



CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LTD

(Incorporated in Bermuda with limited liability)

**Interim Financial Report
For The Six Months
Ended 31st December, 2002**

CONTENTS

	<i>Page</i>
Condensed Consolidated Income Statement	1
Condensed Consolidated Balance Sheet	2
Condensed Consolidated Statement of Changes in Equity	3
Condensed Consolidated Cash Flow Statement	4
Notes to the Condensed Financial Statements	5 – 8
Independent Review Report	9
Management Discussion and Analysis	10
Business Review	10
Business Outlook	11
Directors' Interests In Securities	12
Substantial Shareholders	12
Purchase, Sale or Redemption of Listed Shares	13
Compliance with the Code of Best Practice	13
Audit Committee	13

CONDENSED CONSOLIDATED INCOME STATEMENT*For the six months ended 31st December, 2002*

		For the six months ended	
		31.12.2002	31.12.2001
		(unaudited)	(unaudited)
	<i>NOTES</i>	HK\$'000	HK\$'000
Turnover	3	7,215	16,909
Cost of sales		(5,580)	(14,595)
Gross profit		1,635	2,314
Other operating income		692	2,942
Distribution costs		(1,386)	(2,083)
Administrative expenses		(20,075)	(30,376)
Unrealised loss on investments in securities		(18)	(51)
Loss on disposal of investments in securities		–	(530)
Write off of property, plant and equipment		–	(1,061)
Loss from operations		(19,152)	(28,845)
Impairment losses recognised in respect of goodwill	5	(11,000)	–
Loss on disposal of subsidiaries		(4,929)	–
Finance costs		(145)	(1,687)
Loss before minority interest		(35,226)	(30,532)
Minority interest		699	1,222
Net loss for the period		(34,527)	(29,310)
Loss per share	6		
– Basic and diluted		(0.67) cents	(5.99) cents

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>NOTES</i>	31.12.2002 (unaudited) HK\$'000	30.6.2002 (audited) HK\$'000
NON-CURRENT ASSETS			
Investment properties		1,970	1,970
Property, plant and equipment	7	9,859	14,099
Investments in securities		3,570	150
Interest in an associate	8	30,000	–
		<u>45,399</u>	<u>16,219</u>
CURRENT ASSETS			
Inventories – at cost		5,016	7,010
Debtors, deposits and prepayments	9	15,521	30,800
Investments in securities		53	71
Bank balances and cash		4,216	6,077
		<u>24,806</u>	<u>43,958</u>
CURRENT LIABILITIES			
Creditors and accrued charges	10	21,165	20,261
Taxation		8	20
Obligation under a finance lease – due within one year		106	106
		<u>21,279</u>	<u>20,387</u>
NET CURRENT ASSETS			
		<u>3,527</u>	<u>23,571</u>
		<u>48,926</u>	<u>39,790</u>
CAPITAL AND RESERVES			
Share capital	11	51,363	50,983
Reserves		(47,222)	(26,735)
		<u>4,141</u>	<u>24,248</u>
MINORITY INTERESTS			
		<u>893</u>	<u>1,592</u>
NON-CURRENT LIABILITIES			
Obligation under a finance lease – due after one year		92	150
Convertible note		13,800	13,800
Promissory note	12	30,000	–
		<u>43,892</u>	<u>13,950</u>
		<u>48,926</u>	<u>39,790</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st December, 2002

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	Goodwill reserves <i>HK\$'000</i>	Retained deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July, 2001	194,596	184,904	1,700	(13,919)	(359,575)	7,706
Conversion of convertible notes	1,250	–	–	–	–	1,250
Share consolidation and reduction	(190,950)	–	–	–	190,950	–
Net loss for the period	–	–	–	–	(29,310)	(29,310)
At 31st December, 2001	4,896	184,904	1,700	(13,919)	(197,935)	(20,354)
Conversion of convertible notes	1,087	–	–	–	–	1,087
Shares issued at premium	45,000	9,263	–	–	–	54,263
Goodwill realised in respect of disposal of subsidiaries	–	–	–	(9,052)	–	(9,052)
Net loss for the period	–	–	–	–	(1,696)	(1,696)
At 30th June, 2002	50,983	194,167	1,700	(22,971)	(199,631)	24,248
Shares issued at premium	380	3,040	–	–	–	3,420
Impairment losses recognised on goodwill	–	–	–	11,000	–	11,000
Net loss for the period	–	–	–	–	(34,527)	(34,527)
At 31st December, 2002	<u>51,363</u>	<u>197,207</u>	<u>1,700</u>	<u>(11,971)</u>	<u>(234,158)</u>	<u>4,141</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	31.12.2002	31.12.2001
	(unaudited)	(unaudited)
		(As restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(2,875)	(21,840)
Net cash from investing activities	1,217	3,261
Net cash (used in) from financing activities	(203)	11,948
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(1,861)	(6,631)
Cash and cash equivalents at beginning of the period	6,077	13,595
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>4,216</u>	<u>6,964</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31st December, 2002

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.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of 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, 2002, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement, and the replacement of the statement of recognized gains and losses with a statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period and now require them to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s subsidiaries are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising from the translation, if any, are classified as equity and transferred to the Group’s translation reserve. Such translation differences are recognised as income or expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Discontinuing Operations

SSAP 33 “Discontinuing Operations” is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previously included in SSAP 2 “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies”. Under SSAP 33, financial statement amounts relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. The adoption of this SSAP has not had any material effect on the results for the current or prior accounting periods.

