special Gold Assets Limited	BVI	HK\$3,900,000	—	100%	Investment holding
Starstruck Group Limited	BVI	US\$1	—	100%	Investment holding
Star Internet Financial Information Services Limited	Hong Kong	HK\$200	—	100%	Provision of financial information services
Star Paging Telecom Technology (Shenzhen) Company Limited	PRC	HK\$15,000,000	—	80%	Manufacture and sale of financial pagers

Name	Place of incorporation/ registration and operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Thinking Group Limited	Hong Kong	HK\$3,708,235	—	67%	Trading of electronic products
Thinking Group Holdings Limited	BVI	HK\$4,500,000	—	67%	Investment holding
Xiamen Dongchen Food Industry Company Limited	PRC	RMB15,000,000	—	100%	Manufacture and sale of food products

A subsidiary of CHFBL has debt securities outstanding at 30th June, 2001, details of which are set out in note 28 to the financial statements.

None of the other subsidiaries of the Group had any debt securities outstanding at the balance sheet date or at any time during the year/period.

22. INTEREST IN A SUBSIDIARY NOT CONSOLIDATED

	THE GROUP	
	2001 <i>HK\$ '000</i>	2000 <i>HK\$ '000</i>
Share of net assets	<u>—</u>	<u>—</u>
The above is represented by:		
Share of net assets of subsidiary not consolidated	13,853	13,853
Less: Impairment loss recognised	<u>(13,853)</u>	<u>(13,853)</u>
	<u>—</u>	<u>—</u>

Details of the subsidiary not consolidated as at 30th June, 2001 are as follows:

Name	Place of incorporation/ and operation	Issued and fully paid registered capital	Proportion of nominal value of registered capital held indirectly by the Company	Principal activity
Nanchang Pepsi Cola Beverage Co. Ltd. (“Nanchang Pepsi”)	PRC	US\$2,154,000	75%	Bottling of beverages

The Group through CHFBL holds 75% interest in Nanchang Pepsi. The Group does not have control or significant influence over Nanchang Pepsi as there are restrictions imposed on the Group's ability to appoint directors into the board of directors of Nanchang Pepsi. Accordingly, Nanchang Pepsi is considered as a subsidiary not consolidated and dealt with as investment in securities. The investment in Nanchang Pepsi is stated at the carrying amount at the date of lost control less any subsequent impairment loss.

23. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	—	—

Details of the principal associates as at 30th June, 2001 are as follows:

Name of company	Place of Incorporation	Proportion of nominal value of issued share capital held by the Group	Principal activity
Coriolan Limited	BVI	20%	Investment holding
Stareasy.com Limited	Hong Kong	20%	Provision of media agency services

24. INVESTMENTS IN SECURITIES

		THE GROUP	
		2001	2000
		HK\$'000	HK\$'000
Equity securities in Hong Kong:			
	Listed	3,141	—
	Unlisted	4,000	—
		7,141	—
Club debenture		150	150
		7,291	150
Classified as			
	Current	3,141	—
	Non-current	4,150	150
		7,291	150
Market value of listed securities		3,141	—

25. INVENTORIES

		THE GROUP	
		2001	2000
		HK\$'000	HK\$'000
Raw materials		2,380	958
Work in progress		714	—
Finished goods		4,685	142
		7,779	1,100

Inventories are stated at cost.

26. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the debtors, deposits and prepayments was an amount of HK\$14,586,000 in respect of payment made in connection with an investment. The Group entered into agreement (“Cooperation Agreement”) with a third party (the “Partner”) in which both parties agreed to invest in a company which is mainly engaged in the research, development and marketing of Chinese character input software and Chinese language technology. The Group was required to inject an amount of US\$3,000,000 (equivalent to approximately HK\$23,400,000) in return for 25% equity interest in this company within a specified period of time (“Period”). As at 30th June, 2001, the Group had injected the amount of HK\$14,586,000. Having failed to make the injection in full within the Period, the Group is subject to a forfeiture of US\$1,000,000 (equivalent to approximately HK\$7,800,000) according to the Cooperation Agreement. The Company is currently in the process of negotiation with the Partner for the extension of the Period and, accordingly, no provision for any amount to be forfeited has been made in these financial statements.

The Group allows an average credit period of 60 days to its trade customers. Included in debtors, deposits and prepayments are trade debtors with the following aged analysis:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0-60 days	3,553	—
61-90 days	—	—
Over 90 days	—	207
	3,553	207
Other debtors, deposits and prepayments	25,176	9,974
	28,729	10,181

27. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors with the following aged analysis:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0-60 days	4,325	1,701
61-90 days	430	31
Over 90 days	3,923	3,520
	8,678	5,252
Accrued charges	33,685	34,464
	42,363	39,716

28. LOAN

The loan was granted by a minority shareholder of a subsidiary of CHFBL in previous year. The loan is unsecured, bears interest at 8% per annum and the holder of the loan has the right on the repayment date to convert the loan into ordinary shares of that subsidiary.

No conversion rights have been exercised during the year. At 30th June, 2001, the convertible loan is due for repayment.

29. SHARE CAPITAL

	Number of shares	Value <i>HK\$'000</i>
Authorised		
Ordinary shares of HK\$0.10 each at 1st April, 1999	6,000,000,000	600,000
Share subdivision	<u>54,000,000,000</u>	<u>—</u>
Ordinary shares of HK\$0.01 each at 1st July, 2000 and 30th June, 2001	<u><u>60,000,000,000</u></u>	<u><u>600,000</u></u>
Issued and fully paid		
Ordinary shares of HK\$0.10 each at 1st April, 1999	2,522,529,039	252,253
Issue of new shares at HK\$0.10 each	<u>504,505,807</u>	<u>50,451</u>
Ordinary shares of HK\$0.10 each	3,027,034,846	302,704
Share reduction	—	(287,568)
Share consolidation	(1,513,517,423)	—
Issue of new shares of HK\$0.01 each	<u>11,466,650,310</u>	<u>114,666</u>
Ordinary shares of HK\$0.01 each at 1st July, 2000	12,980,167,733	129,802
Issue of new shares of HK\$0.01 each	2,643,425,890	13,834
Conversion of convertible notes	2,500,000,000	25,000
Exercise of share options	<u>1,336,033,547</u>	<u>25,960</u>
Ordinary shares of HK\$0.01 each at 30th June, 2001	<u><u>19,459,627,170</u></u>	<u><u>194,596</u></u>

The movements in the ordinary share capital for the period from 1st April, 1999 to 30th June, 2000 were as follows:

- (a) 504,505,807 ordinary shares of HK\$0.10 each were issued to the JV Partners at HK\$0.10 per share to discharge all the obligations of the Group under the JV Agreement, details of which are set out in note 11(d).
- (b) Pursuant to resolutions passed at a special general meeting of the Company on 12th June, 2000:
- (i) The Group’s financial restructuring was carried out and completed on 14th June, 2000, which involved the restructuring of the share capital:
- The par value of the issued shares was reduced from HK\$0.10 each to HK\$0.005 each.

- Every two issued shares of HK\$0.005 each in the capital of the Company was consolidated into one new share of HK\$0.01 each.
 - Every unissued shares of HK\$0.10 each in the authorised share capital of the Company existing after completion of the Share Reduction and the Share Consolidation is subdivided into 10 shares of HK\$0.01 each.
- (ii) 5,500,000,000 shares of HK\$0.01 each were subscribed by Sheung Hai Developments Limited (“Sheung Hai”), a company beneficially owned by Wong Kam Fu, Nelson at HK\$0.01 per share.
- (iii) 4,500,000,000 shares of HK\$0.01 each were issued and allotted to institutional investors at HK\$0.01 per share by placements.
- (iv) 1,466,650,310 shares of HK\$0.01 each were issued and allotted to banks, a financial institution and creditors at HK\$0.01 per share as part of the consideration to discharge the Group’s obligations to these parties, under the restructuring of the Group’s obligations to banks, a financial institution and creditors pursuant to the Group’s financial restructuring.

The movements in the ordinary share capital for the year ended 30th June, 2001 are as follows:

- (a) Pursuant to a resolution passed at a special general meeting of the Company on 12th June, 2000, 33,425,890 shares of HK\$0.01 each were issued and allotted to a creditor at HK\$0.01 per share as part of the consideration to discharge in full all the obligations of the Group pursuant to the Group’s financial restructuring.
- (b) 150,000,000 shares of HK\$0.01 each were issued and allotted to Millennium Group Limited at HK\$0.04 per share, representing a discount of approximately 7% on the closing price of HK\$0.043 per share on 14th July, 2000, under a private share placement.
- (c) 1,200,000,000 shares of HK\$0.01 each were issued and allotted to institutional investors at HK\$0.018 per share, representing a discount of approximately 33.3% on the closing price of HK\$0.027 per share on 1st November, 2000 under a private share placement.

Both shares mentioned in (b) and (c) were issued under the general mandate granted to the directors on 30th June, 2000.

- (d) 1,260,000,000 shares of HK\$0.01 each were issued and allotted to Wong Kam Fu, Nelson to satisfy the partial consideration for the acquisition of 80% interest in iTech.

The issue price of HK\$0.01 per share was same as the closing price of HK\$0.01 per share on 22nd February, 2001 and the shares were issued under the general mandate granted to the directors on 15th December, 2000.

