

INTERIM REPORT
FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2001

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.

STAR BIO-TECH (HOLDINGS) LIMITED

星光生物科技（控股）有限公司

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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	Turnover	Contribution
	HK\$'000	to loss from	HK\$'000	to profit
		operations		(loss) from
		HK\$'000	HK\$'000	operations
			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		—		3,464
Loss before taxation		<u>(30,532)</u>		<u>(30,962)</u>

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3. SEGMENTAL INFORMATION *(Continued)*

	For the six months ended			
	31.12.2001		31.12.2000	
	Turnover	Contribution	Turnover	Contribution
	HK\$'000	to loss from	HK\$'000	to profit
		operations	HK\$'000	(loss) from
		HK\$'000		operations
			HK\$'000	HK\$'000
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		(18,840)		(27,733)
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		—		3,464
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 31 December 2000: loss of HK\$31,416,000) and on the weighted average number of 489,123,152 (six months ended 31 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.

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	Number of shares	Value HK\$'000
Authorized:		
Ordinary shares of HK\$0.01 at 30th June, 2001 and 31st December, 2001	60,000,000,000	600,000
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	(19,095,011,500)	—
Share reduction	—	(190,950)
Ordinary shares of HK0.01 each at 31st December, 2001	489,615,670	4,896

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.

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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	—
	<hr/>	<hr/>
	1,845	3,553
Other debtors, deposits and prepayments	27,316	25,176
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	29,161	28,729
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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	3,694	3,923
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	6,118	8,678
Accrued charges	40,173	33,685
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	46,291	42,363
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