Employee Benefits

In the current period, the Group has adopted SSAP 34 “Employee Benefits” which introduces measurement rules for employee benefits, including retirement benefit plans. The adoption of this SSAP has not had any material effect on the results for the current or prior accounting period.

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 31st December, 2002

	Manufacturing and sale of food products <i>HK\$'000</i>	Provision of financial information services <i>HK\$'000</i>	Provision of internet consultancy services <i>HK\$'000</i>	Manufacturing and sales of electronic products <i>HK\$'000</i>	Sales of health products <i>HK\$'000</i> <i>(note)</i>	Consolidated <i>HK\$'000</i>
TURNOVER	–	1,668	123	5,294	130	7,215
SEGMENT RESULT	–	(276)	(3,023)	(3,990)	(100)	(7,389)
Unallocated corporate expenses						(11,763)
Loss from operations						(19,152)
Impairment losses recognised in respect of goodwill				(11,000)		(11,000)
Loss on disposal of subsidiaries						(4,929)
Finance costs						(145)
Loss before minority interest						(35,226)

For the six months ended 31st December, 2001

	Manufacturing and sale of food products <i>HK\$'000</i>	Provision of financial information services <i>HK\$'000</i>	Provision of internet consultancy services <i>HK\$'000</i>	Manufacturing and sales of electronic products <i>HK\$'000</i>	Sales of health products <i>HK\$'000</i> <i>(note)</i>	Consolidated <i>HK\$'000</i>
TURNOVER	4,538	2,237	216	9,788	130	16,909
SEGMENT RESULT	(3,269)	(437)	(651)	(3,974)	(1,093)	(9,424)
Unallocated corporate expenses						(19,421)
Loss from operations						(28,845)
Finance costs						(1,687)
Loss before minority interest						(30,532)

Note: In August 2002, the Group disposed of its entire interest in Fu Yuk DNA Holistic Limited and other subsidiaries which were engaged in the sales of health products. Following the completion of the disposal, the business segment of sales of health products was regarded as discontinuing operations.

4. TAXATION

No provision for taxation has been made as the Group had no assessable profit for either period.

5. IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF GOODWILL

In view of recurring operating loss and current market situation of the business engaged in trading of electronic products, the Group has recognised impairment losses in respect of goodwill relating to that business. Accordingly, the whole amount of HK\$11,000,000 has been recognised in the consolidated income statement as an impairment loss for the period.

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$34,527,000 (six months ended 31st December, 2001: HK\$29,310,000) and on the weighted average number of 5,132,616,774 (six months ended 31st December, 2001: weighted average number of 489,123,152) shares in issue.

The computation of diluted loss per share for the six months ended 31st December, 2002 and 31st December, 2001 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. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of approximately HK\$1,392,000 (2001: HK\$2,848,000) was charged in respect of the Group's property, plant and equipment.

8. INTEREST IN AN ASSOCIATE

	31.12.2002 (unaudited) HK\$'000	30.6.2002 (audited) HK\$'000
Share of net assets	–	–
Premium on acquisition of an associate	30,000	–
	30,000	–

During the period, the Group acquired 30% equity interest in Ming Yuen Assets Limited ("Ming Yuen"), a private company incorporated in the British Virgins Islands and engaged in holding and licensing the intellectual property rights in respect of a credit card security system for a consideration of HK\$30 million payable by the issue of a promissory note by the Group.

Up to 31st December, 2002, Ming Yuen has not commenced its operation to license the intellectual property rights.

9. DEBTORS, DEPOSITS AND PREPAYMENTS

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:

	31.12.2002 (unaudited) HK\$'000	30.6.2002 (audited) HK\$'000
0 – 60 days	1,073	1,330
61 – 90 days	97	106
Over 90 days	568	424
	1,738	1,860
Other debtors, deposits and prepayments	13,783	28,940
	15,521	30,800

Included in other debtors, deposits and prepayments is the amount of HK\$7,574,593 (30.6.2002: HK\$20,000,000) deposited with Kingston Securities Limited which bears interest at the prevailing market rate.