- (e) 1,600,000,000 shares and 900,000,000 shares of HK\$0.01 each were issued and allotted to Gain Master Assets Limited (“Gain Master”) and Direct Gain Profits Limited (“Direct Gain”) at HK\$0.018 and HK\$0.01 per share, respectively, as a result of the conversion of convertible notes issued to these two parties during the year.
- (f) As a result of the exercise of share options, 1,336,033,547 shares of HK\$0.01 each were issued and allotted to Wong Kam Fu, Nelson.

All the shares issued during the year rank pari passu in all respects with the then existing shares.

30. SHARE OPTION

The Company has an employee share option scheme (the “Scheme”) under which the board of directors of the Company may grant options to eligible employees, including executive directors, of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the Company’s shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Options granted are exercisable at any time during the two year period commencing six months after the date on which the option is accepted and expiring on the last day of the two year period or 10th April, 2004, whichever is the earlier.

Movements in the number of employee share options granted under the Scheme during the year are as follows:

Exercisable period	Exercise price <i>HK\$</i>	Outstanding at 1.7.2000	Number of share options			Outstanding at 30.6.2001
			Granted during the year	Exercised during the year	Lapsed/ cancelled*	
					during the year	
14.6.2000 - 13.6.2001	0.01	2,596,033,547	—	(1,336,033,547)	(1,260,000,000)	—
21.2.2001 - 5.3.2003***	0.03842**	—	800,000,000	—	(223,000,000)	577,000,000
30.4.2001 - 27.5.2003***	0.0163	—	201,000,000	—	(27,000,000)	174,000,000
7.5.2001 - 6.5.2003	0.0168	—	429,000,000	—	—	429,000,000
18.11.2001 - 17.11.2003	0.01	—	400,000,000	—	—	400,000,000
		<u>2,596,033,547</u>	<u>1,830,000,000</u>	<u>(1,336,033,547)</u>	<u>(1,510,000,000)</u>	<u>1,580,000,000</u>

* Upon the acquisition of 80% interest in iTech from Wong Kam Fu, Nelson by the issue and allotment of 1,260,000,000 shares of HK\$0.01 each in the Company, the number of shares options granted to Wong Kam Fu, Nelson was reduced by 1,260,000,000 accordingly.

** The exercise price of the aforesaid share options was amended from HK\$0.0352 to HK\$0.03842.

*** The exercisable periods are longer than two years because certain grantee of the options accepted the options on different dates.

The amount of consideration received by the Company for options granted during the year is not material.

31. RESERVES

	Share premium	Contributed surplus	Capital reserve	Goodwill reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note a)	(Note b)			
THE GROUP						
At 1st April, 1999	162,707	—	1,700	—	(588,880)	(424,473)
Effect of share reduction	—	—	—	—	287,568	287,568
Arising on acquisition of interests in subsidiaries	—	—	—	9,052	—	9,052
Share issue expenses	(3,256)	—	—	—	—	(3,256)
Net profit for the period	—	—	—	—	34,220	34,220
At 30th June, 2000	159,451	—	1,700	9,052	(267,092)	(96,889)
Premium on issue of shares	26,900	—	—	—	—	26,900
Share issue expenses	(1,447)	—	—	—	—	(1,447)
Arising on acquisition of subsidiaries and associates	—	—	—	(41,539)	—	(41,539)
Impairment loss recognised	—	—	—	18,000	—	18,000
Realised on dilution of interest in subsidiaries	—	—	—	568	—	568
Net loss for the year	—	—	—	—	(92,483)	(92,483)
At 30th June, 2001	184,904	—	1,700	(13,919)	(359,575)	(186,890)
Attributed to:						
The Company and subsidiaries	184,904	—	1,700	(13,919)	(359,575)	(186,890)
Associates	—	—	—	—	—	—
At 30th June, 2001	184,904	—	1,700	(13,919)	(359,575)	(186,890)
THE COMPANY						
At 1st April, 1999	162,707	93,289	—	—	(685,983)	(429,987)
Effect of share reduction	—	—	—	—	287,568	287,568
Share issue expenses	(3,256)	—	—	—	—	(3,256)
Net profit for the period	—	—	—	—	60,259	60,259
At 30th June, 2000	159,451	93,289	—	—	(338,156)	(85,416)
Premium on issue of shares	26,900	—	—	—	—	26,900
Share issue expenses	(1,447)	—	—	—	—	(1,447)
Net loss for the year	—	—	—	—	(142,032)	(142,032)
At 30th June, 2001	184,904	93,289	—	—	(480,188)	(201,995)

Notes:

- (a)

The contributed surplus of the Company includes (i) the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1994 and; (ii) the surplus arising from the group reorganisation in 1998.
- (b)

The capital reserve of the Group represents the difference between the nominal amount of shares issued by the Company and the aggregate nominal amount of the issued share capital of subsidiaries acquired at the time of the group reorganisation prior to the listing of the Company's shares in 1994.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

- (a)

it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b)

the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, no reserves are available for distribution to shareholders at 30th June, 2001 and 30th June, 2000.

32. CONVERTIBLE NOTE

	THE GROUP AND THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Gain Master (a)	(28,800)	—
Less: Conversion into 1,600,000,000 shares of HK\$0.01 each	<u>(28,800)</u>	<u>—</u>
	<u>—</u>	<u>—</u>
Direct Gain (b)	13,800	—
Less: Conversion into 900,000,000 shares of HK\$0.01 each	<u>(9,000)</u>	<u>—</u>
	<u>4,800</u>	<u>—</u>
	<u>4,800</u>	<u>—</u>

- (a)

The Group issued a convertible note in the amount of HK\$28,800,000 to Gain Master. The convertible note bears interest at 4% per annum and is redeemable on 6th April, 2003 unless it is previously converted or cancelled. The holder of the convertible note has the option to convert the convertible note into ordinary shares of the Company of HK\$0.01 each at an initial conversion price of HK\$0.018 per share, subject to adjustment, at any time during the period from 7th April, 2001 to 6th April, 2003.

During the year, the holder of the convertible note exercised the option to convert the whole convertible note into 1,600,000,000 shares of HK\$0.01 each at the conversion price of HK\$0.018 per share.

- (b) The Group issued a convertible note in the amount of HK\$13,800,000 to Direct Gain Profits. The convertible note bears interest at the higher of (i) the difference between the prime lending rate of the business day immediately before any date of interest payment quoted by the Hongkong and Shanghai Banking Corporation Limited and 2%; and (ii) 2% per annum and is redeemable on 18th June, 2004 unless previously converted or cancelled. The holder of the convertible note has the option to convert the convertible note into ordinary shares of the Company of HK\$0.01 each at an initial conversion price of HK\$0.01 per share, subject to adjustment, at any time during the period from 19th June, 2001 to 18th June, 2004.

During the year, the holder of the convertible note exercised the option to convert part of the convertible note into 900,000,000 shares of HK\$0.01 each at a price of HK\$0.01 per share.

33. DEFERRED TAXATION

At the balance sheet date, the net potential deferred tax asset, not recognised in the balance sheet, is analysed as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	(821)	(35)	(605)	(42)
Tax losses unutilised	<u>61,658</u>	<u>53,122</u>	<u>15,707</u>	<u>8,561</u>
	<u>60,837</u>	<u>53,087</u>	<u>15,102</u>	<u>8,519</u>

The net potential deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will be realised in the foreseeable future.

The net potential deferred tax credit (charge) arising during the year/period, which has not been recognised in the income statement, is as follows:

	THE GROUP		THE COMPANY	
	1.7.2000 to 30.6.2001	1.4.1999 to 30.6.2000	1.7.2000 to 30.6.2001	1.4.1999 to 30.6.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
(Excess) shortfall of tax allowance over depreciation	(786)	75	(563)	(38)
Tax losses arising	<u>8,536</u>	<u>18,661</u>	<u>7,146</u>	<u>1,506</u>
	<u>7,750</u>	<u>18,736</u>	<u>6,583</u>	<u>1,468</u>

34. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
(Loss) profit before taxation	(92,704)	34,349
Interest income	(903)	(202)
Interest expenses	2,549	1,335
Depreciation and amortisation	4,238	4,038
Loss on disposal of property, plant and equipment	2,342	612
Loss attributable to properties	720	2,725
Share of losses of associates	—	31,358
Gain on waiver of obligation	(8,069)	—
Provision for impairment in value of property, plant and equipment	4,480	21,618
Gain attributable to financial restructuring	—	(135,530)
Loss attributable to investments	26,737	17,240
Provision for payments under guarantee	—	5,671
Decrease in inventories	600	2,146
Increase in debtors, deposits and prepayments	(10,463)	(3,526)
(Decrease) increase in creditors and accrued charges	<u>(109)</u>	<u>1,308</u>
Net cash outflow from operating activities	<u>(70,582)</u>	<u>(16,858)</u>

35. PURCHASE OF SUBSIDIARIES

	1.7.2000 to 30.6.2001 HK\$'000	1.4.1999 to 30.6.2000 HK\$'000
Net assets acquired:		
Property, plant and equipment	10,505	472
Inventories	7,279	—
Debtors, deposits and prepayments	6,833	1,038
Taxation receivable	617	—
Bank balances and cash	9,387	2
Creditors and accrued charges	(18,551)	(8,824)
Amounts due to group companies	—	(37,772)
Loan	—	(12,500)
Minority interest	(4,059)	—
	12,011	(57,584)
Loss attributable to investments	—	5,965
	12,011	(51,619)
Less: interest previously acquired as interest in associate	—	51,619
	12,011	—
Goodwill arising on acquisition of subsidiaries	32,539	—
	44,550	—
Satisfied by:		
Issue of shares	12,600	—
Cash	31,950	—
	44,550	—
Analysis of the net (outflow) inflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid	(31,950)	—
Bank balances acquired	9,387	2
	(22,563)	2

The subsidiaries acquired during the year contributed cash outflow of HK\$8,853,000 to the Group's net operating cash outflow, received HK\$12,000 in respect of net returns on investments and servicing of finance, received refund of income tax of HK\$603,000 and utilized HK\$724,000 in respect of investing activities.

