

Management Discussion and Analysis

FINANCIAL RESULTS

Turnover of the Group for the year under review was HK\$11.2 million compared to HK\$28.2 million in 2002. It was a decrease of approximately 60.3% from last year. Loss from operations was reduced by 4.8% to HK\$45.6 million this year from HK\$47.9 million last year. Loss for the year was HK\$59.6 million compared to loss of HK\$31.0 million in year 2002 representing an increase of almost 92.3%. Consequently loss per share for the current year was HK\$1.16 cents per share compare to loss of HK\$2.23 cents per share for the year ended June 2002.

BUSINESS REVIEW

This year has seen a much versatile results and for the last year, the Group has endured another major shake up which saw the shedding of non-core businesses. Divestment of certain subsidiaries and an associate of the Company was taken place in this financial year and the Group resulted a loss on disposal of approximately HK\$14.4 million in total. Nevertheless, the trading results of these subsidiaries immediately before the sale were accounted for in this year's consolidated trading results in accordance with the generally accepted accounting standards. Gross profit of HK\$0.5 million was reported which was less than that of last year of HK\$2.1 million. With the loss on disposal mentioned earlier, loss before taxation and loss for the year were HK\$61.0 million and HK\$59.6 million respectively. This year's loss (attributable to shareholders) was largely due to the loss on disposal of HK\$14.4 million and an impairment loss recognised in respect of goodwill from a discontinuing operation of HK\$11 million, whereas administrative expenses, under the determination of the management to streamline the Group's overhead, were reduced from HK\$49.8 million last year to HK\$34.3 million this year. Loss per share was HK\$1.16 cents per share compared to HK\$2.23 cents last year.

Biotech Operation

As mentioned in the financial reports of last year that this investment on health products was sold in August 2002 for HK\$100,000 and since then was diverged from the Group's business.

IT Operation

The result of Winfcs, which provides instant security market information plus other financial information, was able to maintain steady operational results throughout the financial year. With extremely severe competition from various service providers and the outbreak of SARS early this year, the management is satisfied with the results which saw constant and solid subscriptions. Turnover was recorded at HK\$3.2 million and loss before taxation was HK\$555,000. Business of DNA ("Digital Network Authorisation") system has started to generate revenue for the Group within the expectation of the management. With the official launch of the products by the joint effort of the Agricultural Bank of China (the "ABC") and the Company in March 2003, the subscribers of this service were given two months free trial period in order to draw the attention to this product. The trading results for the project under review can only reveal results of the DNA products for one month. Rather it recorded the expenses incurred for research and development, promotion, advertising and other preempt but necessary costs. The management understands the expenditures on commercialization and marketing are inevitable before realization of revenue from this product. From the responses on subscription and enquiries as per the steering committee of this project, the numbers are climbing and promising.

Another investment in Chinese Star Cyber Technology Holdings Limited ("CSCTHL") which the Group holds 25% equity interest, developing Chinese software in the PRC has yet to contribute profit for the Group.

Management Discussion and Analysis (continued)

BUSINESS REVIEW (continued)

IT Operation (continued)

During the last twelve months, the Company has disposed of some subsidiaries and an associate in order to maximize the use of limited resources and to focus on core business. In March 2003, the Company has disposed of a subsidiary which was in the business of selling and marketing of a pen-sized dictionary, for a consideration of HK\$0.4 million. Immediately before the sale this subsidiary in which the Company held 70% equity interest, has reported a trading loss before taxation of HK\$1.75 million for nine months. Loss of HK\$5.6 million was recorded after the sale. In early June 2003, the Company has disposed of a wholly owned subsidiary which was in the business of manufacturing and selling of pager and other electronic consumer products for a consideration of HK\$0.9 million. This subsidiary reported a loss of HK\$3.6 million immediately before the sale. Loss of HK\$7.8 million was reported after the sale. In October 2002, the Company disposed of an associate which held a website for wine and sugar trading, for a consideration of HK\$1.18 million and subsequently reported a gain of HK\$1.18 million. The board of directors are of the view that these subsidiaries and associate have not been able to generate profitable returns for shareholders and given the fact that there are severe competitions of similar products in the market, it should be in the long term interest of shareholders to pool available resources to the core business.