10. CREDITORS AND ACCRUED CHARGES

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

	31.12.2002 (unaudited) <i>HK\$'000</i>	30.6.2002 (audited) <i>HK\$'000</i>
0 – 60 days	1,258	2,861
61 – 90 days	385	238
Over 90 days	<u>1,457</u>	<u>1,938</u>
	3,100	5,037
Accrued charges	<u>18,065</u>	<u>15,224</u>
	<u>21,165</u>	<u>20,261</u>

11. SHARE CAPITAL

	Number of shares	Value <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Issued and fully paid:		
At 30th June, 2002	5,098,334,165	50,983
Issue of new shares	<u>38,000,000</u>	<u>380</u>
At 31st December, 2002	<u>5,136,334,165</u>	<u>51,363</u>

On 19th July, 2002, 38,000,000 shares of HK\$0.01 each were issued and allotted to W-Phone, Inc. at HK\$0.09 per share to subscribe for 422,222 preference shares in W-Phone, Inc.

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

12. PROMISSORY NOTE

Promissory note represents interest bearing promissory note payable to an associate. The date of maturity of the promissory note is the date falling 18 months from 18th November, 2002.

INDEPENDENT REVIEW REPORT

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE BOARD OF DIRECTORS OF CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LIMITED *(Incorporated in Bermuda with limited liability)*

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 1 to 8.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquires of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31st December, 2002.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants
Hong Kong, 27 March, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

Results

Turnover of the Group for the period under review was HK\$7.2 million compared to HK\$16.9 million for the same period in 2001. It was a decrease of almost 57.4% from last year. Loss from operation is reduced by nearly 32.5% to HK\$19.1 million this year from HK\$28.8 million last year. Loss attributable to shareholders is however HK\$34.5 million compared to loss of HK\$29.3 million in year 2001 representing an increase of 17.7%. Consequently loss per share for the current period was HK\$ 0.67cents per share compare to HK\$5.99 cents loss per share for 2001.

BUSINESS REVIEW

For the six months ended 31 December 2002, the Group's turnover was HK\$7.2 million which was largely contributed by sale of electronic products and income from provision of financial information services. Gross profit for the period was however reduced by 30.4% from HK\$2.3 million last year to HK\$1.6 million due to severe competition from the market and higher cost of sales. As mentioned before, the Group has now focused on software development as its core business and is dedicated to developing payment gateways through mobile phones. This business re-organization has inevitably created an impact on the Group's operating results. During the period, the Group has consolidated the scope of business to ensure the economic use of resources and has divested non-core business activities through sale of subsidiaries to maximize long term competitiveness. As a result, the Group recorded an exceptional loss of HK\$4.9 million. To ensure efficient use of capital, the Group does not rule out the possibilities of further sale of investment projects which do not have long term prospects. Loss attributable to shareholders after minority interest was HK\$34.5 million which was up by 17.7% from last year same period of HK\$29.3 million. Loss per share was reduced from HK\$5.99 cents per share to HK\$0.67 cents per share after being accounted for share subscription in April and July, 2002.

IT Operation

The Group's IT operations reflected the sluggish conditions experienced by the global IT industry even though this division contributed 98.2% of the Group's total revenue for the period under review. Turnover from WinFcs dropped by 22.7% from HK\$2.2 million to HK\$1.7 million. WinFcs, which provides instant stock market information plus other financial information, has experienced another tough time and a loss before taxation of HK\$261,000 was reported. Global sentiment in the equity market is still weak with the uncertainty of the looming wartime. Both long and short investors have held back their investments in this respect. TGL, which sells electronic products, also experienced shrinking turnover for the six months under review. With the severe competition from electronic dictionaries of all kinds, TGL recorded a turnover of HK\$4.6 million which was 36.2% less when compared to the same period last year and a loss of HK\$594,000 was recorded. TGL is exploring other marketable products in order to enlarge scope of business and to increase revenue.. Nevertheless, for prudent sake, the Group has made a provision of HK\$11 million from the goodwill reserve pertaining to the acquisition of TGL. Star Paging SZ also sustained a reduced turnover from HK\$2.6 million in the current period to HK\$0.7 million corresponding period last year. For the six months under review, Star Paging SZ has been developing new products such as ID Verification Kit and Sound Way computerized writing instrument. As an OEM manufacturer, Star Paging SZ is hopeful that the new products will bring positive results to the Group in the near future.

The Group's core business of DNA ("Digital Network Alerting") and payment gateway system which was officially taken off with the partnership of Agricultural Bank of China ("ABC") in March 2003, has yet to contribute revenue to the Group. During the period infrastructure and test runs have already been undertaken to ensure the successful launch of the product. A press conference was taken place in March 2003 to announce the partnership between ABC, Guangdong Provincial Branch and the Company on this business. Given the huge number of cards issued and a massive card membership involved, the management is confident of positive results to shareholders.