The subsidiaries acquired during the year contributed HK\$20,411,000 to the Group's turnover and HK\$7,775,000 to the Group's loss from operations.

The subsidiaries acquired during the period from 1st April, 2000 to 30th June, 2001 did not have material contribution to the net cash flows and results of the Group.

36. DISPOSAL/DILUTION OF SUBSIDIARIES

	1.7.2000 to 30.6.2001 <i>HK\$'000</i>	1.4.1999 to 30.6.2000 <i>HK\$'000</i>
Net assets disposed of:		
Bank balances and cash	11	51
Creditors and accrued charges	(7,479)	(1,369)
Minority interests	<u>—</u>	<u>10,642</u>
	(7,468)	9,324
(Gain) loss on disposal of subsidiaries	<u>(7,468)</u>	<u>9,324</u>
Consideration	<u><u>—</u></u>	<u><u>—</u></u>
Analysis of the net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Bank balances and cash disposed of	<u><u>(11)</u></u>	<u><u>(51)</u></u>

The subsidiaries disposed of during the year/period did not have material contribution to the net cash flows and results of the Group.

37. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

		Obligations under hire purchase	Convertible	Share capital and share notes
	Bank Loans	Bank loans	contracts	premium
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 1999	16,154	469	—	414,960
Proceeds on issue of shares	—	—	—	100,000
Expenses in connection with issue of shares	—	—	—	(3,256)
Repayment of bank loans	(9,758)	—	—	—
Repayment of obligations under hire purchase contracts	—	(469)	—	—
Other movements not involving cash flows:				
Amount reclassified from trust receipt and packing loans and bank overdrafts	22,039	—	—	—
On acquisition of subsidiaries	37,479	—	—	—
Set off with consideration from disposal of property, plant and equipment	(13,507)	—	—	—
Waiver of bank loans	(37,217)	—	—	—
Amount reclassified from provision	8,544	—	—	—
Amount reclassified from a subsidiary not consolidated	2,321	—	—	—
Issue of shares	(5,540)	—	—	65,117
Share reduction	—	—	—	(287,568)
At 1st July, 2000	20,515	—	—	289,253
Proceeds on issues of shares	—	—	—	40,960
Expenses in connection with issue of shares	—	—	—	(1,447)
Proceeds on issue of convertible notes	—	—	42,600	—
Repayment of bank loans	(8,959)	—	—	—
Other movements not involving cash flows:				
Issue of shares upon conversion of convertible notes	—	—	(37,800)	37,800
Issue of shares as partial consideration for acquisition of a subsidiary	—	—	—	12,600
Issue of shares for settlement of debts	—	—	—	334
	11,556	—	4,800	379,500

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 30th June, 2001, the Group has the following major non-cash transactions:

- (i) The acquisition of interest in a subsidiary was partially satisfied by the issue of 1,260,000,000 shares of HK\$0.01 each.
- (ii) Obligations to a creditor of approximately HK\$334,000 were settled by the issue of the 33,425,890 shares of HK\$0.01 each.

During the period from 1st April, 1999 to 30th June, 2000, the Group has the following major non-cash transactions:

- (i)

Obligations to banks, a financial institution and creditors of approximately HK\$14,667,000 were settled by the issue of the Company's shares.
- (ii)

Obligations to banks and creditors of approximately HK\$13,952,000 and HK\$125,985,000 were settled by the transfer of property, plant and equipment disposal of and waived respectively.
- (iii)

The acquisition of interest in a subsidiary was satisfied by the issue of 504,505,807 shares at HK\$0.10 each.

39. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Within one year	4,914	4,011
In the second to fifth year inclusive	8,143	16,044
Over five years	<u>22</u>	<u>90</u>
	<u>13,079</u>	<u>20,145</u>

The Company had no significant operating lease commitment at the balance sheet date.

40. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Capital expenditure contracted for but not provided in the financial statements relating to acquisition of property, plant and equipment	<u>108</u>	<u>245</u>	<u>—</u>	<u>—</u>

41. RETIREMENT BENEFITS SCHEME

The Group participate in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the “MPF Ordinance”), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year under review, the total amount contributed by the Group to the scheme and charged to the income statement was insignificant and no contributions were forfeited.

The employees in the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

42. PLEDGE OF ASSETS

At 30th June, 2001, the Group has pledged one of its investment properties with a carrying value of HK\$610,000 (2000: HK\$3,670,000) to secure general banking facilities granted to the Group.

43. LITIGATION

On 19th August, 1998, TY Lee & Associate commenced proceedings against CHFBL, a subsidiary of the Group, for a sum of HK\$520,000 together with interest accrued and costs. CHFBL paid HK\$208,000 and HK\$156,000 on 31st August, 1998 and 7th October, 1998 respectively. As at the report date, no acknowledgement of service and defence have been filed in respect of the claim. The amount had been fully provided in the financial statements.

44. POST BALANCE SHEET EVENTS

The following significant events have occurred subsequent to the balance sheet date:

- (a) On 4th July, 2001, the Company entered into agreements to issue convertible notes of HK\$13,800,000 and HK\$6,800,000 to Gain Master and Directgain Profits, respectively.

The convertible notes bear interest at the higher of (i) the difference between the prime lending rate of the business day immediately before any date of interest payment quoted by the Hongkong and Shanghai Banking Corporation Limited and 3%; and (ii) 2% per annum and are redeemable on the third anniversary of the date of issue of the convertible notes, unless previously converted or cancelled.

The holders of the convertible notes have the option to convert the convertible notes into ordinary shares of the Company of HK\$0.01 each at an initial conversion price of HK\$0.01 per share, subject to adjustment, at any time during the period to the third anniversary of the date of issue.

- (b) On 17th October, 2001 the Company announced a capital reorganisation as follows:
- (i) Every forty existing issued shares will be consolidated into one consolidated issued share; and
- (ii) The nominal value of each of the issued consolidated shares of HK\$0.40 each will be reduced by HK\$0.39 to HK\$0.01; and
- (iii) Each of the authorized and issued consolidated shares will be sub-divided into 40 shares of HK\$0.01 each.

45. RELATED PARTY TRANSACTIONS

During the current year, the Group has the following transactions with the related parties:

- (a) The Group acquired the entire interest in Starstruck at a consideration of HK\$950,000.
- (b) The Group acquired 80% interest in iTech and 100% interest in High Stone at an aggregate consideration of HK\$19,600,000.

Wong Kam Fu, Nelson, the director of the Group, held the entire interest in Starstruck, iTech and High Stone.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 22, 23 and 28 to the financial statements.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at the end of the year.

6. INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2001

Set out below are extracted from the Group's unaudited interim results of the Group for the six months ended 31st December, 2001.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
		31.12.2001	31.12.2000
		(unaudited)	(unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	16,909	13,873
Cost of sales		<u>(14,595)</u>	<u>(9,808)</u>
Gross profit		2,314	4,065
Other revenue		2,942	852
Distribution costs		(2,083)	(1,446)
Write off of property, plant and equipment		(1,061)	—
Administrative expenses		<u>(30,376)</u>	<u>(34,552)</u>
Loss from operations		(28,264)	(31,081)
Finance costs		(1,687)	(1,935)
Loss on disposal of investments in securities		(530)	—
Unrealized loss on investments in securities		(51)	(1,410)
Gain on waiver of obligations under guarantee		<u>—</u>	<u>3,464</u>
Loss before taxation		(30,532)	(30,962)
Taxation	5	<u>—</u>	<u>(182)</u>
Loss after taxation		(30,532)	(31,144)
Minority interest		<u>1,222</u>	<u>(272)</u>
Net loss for the period		<u><u>(29,310)</u></u>	<u><u>(31,416)</u></u>
Loss per share			
- Basic and diluted	6	<u><u>(5.99) cents</u></u>	<u><u>(9.34) cents</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

		31.12.2001 (unaudited)	30.6.2001 (audited)
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Investment properties		2,220	2,220
Property, plant and equipment	4	20,461	25,284
Investments in securities		<u>4,150</u>	<u>4,150</u>
		<u>26,831</u>	<u>31,654</u>
CURRENT ASSETS			
Inventories		8,892	7,779
Debtors, deposits and prepayments	8	29,161	28,729
Investments in securities		60	3,141
Bank balances and cash		<u>6,964</u>	<u>13,595</u>
		<u>45,077</u>	<u>53,244</u>
CURRENT LIABILITIES			
Creditors and accrued charges	9	46,291	42,363
Taxation		74	94
Loan		12,500	12,500
Bank borrowings		<u>4,591</u>	<u>11,556</u>
		<u>63,456</u>	<u>66,513</u>
NET CURRENT LIABILITIES		<u>(18,379)</u>	<u>(13,269)</u>
		<u>8,452</u>	<u>18,385</u>
CAPITAL AND RESERVES			
Share capital	7	4,896	194,596
Reserves		<u>(25,251)</u>	<u>(186,890)</u>
		(20,355)	7,706
MINORITY INTERESTS		4,657	5,879
NON-CURRENT LIABILITY			
Convertible notes		<u>24,150</u>	<u>4,800</u>
		<u>8,452</u>	<u>18,385</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2001

	For the six months ended	
	31.12.2001	31.12.2000
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	(21,820)	(65,100)
Net cash outflow from returns on investments and servicing of finance	(1,575)	(1,183)
Hong Kong profits tax (paid) refunded	(20)	392
Net cash inflow (outflow) from investing activities	<u>3,149</u>	<u>(17,950)</u>
Net cash outflow before financing activities	(20,266)	(83,841)
Net cash inflow from financing activities	<u>13,635</u>	<u>25,286</u>
Decrease in cash and cash equivalents	(6,631)	(58,555)
Cash and cash equivalents at beginning of the period	<u>13,595</u>	<u>72,950</u>
Cash and cash equivalents at end of period	<u><u>6,964</u></u>	<u><u>14,395</u></u>

CONDENSED CONSOLIDATED STATEMENT OF RECONGNIZED GAINS OR LOSSES FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2001

	For the six months ended	
	31.12.2001	31.12.2000
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss and total recognized losses for the period	(29,310)	(31,416)
Goodwill arising on acquisition of subsidiaries written off to reserve	<u>—</u>	<u>(15,906)</u>
	<u><u>(29,310)</u></u>	<u><u>(47,322)</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS**1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing the condensed consolidated financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of HK\$18,379,000 as at 31st December, 2001. The Group has entered into two conditional share subscription agreements (“Agreements”) with Win Channel Investments Limited and Sheung Hai Development Limited respectively for the subscription of an aggregate of 4,500,000,000 new shares for a total consideration of HK\$45 million. Completion of each of the Agreements is conditional on the fulfilment or waiver of certain conditions as detailed in the press announcements dated 28th February, 2002. Provided that the Agreements can be successfully completed with the parties for the injection of new equity capital, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities.

The accounting policies adopted are consistent with those followed by the Group’s audited financial statements for the year ended 30th June, 2001.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. The adoption of these SSAPs does not have any significant effect on the financial statements for the current or prior period.

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st July, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st July, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions after 1st July, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st July, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

3. SEGMENTAL INFORMATION

An analysis of the Group’s turnover and contributions to operating results by principal activity and geographical market is as follows:

	For the six months ended			
	31.12.2001		31.12.2000	
	Turnover	Contribution to loss from operations	Turnover	Contribution to profit (loss) from operations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacturing and sales of food products	4,538	(3,269)	4,083	(1,239)
Provision of financial information services	2,237	(437)	2,484	(270)
Provision of internet consultancy services	216	(651)	214	(3,051)
Manufacturing and sales of electronic products	9,788	(3,974)	7,092	409
Sales of health products	130	(1,093)	—	—
	<u>16,909</u>	<u>(9,424)</u>	<u>13,873</u>	<u>(4,151)</u>
Unallocated corporate expenses		<u>(18,840)</u>		<u>(27,733)</u>
Loss from operations		(28,264)		(31,884)
Finance costs		(1,687)		(932)
Loss attributable to investments		(581)		(1,610)
Gain on waiver of obligations under guarantee		<u>—</u>		<u>3,464</u>
Loss before taxation		<u>(30,532)</u>		<u>(30,962)</u>
By geographical market:				
Hong Kong	5,975	(2,433)	6,740	(3,088)
The People’s Republic of China, excluding Hong Kong (“PRC”)	7,277	(5,645)	4,296	(1,227)
Other Asian countries	3,350	(263)	2,837	164
Others	307	(1,083)	—	—
	<u>16,909</u>	<u>(9,424)</u>	<u>13,873</u>	<u>(4,151)</u>
Unallocated corporate expenses		<u>(18,840)</u>		<u>(27,733)</u>
Loss from operations		(28,264)		(31,884)
Finance costs		(1,687)		(932)
Loss attributable to investments		(581)		(1,610)
Gain on waiver of obligations under guarantee		<u>—</u>		<u>3,464</u>
Loss before taxation		<u>(30,532)</u>		<u>(30,962)</u>

4. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group had written off certain property, plant and equipment at carrying value of approximately HK\$3,071,000 and depreciation of approximately HK\$2,848,000 (2000: HK\$1,351,000) was charged in respect of the Group’s property, plant and equipment.

5. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for either periods.

The charge for the prior period represented a under-provision of Hong Kong Profits Tax of a subsidiary of the Company in prior year.

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$29,310,000 (six months ended 31st December, 2000: loss of HK\$31,416,000) and on the weighted average number of 489,123,152 (six months ended 31st December, 2000: weighted average number of 336,229,522) shares in issue after adjustment for the share consolidation on 29th November, 2001 to consolidate every forty existing issued shares into one share.

The computation of diluted loss per share for the six months ended 31st December, 2001 and 31st December, 2000 has not assumed the exercise of the share options and the conversion of convertible notes as their exercise and conversion would result in a decrease in the loss per share for both periods.

7. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorized:		
Ordinary shares of HK\$0.01 at 30th June, 2001 and 31st December, 2001	<u>60,000,000,000</u>	<u>600,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 30th June, 2001	19,459,627,170	194,596
Conversion of convertible notes	125,000,000	1,250
Share consolidation	(19,095,011,491)	—
Share reduction	<u>—</u>	<u>(190,950)</u>
Ordinary shares of HK0.01 each at 31st December, 2001	<u><u>489,615,679</u></u>	<u><u>4,896</u></u>

The movements in the ordinary share capital for the six months ended 31st December, 2001 are as follows:

(a) 125,000,000 shares of HK\$0.01 each were issued and allotted to Direct Gain Profits Limited at HK\$0.01 per share, as a result of the conversion of convertible notes during the period.

- (b) Pursuant to resolutions passed at a special general meeting of the Company on 28th November, 2001:
- Every forty existing shares of HK\$0.01 each in the authorised and issued share capital of the Company were consolidated into one consolidated share of HK\$0.40 each; and
 - The par value of each of the issued consolidated shares of HK\$0.40 each was reduced by HK\$0.39 to HK\$0.01, and each of the authorised but unissued consolidated shares was sub-divided into 40 shares of HK\$0.01 each.

All the shares issued during the period rank pari passu in all respects with the then existing shares.

8. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the debtors, deposits and prepayments was an amount of HK\$14,586,000 in respect of payment made in connection with an investment.

The Group entered into agreement (“Cooperation Agreement”) with a third party (“Partner”) in which both parties agreed to invest in a company which is mainly engaged in the research, development and marketing of Chinese character input software and Chinese language technology. The Group was required to inject an amount of US\$3,000,000 (equivalent to approximately HK\$23,400,000) in return for 25% equity interest in this company within a specified period of time (“Period”). As at 31st December, 2001, the Group had injected the amount of HK\$14,586,000. Having failed to make the injection in full within the Period, the Group is subject to a forfeiture of US\$1,000,000 (equivalent to approximately HK\$7,800,000) according to the Cooperation Agreement. The Company is currently in the process of negotiation with the Partner for the extension of the Period and, accordingly, no provision for any amount to be forfeited has been made in these condensed consolidated financial statements.

The Group allows an average credit period of 60 days to its trade customers. Included in debtors, deposits and prepayments are trade debtors with the following aging analysis:

	31.12.2001	30.06.2001
	HK\$'000	HK\$'000
0 - 60 days	1,143	3,553
61 - 90 days	26	—
Over 90 days	675	—
Other debtors, deposits and prepayments	1,845	3,553
	27,316	25,176
	29,161	28,729

9. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors with the following aging analysis:

	31.12.2001	30.06.2001
	HK\$'000	HK\$'000
0 - 60 days	1,916	4,325
61 - 90 days	508	430
over 90 days	<u>3,694</u>	<u>3,923</u>
	6,118	8,678
Accrued charges	<u>40,173</u>	<u>33,685</u>
	<u>46,291</u>	<u>42,363</u>

The following is the text of a letter prepared for the purpose of incorporation in this circular, received from LCH (Asia-Pacific) Surveyors Limited in connection with the valuation of entire equity interest of Ming Yuen:



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

CHARTERED SURVEYORS

PLANT AND MACHINERY VALUERS

BUSINESS & FINANCIAL SERVICES VALUERS

27th Floor

Li Dong Building

No. 9 Li Yuen Street East

Central

Hong Kong

29th October, 2002

The Directors
Credit Card DNA Security System (Holdings) Limited
4th Floor and 11th Floor
Tai Sang Bank Building
130 Des Voeux Road Central
Hong Kong

Dear Sirs,

In accordance with your recent instructions, we have investigated and analyzed the business enterprise value of Ming Yuen Assets Limited (hereinafter referred to as the “Company”) as at 23rd August, 2002 (hereinafter referred to as the “effective date of the appraisal”) for your internal management reference purpose.