Gearing ratio which takes non-current liabilities, being mainly represented by convertible notes and loan from an associate over shareholders' equities, is calculated at 10.6 times. Bank balance stands at HK\$4.2 million which mainly is denominated in Hong Kong dollars. The Company was not exposed to any material exchange rate fluctuation during the period under review.

The Board of Directors is of the view that there are no material changes from the information disclosed in the most recent published accounts and therefore no additional disclosure is required.

BUSINESS OUTLOOK

With the acquisition of 30% equity interest in a company on 3rd October 2002 and successfully obtaining a patented license agreement from the same company, the Group has the exclusive right to use a technology which helps the security of non-cash payment by cards including bank, credit or debit cards for on-line and off-line transactions in Hong Kong and the PRC. This patented security system ("DNA products") coupled with a payment gateway software developed by the Company, has the total edge in promoting e-payment through owners' mobile phone with a high degree of security. In view of this, three major Chinese banks in the PRC have entered cooperation or partnership relationship with the Company to engage the use of this product. A press conference was held in Guangdong with ABC on 6th of March, 2003 to jointly announce the introduction of Jin Rui Card DNA Security Payment Services ("Jin Rui Card") a pioneering mobile payment system in the PRC. This card offers the subscribers two services. The first service is an option to accept or refuse a payment request made from the cardholder's account via his/her mobile phone. The second service is an alert system where the subscriber is advised when a payment is made. Either way, the subscriber is fully aware of any withdrawal from his/her account and with the first service, the subscriber will have total peace of mind that his/her account will not make any unauthorized payment. Given that the total number of bank and credit cards issued by ABC's Guangdong Branch has already exceeded 9.4 million, subscription fee to be received by the Group will be substantial. In addition, the Group has plans to enhance further services with ABC for other DNA products. As mentioned earlier in our published accounts, infrastructure has also begun to be installed in CITIC Industrial Bank and Shenzhen Development Bank. Similar kind of services offered by these two Chinese banks are expected to be introduced in the middle of this year.

The Group is also seeking opportunities to market DNA products in Hong Kong. Talks have already begun with companies to explore the market. With the application of these DNA products, the Group is confident that it will help to solve the cash problems for tourists from mainland China. Visitors from mainland China will no longer be bothered by the problem of cash when they go shopping. It offers convenience to visitors, avoiding the carrying of large amount of money when crossing borders. The Group also sees opportunities to offer services and DNA products to companies who have problems in collecting monthly payments from customers. Given their huge customer base and problems faced by these companies in collecting their monthly fees on time, the Group believes that odds are in its favor in sustaining business opportunities.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2002, the interests of the directors of the Company and their associates in the issued share capital of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:-

Name of Directors	Number of shares held		Numbers of Share Options (Note 2)
	Personal	Corporate	
Wong Kam Fu	–	1,683,991,543 Note 1	109,968,750
Wong Hoi Keung	–	–	100,000,000
Wong Kam Wing	–	–	105,000,000
Lew Mon Hung	–	–	10,000,000
Wang Zhao Bin	–	–	82,750,000
Zhao Hua	–	–	82,700,000

Note:

- 1,678,516,543 of these shares are beneficially owned by Sheung Hai Developments Limited ("Sheung Hai") the remaining 5,475,000 shares are beneficially owned by Super Biotech Enterprises Limited ("Super Biotech"), the entire issued share capital of both Sheung Hai and Super Biotech are held by Mr. Wong Kam Fu.
- These Share Options were granted under the Share Option Scheme adopted by the Company on 11th April 1994 and modified on 27th July 2001. These Share Options are exercisable during the period from 21st February 2001 to 3rd November 2004 respectively with exercise prices of between HK\$0.4 to HK\$0.0366 per share.

Other than as disclosed above, none of the directors or their associates had any interest in any securities in the Company, or any of its associated companies as defined in the SDI Ordinance and none of the directors of chief executives, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities in the Company or any of its associated companies.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16 of the SDI Ordinance:-

Name of shareholders	Number of shares held
Win Channel Investments Limited	1,993,192,348
Sheung Hai Developments Limited (Note)	1,683,991,543

Note:

The entire share capital of Sheung Hai Developments Limited was held by Mr. Wong Kam Fu.

Save as disclosed herein, there is no record of any other person in the register of members maintained under Section 16 of the SDI Ordinance as holding 10% or more of the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 31 December 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited during the six months ended 31 December 2002 save that the independent non-executive directors are not appointed on specific terms but subject to retirement by rotation in accordance with the company's Bye-laws.

AUDIT COMMITTEE

The Company has an audit committee comprises two independent non-executive directors of the Company. The audit committee has reviewed the unaudited financial statement for the six months ended 31 December 2002.

On behalf of the Board
Wong Kam Fu
Chairman

Hong Kong, 27th March, 2003