Business enterprise value is defined as the total value of a business. It is comprised of monetary assets (net working capital), tangible assets and intangible assets, thereby encompassing all assets of a business enterprise (*see Note*). In other words, the business enterprise value is also equal to the value of its invested capital — common equity, preferred stocks and long-term debts. However, there did not have a universal definition of the term, rather, it is a usual practice for a professional appraiser, based on his professional knowledge and experience, to identify the definition intended in its use.

In this appraisal, we are instructed to analyze the value of the business enterprise *i.e. the Company* and, to express an independent opinion of the value of the entire equity interest of the Company (hereinafter referred to as the “appraised asset”) as an on-going concern and based on a set of documents provided by the management of Credit Card DNA Security System (Holdings) Limited (hereinafter referred to as “DNA”) at the effective date of the appraisal. Based on the instruction, we define the term business enterprise value in this appraisal as the fair market value of the appraised asset.

Note: A business enterprise is defined as a commercial, industrial, service, or investment entity, or a combination thereof, pursuing an economic activity.

The term “Fair Market Value” as used herein is defined as the estimated amount at which the appraised asset would change hands between a willing buyer and a willing seller, neither under compulsion to buy or sell, and both having reasonable knowledge of the relevant facts. This definition has been made on the assumption that the buyer and seller contemplating the retention of the Company at its present location for the continuation of the current operations, and both seeking their maximum economic self-interest in arriving at the arm’s-length transaction.

The Company

The Company is an investment holding company incorporated in the British Virgin Islands on 12th February, 2002 with its registered address at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands.

We are given to understand that the principal economic asset of the Company to be its holding of a technology license assigned by the inventor of the *security system for non-cash transactions* (hereinafter referred to as the “Technology”) on 3rd August, 2002. Through the technology license, the Company has the exclusive right to commercialize the Technology in the People’s Republic of China (hereinafter referred to as the “PRC” or “China”) and Hong Kong.

The Technology is an invention relating to a security system with which an owner can prevent other people from using their credit cards (including banking cards) and/or mobile telephones in case they are stolen. The system, in general descriptive term, comprises a deal action device for registering an attempted transaction, and communication means to alert a person authorized to make that transaction to the attempted transaction. The Technology was invented by the inventor and has been registered in Hong Kong, China and other places of the world.

The Company is in the process of negotiating a sub-license agreement with DNA of which would allow DNA to use the Technology exclusively in China and Hong Kong. In return, the Company would receive a royalty at a certain percentage of the gross revenue to be received by DNA with regard to the use of the Technology.

We are further understand that DNA is in the process of commercializing the Technology by entering into several trial-use agreements with certain commercial banks in China and Hong Kong in their non-cash instant payment services provided to their customers.

As at the effective date of the appraisal, the Company was wholly owned by the inventor.

The Economic Outlook of Hong Kong and China

The estimated GDP (Gross Domestic Product) growth in Hong Kong would be in the range of 1.5 per cent. to 2.5 per cent. this year and the estimated GDP growth of China in this year to be 7 per cent. In fact, China’s economy had experienced a compound annual growth rate of approximately 8.9 per cent. from 1986 to 2001. Based on a World Bank report, World Trade Organization membership benefited China, notwithstanding intensified competitive pressures on protected sectors. Beyond the one-time efficiency gains from reducing trade barriers, China could

anticipate a boost in foreign direct investment and improved access to foreign markets. The World Bank expected that the long-term growth rate of China’s economy would average about 7 per cent. between 2002 and 2008. Economists further estimated that the 2008 Olympic Games in Beijing would benefit the nation’s GDP by additional one per cent.

Valuation Procedures Adopted

In performing the appraisal, we have adopted the following procedures which were agreed with the management of DNA before the engagement. They are:

- To read the supplied materials such as Technology information, market condition, financial information and the scale of operating the Company, and use these materials to arrive at our opinion of value;
- To interview and discuss with your appointed personnel and the appointed personnel from the Company with regard to the nature and the planned commercialization process of the Technology;
- To conduct an appropriate research to obtain information that we consider necessary to support the valuation; and,
- To document our findings and conclusion of value.

The Basis of Valuation

The appraised asset is valued on the basis of “Fair Market Value” in continued use or as a going-concern business. The continued use premise assumes that the subject asset will be used for the purpose for which the subject asset was conceived or is currently used. Implicit in this definition is the fact that the willing buyer would not pay more to acquire the subject asset than he could reasonably expect to earn in the future from an investment in the subject asset.

The valuation of the appraised asset required consideration of all pertinent factors affecting the operations of the business with the particular usage of the Technology and its ability to generate future investment returns. The factors considered in the appraisal included, but were not limited to, the following:

- The nature of the Technology such as the age and it’s characteristics;
- The nature and the business of DNA;
- The going-concern business of the Company;
- Projected future economic income stream of DNA and the Company (by commercializing the Technology) based on your assumptions and assumptions made by the appointed personnel from the Company subject to the planned promotion campaign to increase the market share of the Technology in China and Hong Kong;

- The economic and industry data affecting the commercialization of the Technology under the planned operation of DNA such as the number of subscribers of mobile communication devices and the wide acceptance of non-cash instant payment system in China and Hong Kong;
- Market-derived investment returns of similar business; and,
- The risks facing the Technology and the operation of DNA under the suggested license such as the effective period of the patent in China and Hong Kong, the competence of relevant personnel and/or agents to monitor the promotion and marketing effort, the potential replacement of similar system (if any), and the need of in-process research and development of the existing technology (if any).

Approach to Value

The valuation of a business enterprise, especially when it is a closely-held company (like the Company) and its common stock or preferred stocks is not traded on an exchange, is a complex exercise. In the process of valuing the appraised asset, we have first looked for the sources of economic benefits to be contributed to the Company during its economic life. With the advice and documents provided by the appointed personnel from the Company, we are given to understand that the principal economic asset of the Company, as at the effective date of the appraisal, was its assigned right to commercialize the Technology in China and Hong Kong. This economic asset is classified as a data processing intangible asset (*see Note*) of the Company. By commercializing this intangible asset, the Company could derive economic benefits from it and forms the major part of the Company’s value.

In the process of valuing the appraised asset, we have considered the classical appraisal approaches to value, namely the Market Approach, Asset-based Approach and Income Approach.

The Market Approach

The Market Approach is basically a comparison method to value the equity interest of a company by comparison to the prices at which other similar business nature companies or interests changed hands in arm’s-length transaction. The underlying theory of this approach is one would not pay more than one would have to pay for an equally desirable alternative. By using this approach, the appraiser will first look for valuation indication from the prices of other similar companies or equity interests in companies that have sold. The right transactions used in analyzing for valuation indication need to be sales on an arm’s-length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or

Note: Intangible assets are assets without physical existence which, although not always reported on a company’s balance sheet, may make a significant contribution to the value of an enterprise. Examples of intangible assets including, but are not limited to trademarks, tradenames, assembled work force, design rights, patents, proprietary computer software, customer lists and technical know-how. Data processing intangible asset has traditionally consisted of computer software and electronic databases, and protected by copyrights, patents, trademarks, or trade secrets.

to sell. Then, based on those transactions to derive multiples (financial ratios) to apply to the fundamental variables of the subject company and to arrive at an indicative value of the subject company or equity interest of the subject company. The most commonly used multiples are price-to-earnings, price-to-revenues and price-to-dividends multiple.

There are two methods of the Market Approach, namely the Guideline Public Traded Company Method (by using similar company daily stock transaction prices) and the Guideline Merged and Acquired Company Method. Both methods need to rely on analyzing available similar transacted comparables, and the big difference is on the structure of transactions - daily stock transaction prices in public market or mergers and acquisitions as occurred. However, finding good market comparables is often difficult (particularly for those mergers and acquisitions) for there is no single marketplace where similar assets change hands between buyers and sellers, who are well informed and have no special motivations or compulsions to buy or to sell, are recorded.

To the best of our knowledge, there are only limited numbers of listed companies in the Stock Exchange of Hong Kong, through their subsidiaries, have similar nature of business lines (holder of exclusive technology rights) and form part of their businesses. However, we have reservation to use these companies as guideline companies for the different business model they operate (in terms of business segment, service area and service category), and this will cause inadequate comparative analysis.

To the best of our knowledge, we are not aware that there had any merger and acquisition activities of similar business ventures in Hong Kong. We take the view that there might have been a number of merger and acquisition activities of similar business ventures in China and Hong Kong around the effective date of the appraisal, however, due to the imperfect nature of the market, details of the transactional data and the basis were not made available to the public. Under such circumstances, we have not relied on the Market Approach in our estimate of the fair market value of the appraised asset due to insufficient supporting data (market-based transactional information, in this instance).

The Asset-based Approach

The assumption of this approach is that when each of the elements of working capital and tangible and intangible assets is individually valued, their sum represents the value of a business enterprise. This is in line with the accounting principle - the value of a firm is the summation of the book value of assets (current, fixed and intangible) and book value of liabilities (current and long-term). In other words, the book value of equity of a firm equals to the book value of assets minus the book value of the liabilities. From a valuation perspective, the appraiser will restate the value of all assets and liabilities of a business enterprise from book value (historical cost minus depreciation) to fair market value. After the restatement of all assets and liabilities accounts from book value to fair market value, the appraiser can then apply the accounting principle to conclude the fair market value of the business enterprise or the equity interests of the business enterprise. By employing this approach, either the Asset Accumulation Method or the Capitalized Excess Earnings Method will be used.

However, we have reservation to use this approach for the Company is not an asset rich company in terms of tangible assets.

The Income Approach

The Income Approach focuses on the income-producing capability of the business enterprise. The underlying theory of this approach is that the value of the business enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business enterprise. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate suitable for the risks associated with realizing those benefits. Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business enterprise has been maintaining stable economic benefits and growth rate.

In our opinion, this approach is the most appropriate in valuing the Company since a rational buyer normally will purchase an asset only if the present value of the expected economic benefits is at least equal to the purchase price. Likewise, a rational seller normally will not sell if the present value of the expected economic benefits is more than the selling price. Thus, a sale generally will occur only at an amount equal to the economic benefits of the Company.

Valuation Methodology

In choosing the Income Approach as the most appropriate approach, we have used the Discounted Cash Flow (“DCF”) Method, which estimates the fair market value of the appraised asset by discounting the future cash flows (as advised, to be generated by commercializing the granted right *i.e. the Technology*) through out its economic life to its present value. This would necessitate the subtraction, from net income, the capital expenditures and net changes in working capital and the addition of depreciation in the computation of cash flow. DCF analysis reflects investment criteria and requires the appraiser to make empirical and subjective assumptions.

We considered two variants of the DCF Method, namely the Free Cash Flows to Equity (“FCFE”) Technique and the Free Cash Flows to the Firm Technique (invested capital as a whole). The FCFE Technique values the Company by estimating the fair market value of the ownership interests (equity) of the Company. This technique requires that the firm’s interest expenses, if any, be excluded from the free cash flows and the resulting cash flows to be discounted at the relevant rate of return required by equity. This technique then equates the value of the ownership interests as the value of the enterprise. In our opinion, using the FCFE Technique is the most appropriate technique in valuing the Company, because the Company does not have any long-term debt (as advised) i.e. no other claimholders except the stockholder(s).

The projections of the future revenues are prepared by the appointed personnel from DNA and are responsible for the assumptions upon which the projections are based. Having discussed

with the appointed personnel, we understood that the assumptions adopted by them reflect their judgment of their ability to promote and to commercialize the Technology. The projections are based on their view of the most likely action to be taken by DNA in the commercialization of the Technology.

We derived the discount rate by using the conventional equity-derived Capital Asset Pricing Model (“CAPM”). The CAPM derives the required rate of return of an asset by adding the risk-free rate to the risk premium of the asset. The CAPM is built on the premise that the variance in returns is the appropriate measure of risk but only that portion of the variance of the returns of an asset that is not reduced by diversification has to be compensated, therefore the appropriate return required of an asset is determined by the volatility of the asset’s returns relative to the returns that can be achieved by a broad market portfolio. This measured nondiversifiable risk is represented by the beta of the asset and the risk premium of the asset is its beta multiplied to the risk premium of a broad market portfolio.

Taking the industry and the global equity market into consideration, we have used the equity market of the National Association of Securities Dealers Automated Quotation Stock (“NASDAQ”) Market Index in the United States of America (the “U.S.”) as our representative market for: a) it is commonly agreed that the U.S. has a comparatively mature equity market than in Hong Kong and China, particularly the institutional holders ratio is higher than in Hong Kong and China; b) the U.S. has an advanced data processing technology industry than in Hong Kong and China; c) there are a large numbers of data processing technology developers listed in the NASDAQ Market for a long time and they can form a reliable representative industry portfolio than in Hong Kong and China; and, d) the exchange rate of Hong Kong dollars is pegged with the U.S. dollars which makes the two economies close to each other.

We have used the rate of return of NASDAQ Market Index (*see Note*) as of 23rd August, 2002 as the broad market portfolio return in our CAPM computations. It is our opinion that the NASDAQ Market Index rate of return represents the most reliable objective market rate of return to be used in valuing the Company’s equity, since this Index captures investors’ expectations, prevailing market conditions and the accompanying risks associated with these. The NASDAQ is heavy on technology stocks, including newer companies and recent IPOs, and firms provide products or services that have any strong similarity to or related to the Technology are listed in the NASDAQ. Examples of these companies are: Cylink Corporation, Hi/Fn Inc., Internet Security Systems, Inc., NetScreen Technologies, Inc., Network-1 Security Solutions, Inc., Predictive Systems, Inc., SafeNet Inc., SCM Microsystems, Inc., Secure Computing Corporation, Symantec Corporation, and V-ONE Corporation. In the course of appraisal, we have used the majority of these firms to build a model of representative industry.

In addition to the NASDAQ Market Index return, to derive the required cost of equity capital in our valuation, we have added the country risk for Hong Kong and China in which the

Note: Annual average compounded return of NASDAQ National Market and NASDAQ SmallCap Market (including foreign securities but excluding preferred issues, rights and warrants).

Company's major business operates. Majority of the representative companies are based and listed in the U. S., which has a more developed and liquid capital market than in Hong Kong and China, thus it is necessary to add the relevant country risk premium to the NASDAQ Market Index rate of return.

We have derived a proxy beta for the Company by deriving a representative industry beta based on a selected group of representative companies that are similar to the Company's business as mentioned above. In deriving a proxy beta for the business, we derived the betas of the representative companies and weighted these according to market capitalization to arrive at the proxy beta. The risk premiums of the Company were reached by multiplying the proxy beta to the difference between the rate of return of the NASDAQ Market Index and the risk-free rate.

By definition, ownership interests in closely-held companies are typically not readily marketable, and, by definition not as liquid and as easily converted to cash compared to similar interests in public companies. Therefore, a share of stock in a closely-held company is usually worth less than an otherwise comparable share in a publicly held company. Numerous studies have been made showing that the Lack of Marketability ("LOM") discount for a closely held stock compared with a publicly traded counterpart averages between 25 per cent. and 50 per cent., and many different researchers have obtained these averages over a wide span of years. We have opted to apply a LOM discount to the Company for: a) the Company is a start-up and does not yet have assessable financial and operation track record; and b) there exists a business risk to the Company for the source of income of the Company is solely reliant on the successful commercialization of the Technology by DNA.

Valuation Comments

We understand that our appraisal will be used as part of your business due diligence and we have not been engaged to make specific purchase or sale recommendations. We further understand that the use of our work product will not supplant other due diligence which you should conduct in reaching your business decisions regarding the appraised asset. Our work is designed solely to provide information that will allow you to make an informed decision.

We have assumed that the appraised equity interest of the Company is freely disposable and transferable for its existing or alternative uses in the open market to both local and overseas purchasers without payment of any premium to the government.

In arriving at our opinion, we have assumed that the management of DNA has adopted necessary security measures and have considered several contingency plans against hacking, virus and other disruptions during the commercialization process of the Technology.

No investigation has been made of the legal title or any liabilities attached to the appraised asset and the Technology. All legal documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any)

to the appraised asset and the Technology. We have not verified the original documents furnished to us, any responsibility for our misinterpretation of the legal documents, therefore, cannot be accepted. We are not in the legal profession, therefore, we are not in a position to advise and comment on the title and encumbrances to the appraised asset and the Technology.

For the purpose of this appraisal, we were furnished with projections of future revenues and expenses on the assumptions that the Company would commercialize the Technology in Hong Kong and China through DNA, and other documents germane to the appraisal. We have discussed with the appointed personnel from DNA and the Company with regard to the viability of these data and they attested that the supplied data are accurate and reasonable. These data have been utilized without further verification as correctly representing the results and future economic prospects of commercializing the Technology. In the course of appraisal, we strictly relied on the projected income as well as other records and documents provided by the appointed personnel from the Company. No responsibility is assumed for the accuracy of such information.

We are not contracted to test the Technology and we are unable to verify or confirm the Technology. In the course of appraisal, we have, to a great extent, depended on the technical advice given by the appointed personnel from the Company and the management of DNA. We are unable to accept any responsibility for the reliability of the Technology being used by DNA.

To the best of our knowledge, all data set forth in this Appraisal Report (the “Report”) are true and accurate. Although gathered from sources we deem reliable, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others which have been used in formulating this analysis.

We are unable to accept any responsibility for the information that has not been supplied to us by you and the appointed personnel from the Company. We have sought and received confirmation from you and the appointed personnel from the Company that no materials factors have been omitted from the information supplied. Our analysis and appraisal are based upon full disclosure between us and, the management of DNA and the Company of material and latent facts that may affect the appraisal.

The scope of our engagement did not include a physical visit to the production facilities (including research and development section) of DNA. No responsibility is assumed for the physical existence of these facilities as reported in this Report (if any).

The procedures we have taken do not include review of all the evidence that would be required in an audit and, accordingly, we are not expressing an audit opinion on the projections.

No allowance has been made in our appraisal for any charges, mortgages or amounts owing neither on the appraised asset nor for any expenses or taxation, which may be incurred in effecting a transfer of the appraised asset. It is assumed that the appraised asset will be rendered free from encumbrances, restrictions and outgoings of any onerous nature, which could affect its value.

This Report is provided strictly for the sole use of the named client. It is confidential to the named client and the appraiser accepts no responsibility whatsoever to any other person. The appraiser shall not be required to give testimony or attendance in court or to any government agency or regulatory body by reason of this Report. We need to state that neither the whole nor any part of this Report or any reference hereto may be included in any published document, circular or statement, or published in any way, without our written approval of the form and context in which it may appear.

Our opinion of value of the appraised asset in this Report is valid only for the stated purpose and only for the effective date of the appraisal. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this Report to reflect events or conditions, which occur subsequent to the date hereof.

Unless otherwise stated, the base currency of this report is Hong Kong dollars.

Opinion of Value

Based on the investigation, analysis, stated assumptions, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as of the effective date of the appraisal, the Fair Market Value of the appraised asset (before taking into consideration any transaction costs such as legal cost, stamp duty, share registration cost and other statutory costs that may impose by the relevant authorities), as a going-concern business, is reasonably stated by the amount of HONG KONG DOLLARS ONE HUNDRED AND TWENTY MILLION ONLY (HKD 120,000,000.00).

The conclusion of value is based on the generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. The Technology is in the preliminary stage of commercialization with limited financial and operation record, thus a range of values may be attributed to the Technology depending upon the assumptions made. While we have exercised our professional judgment in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in this Report and should exercise caution in interpreting this Report.

We retain a copy of this Report in our files, together with the data from which it was prepared except the technical data of the Technology which already returned to you in accordance with our confidentiality agreement. We considered these records confidential, and we do not permit access to them by anyone without your authorization and prior arrangement made with us.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have neither present nor prospective interest in the Company, DNA and the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited
Ho Chin Choi, Joseph
BSc, MRICS
Managing Director

Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, South East Asia, Finland, Canada and the United States of America for various purposes since 1988. He has extensive experience in the valuation of pharmaceutical and biotechnology, and telecommunication, media and information technology related businesses for the listed companies in Hong Kong and the United States of America.

1. RESPONSIBILITY STATEMENT

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

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

2. SHARE CAPITAL

(a) Ordinary shares

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

<i>Authorised:</i>		<i>HK\$</i>
60,000,000,000	shares	600,000,000
<i>Issued and fully paid:</i>		
<u>5,136,334,165</u>		<u>51,363,342</u>

Base on the issued capital as at the Latest Practicable Date and upon issue of new shares of the Company, on full conversion of the Convertible Note (based on a conversion price of HK\$0.0392 per share) and full exercise of the share options as set out in subsection 2.(b) of this appendix, the issued share capital will be:

5,136,334,165	shares as at the Latest Practicable Date	51,363,342
352,040,816	shares to be issued on full conversion of the Convertible Note	3,520,408
22,600,000	shares to be issued on full exercise of the share options	226,000
<u>5,510,974,981</u>		<u>55,109,750</u>

All of the above shares rank pari passu in all aspects, including all rights as to dividend, voting and interests in capital.

(b) Share options

As at the Latest Practicable Date, there were 22,600,000 outstanding share options entitling holders thereof to subscribe for in aggregate 22,600,000 new shares of the Company, representing about 0.44% of the existing issued share capital. The share options were granted under the share option scheme granted adopted on 11th April, 1994 and modified on 27th July, 2001. Each option gives the holder the right to subscribe for 1 share of the Company. Details of these outstanding share options are as follows:

Name of option holders	Subscription price	Exercise period	Number of outstanding share options
Au Ka Sin, Purcy	HK\$1.5368	2001/3/6 to 2003/3/5	100,000
Chan So Fan	HK\$1.5368	2001/2/21 to 2003/2/21	100,000
Cheng Ka Yee, Cary	HK\$1.5368	2001/2/22 to 2003/2/21	350,000
	HK\$0.652	2001/5/9 to 2003/5/8	75,000
	HK\$0.4	2001/11/18 to 2003/11/17	1,250,000
Ho Kit Yan	HK\$1.5368	2001/2/22 to 2003/2/21	600,000
	HK\$0.652	2001/5/9 to 2003/5/8	75,000
	HK\$0.4	2001/11/18 to 2003/11/17	1,250,000
	HK\$0.4	2001/9/1 to 2004/8/31	50,000
Kong Kwun Man	HK\$1.5368	2001/3/6 to 2003/3/5	100,000
Lam Chun Wai, Eric	HK\$1.5368	2001/2/25 to 2003/4/30	100,000
	HK\$0.652	2001/5/1 to 2003/4/30	200,000
Lam Wai Man, Gavin	HK\$1.5368	2001/3/6 to 2003/3/5	250,000
	HK\$0.652	2001/5/27 to 2003/5/26	75,000
Lee Ho Yip, Andy	HK\$1.5368	2001/2/21 to 2003/2/20	250,000
	HK\$0.652	2001/4/30 to 2003/4/29	100,000
Li Mei Ha, Valen	HK\$1.5368	2001/3/5 to 2003/3/4	125,000
	HK\$0.652	2001/5/1 to 2003/4/30	50,000
Sheng Long	HK\$0.652	2001/5/7 to 2003/5/6	250,000

Name of option holders	Subscription price	Exercise period	Number of outstanding share options
Tam Pui Ling	HK\$1.5368	2001/2/21 to 2003/2/20	325,000
	HK\$0.652	2001/4/30 to 2003/4/29	100,000
	HK\$0.4	2001/8/2 to 2004/8/1	256,250
	HK\$0.4	2001/9/1 to 2004/8/31	50,000
Wang Zhao Bin	HK\$1.5368	2001/2/21 to 2003/2/20	500,000
	HK\$0.652	2001/5/6 to 2003/5/5	250,000
Mr. Wong	HK\$1.5368	2001/2/21 to 2003/2/20	2,500,000
	HK\$0.652	2001/4/30 to 2003/4/29	1,250,000
	HK\$0.672	2001/5/7 to 2003/5/6	3,200,000
	HK\$0.4	2001/8/2 to 2004/8/1	3,018,750
Wong Kam Wing	HK\$0.4	2001/11/18 to 2003/11/17	5,000,000
Yik Kwok Yau	HK\$1.5368	2001/2/25 to 2003/2/24	100,000
Zhao Hua	HK\$1.5368	2001/2/21 to 2003/2/20	450,000
	HK\$0.652	2001/5/11 to 2003/5/10	250,000

(c) Convertible Note

The Company had, on 16th July, 2001, issued the Convertible Note. As at the Latest Practicable Date, an aggregate principal amount of HK\$13.8 million under the Convertible Note remains outstanding. The Convertible Note is convertible into new shares of the Company 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 the Convertible Note is fully converted into new shares of the Company at a price of HK\$0.0392, being 80% of the average closing price per share for the ten trading days up to and including the Latest Practicable Date, 352,040,816 shares will be issued, representing about 6.85% of the total issued capital of the Company. Shares issued on an exercise of the conversion rights attaching to the Convertible Note will rank pari passu in all respects with the then existing issued shares.

3. DISCLOSURE OF INTERESTS

(a) Interests in the Company’s ordinary shares held by the Directors

As at the Latest Practicable Date, the following Director held the following interests in the Company’s ordinary shares:

Name of Director	Number of shares held	
	Personal	Corporate
Mr. Wong	—	1,683,991,543 (Note)

Note: 1,678,516,543 of these shares were beneficially owned by Sheung Hai Developments Limited, the remaining 5,475,000 shares are beneficially owned by Super Biotech Enterprises Limited. The entire share capital of both Sheung Hai Developments Limited and Super Biotech Enterprises Limited are beneficially owed by Mr. Wong.

(b) Interests in the Company’s share options held by Directors

As at the Latest Practicable Date, the Directors had the following interests in the share options as described in subsection 2.(b) headed “Share options” in this appendix.

Name of Director	No. of options	Date of grant	Exercisable period	Exercise price
Mr. Wong	2,500,000	2000/8/19	2001/2/21 to 2003/2/20	HK\$1.5368
	1,250,000	2000/10/31	2001/4/30 to 2003/4/29	HK\$0.652
	3,200,000	2000/11/7	2001/5/7 to 2003/5/6	HK\$0.672
	3,018,750	2001/8/2	2001/8/2 to 2004/8/1	HK\$0.4
Wong Kam Wing	5,000,000	2001/5/17	2001/11/18 to 2003/11/17	HK\$0.4
Wang Zhao Bin	500,000	2000/8/19	2001/2/21 to 2003/2/20	HK\$1.5368
	250,000	2000/10/31	2001/5/6 to 2003/5/5	HK\$0.652
Zhao Hua	450,000	2000/8/19	2001/2/21 to 2003/2/20	HK\$1.5368
	250,000	2000/10/31	2001/5/11 to 2003/5/10	HK\$0.652

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any interests in the shares or other securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which require notification to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which any such Director has taken or is deemed to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which are required to be entered into the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

(c) Substantial interests in the ordinary shares of the Company

The Company has been notified of the following interests (other than those owned by a Director or chief executive as disclosed in subsection 3.(a) in this appendix) in the Company’s issued ordinary shares as at the Latest Practicable Date amounting to 10% or more of the ordinary shares in issue:

Name of shareholders	Number of shares held	Percentage holding
Win Channel Investments Limited (<i>Note 1</i>)	1,993,192,348	38.81%
Chim Pui Chung (<i>Note 1</i>)	1,993,192,348	38.81%

Note:

- (1) Win Channel Investments Limited is wholly and beneficially owned by Mr. Chim Pui Chung who is deemed to be interested these shares by virtue of his interest in Win Channel Investments Limited. Mr. Chim Pui Chung is not a director of the Company or Ming Yuen.

Save for the shares referred to above so far as was known to the Directors and the chief executive of the Company, no person or corporation (other than a Director or chief executive of the Company) has any interest in the share capital of the Company, according to the register required to be kept by the Company under section 16(1) of the SDI Ordinance.

4. DIRECTORS’ SERVICE CONTRACTS

No Director has an unexpired service contract which is not terminable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

5. EXPERTS’ QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have provided their advice, reports and valuations as the case may be, which are contained in this circular:

Name	Qualifications
Altus	An investment adviser and a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Deloitte Touche Tohmatsu	Certified Public Accountants
LCH (Asia-Pacific) Surveyors Limited	Chartered Surveyors

Each of Altus, Deloitte Touche Tohmatsu and LCH (Asia-Pacific) Surveyors Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters and the references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Altus, Deloitte Touche Tohmatsu and LCH (Asia-Pacific) Surveyors Limited were not interested beneficially or otherwise in any shares in the Company or any of its subsidiaries or associated corporations and did not have any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in the Company or any of its subsidiaries or associated corporations nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. LITIGATION

As at the Latest Practicable Date, to the best knowledge of the Directors, neither the Company nor any of its subsidiaries was engaged in any litigation or claims which was in the opinion of the Directors of material importance and no litigation or claims which was in the opinion of the Directors of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business and save for the Subscription Agreement, the Shareholders' Agreement and the Patent Licence Agreement) were entered into by members of the Group within the two years immediately preceding the date of this circular and are, or may be, material:

- (a) a placing agreement dated 2nd November, 2000 relating to the subscription for 1,200,000,000 shares in the capital of the Company by Sheung Hai Investment Limited at a total cash consideration of HK\$21,600,000;
- (b) a subscription agreement dated 29th March, 2001 entered into between the Company and Gain Master Assets Limited ("Gain Master") in respect of the subscription by Gain Master of a convertible bond in the principal amount of HK\$28,800,000 issued by the Company at a total cash consideration of HK\$28,800,000;
- (c) an agreement dated 23rd February, 2001 entered into between Star Cyberpower Limited ("Star Cyberpower"), a wholly-owned subsidiary of the Company and Mr. Wong whereby Star Cyberpower acquired from Mr. Wong 80% equity interest in iTech Investments Inc. at a total cash consideration of HK\$16,800,000;

- (d) an agreement dated 23rd February, 2001 entered into between Star Cyberpower and Mr. Wong whereby Star Cyberpower acquired from Mr. Wong the entire equity interest in High Stone Assets Limited at a total cash consideration of HK\$2,800,000;
- (e) a subscription agreement dated 12th June, 2001 entered into between the Company and Directgain Profits Limited (“Directgain Profits”) in respect of the subscription by Directgain Profits of a convertible loan note in the principal amount of HK\$13,800,000 issued by the Company at a total cash consideration of HK\$13,800,000;
- (f) a subscription agreement dated 4th July, 2001 entered into between the Company and Gain Master in respect of the subscription by Gain Master of a convertible bond in a principal amount of HK\$13,800,000 at a cash consideration of HK\$13,800,000;
- (g) a subscription agreement dated 4th July, 2001 entered into between the Company and Gain Master in respect of the subscription by Directgain Profits of a convertible bond in a principal amount of HK\$6,800,000 at a cash consideration of HK\$6,800,000;
- (h) a share acquisition agreement dated 6th February, 2002 entered into between the Company, Win Channel Investments Limited and Mr. Wong pursuant to which (i) Win Channel Investments Limited subscribed for 2,500,000,000 new shares in the Company for a total cash consideration of HK\$25 million and (ii) Mr. Wong agreed to procure a transfer to Win Channel Investment Limited of 88,187,919 shares in the Company beneficially owned by Sheung Hai Developments Limited for a total cash consideration of HK\$1.00;
- (i) a subscription agreement dated 6th February, 2002 entered into between the Company and Sheung Hai Developments Limited pursuant to which Sheung Hai Developments Limited will subscribe for 2,000,000,000 new shares in the Company for a total consideration of HK\$20 million; and
- (j) a subscription agreement dated 10th July, 2002 entered into between Star Cyber DNA Limited (a wholly owned subsidiary of the Company) and W-Phone Inc. for subscribing 422,222 new series C1 preference shares of W-Phone Inc. for a total consideration of US\$633,333 (equivalent to about HK\$4,939,997) to be satisfied by Star Cyber DNA Limited procuring the Company to issue to W-Phone Inc. 38,000,000 new shares, credit as fully paid at HK\$0.13 each.

Save for the material contract described in (j) above, the material contracts disclosed in this section have been completed. The Company has complied with the relevant requirements of the Listing Rules when each of the above material contracts was entered into.

8. GENERAL

- (a) There is no contract or arrangement entered into by any member of the Group in which any Directors are materially interested and which is significant in relation to the business of the Group.
- (b) None of the Directors or the experts as named in section 5 of this appendix has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 30th June, 2001, the date to which the latest published audited financial statements of the Group were made up.
- (c) The registered office of the Company is at Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda. The head office and principal place of business of the Company is at 11/F., Tai Sang Bank Building, 130-132 Des Voeux Road Central, Hong Kong. The share registrar and transfer office of the Company is Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (d) 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.
- (e) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese text in case of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the head office and principal place of business of the Company 11/F., Tai Sang Bank Building, 130-132 Des Voeux Road Central, Hong Kong from the date of this circular up to and including the date of the Special General Meeting:

- (a) the memorandum of association and Bye-Laws of the Company;
- (b) the Subscription Agreement;
- (c) the Shareholders' Agreement;
- (d) the Patent Licence Agreement and the supplemental patent licence agreement dated 3rd October, 2002 and the second supplemental patent licence agreement dated 24th October, 2002;
- (e) the letter from the Independent Board Committee dated 29th October, 2002, the text of which is set out on pages 20 to 21 of this circular;

- (f) the letter of advice from Altus dated 29th October, 2002, the text of which is set out on pages 22 to 32 of this circular;
- (g) the accountants' report regarding Ming Yuen issued by Deloitte Touche Tohmatsu, the text of which is set out in appendix I of this circular;
- (h) the letter regarding the valuation of the entire equity interest of Ming Yuen, the text of which is set out in appendix III of this circular;
- (i) the written consents referred to in section 5 of this appendix;
- (j) the annual reports of the Group for the two years ended 30th June, 2001;
- (k) the interim report of the Company for the six months ended 31st December, 2001;
- (l) the material contracts referred to in section 7 of this appendix; and
- (m) the following notifiable transaction circulars issued pursuant to the requirements set out in Chapter 14 of the Listing Rules which have been issued since the latest published audited accounts as at 30th June, 2001:
 - (i) circular dated 26th March 2002 for, among others, the connected transaction in relation to the material contracts as disclosed in (h) and (i) under section 7 of this appendix; and
 - (ii) circular dated 2nd August, 2002 for the discloseable transaction in relation to the material contract as disclosed in (j) under section 7 of this appendix.



CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of Credit Card DNA Security System (Holdings) Limited (the “Company”) will be held at 10:00 a.m. on Friday, 15th November, 2002 at Chater Room IV, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

“THAT:

1. the conditional subscription agreement dated 26th September, 2002 entered into between Ming Yuen Assets Limited. (“Ming Yuen”), Mr. Wong Kam Fu (“Mr. Wong and the Company (a copy of which has been produced at this meeting marked “A” and initialled by the Chairman hereof for the purpose of identification) in relation to, inter alia, the subscription of 30% equity interest in Ming Yuen on the terms contained therein be and is hereby approved, confirmed and ratified;
2. the conditional shareholders’ agreement dated 26th September, 2002 and entered into between the Company, Ming Yuen and Mr. Wong (a copy of which has been produced at this meeting marked “B” and initialled by the Chairman hereof for the purpose of identification) by which the Company and Mr. Wong agreed to conduct their relationship as shareholders in Ming Yuen in accordance with the terms contained therein be and is hereby approved, confirmed and ratified; and
3. the conditional patent licence agreement dated 26th September, 2002 (as supplemented by a supplemental patent licence agreement dated 3rd October, 2002 and a second supplemental patent licence agreement dated 24th October, 2002) and entered into between the Company as licensee and Ming Yuen as licensor (a copy of which has been produced at this meeting marked “C” and initialled by the Chairman hereof for the purpose of identification) in relation to the licensing of the patents stated therein by Ming Yuen to the Company in accordance with the terms contained therein be and is hereby approved, confirmed and ratified.

and that the directors of the Company be and are hereby authorised to do all acts and things and to negotiate, agree, execute and deliver such further documents which they consider necessary or expedient for the purpose of implementing, completing and giving effect to

NOTICE OF THE SPECIAL GENERAL MEETING

each of the Subscription Agreement and the Shareholders' Agreement and the Patent Licence Agreement and the transactions contemplated thereunder upon completion of the Subscription Agreement in accordance with their terms.”

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

Hong Kong, 29th October, 2002

Notes:

1. Any member of the Company entitled to attend and vote at the meeting to be convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy in respect of the special general meeting is enclosed. Whether or not you intend to attend the meeting in person, you are requested to duly complete, sign and return the form of proxy in accordance with the instructions printed thereon.
3. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be lodged at the head office and principal place of business in Hong Kong of the Company at 11th Floor, Tai Sang Bank Building, 130-132 Des Voeux Road Central, Hong Kong, not less than 48 hours before the time appointed for the meeting or adjourned meeting.
4. Where there are joint registered holders of a share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he was solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
5. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting should he so wish.