Subsequent to the divestments mentioned earlier, the Group is basically operating through offices in Hong Kong and in the PRC with 48 staff inclusive of directors and salary paid employees.

Gearing ratio and liquidity posed to be a problem for the Company as at the end of this financial year. As at 30th June, 2003 the Group recorded a net current asset of HK\$1.5 million and net liability value of HK\$9.8 million. After the balance sheet date, the management of the Group has determined to rectify this situation by introducing an independent subscriber to subscribe 200 million shares of HK\$0.01 each of the Company

at HK\$0.016 each. In addition Ming Sang Finance Limited, a HK\$10 million convertible bond holder, exercised its right to convert 150,000,000 and 683,332,000 shares of HK\$0.01 each on 10th and 15th October, 2003 at a unit price of HK\$0.012. Gain Master Assets Ltd., which holds convertible note of HK\$1.2 million converted into 80 million shares of HK\$0.01 each at HK\$0.015 on 22nd October, 2003. Further discussion with other potential investors for subscription of shares is being undertaken and the Company hopes to finalize the terms and conditions soon.

Business Outlook

Product development

The Group has successfully commercialized the patents which we have the exclusive licensing right to use in Hong Kong and China (Patent No. HK1000772 and 94105095.5 respectively). Based on the said patent description the Company has developed a core software security system called "DNA Authorization (DNA)" to enhance security of electronic payments, in particular for payment initiated at Point of Sales card reader (POS) for both Debit and Credit cards.

DNA allows cardholder to authorize or reject payment initiated at POS using his or her mobile phone instantly to prevent fraudulent transaction arising from loss, stolen or skimming card. DNA system which links to the mainframe computer of the card issuing bank shall call the cardholder upon receipt of payment request via POS and its intermediate parties automatically and displaying the amount of the transaction together with the code of issuing bank as caller identity display to alert and request the card holder to either accept the payment by keying in a PIN or rejecting the call to decline transaction on the mobile phone.

Management Discussion and Analysis (continued)

BUSINESS REVIEW (continued)

Business Outlook (continued)

Product development (continued)

The system has revolutionizes the current uni-directional data transmission approach in electronic payment to bi-directional with payment data and authorization data transmitted via two different communication networks of existing electronic banking network and the mobile phone network respectively makes hacking of useful data virtually impossible. Most importantly, the registered mobile phone of card/account holder become a proprietary tool for payment authorization to prevent any fraudulent transaction even when account information and PIN are lost. In responding to market demand in China, the system has extended its coverage to other electronic banking systems like ATM, telephone banking and Inter-banking as well to complement its unique fraud prevention capability.

The system is completed with software applications of Customer Relationship Management, Database, Management and interface modules to connect to the mainframe computer of bank using SNA or Socket protocol and SMSC to the mobile communication network for transmission of short message. The system offers the prospective user bank a drop-in solution to enhance security of their electronic banking systems.

With enhanced security in electronic payment enabled by DNA, the group has further developed a comprehensive range of payment services via inter-net and mobile phone named DNAPAY. DNAPAY enables person-to-person fund transfer, unique DNA bill payment service, recharge of all forms of prepaid card including prepaid SIM for mobile phone etc. These innovative services warrant partner bank to stay competitive in the market place in China in the post WTO period.

The market

The market in China looks promising for both DNA and DNAPAY with the fast growing card payment market and the increasing competition among banks in China driven by China's entrance to WTO. We have successfully signed up three major banks in China to pilot run the system of which Agricultural Bank of China Guangdong provincial branch has deployed the services to its customer on the 8th of March, 2003. The press conference jointly hoisted by the bank and the company was widely broadcasted through newspaper and television. This event has raised the eye-browse of a lot of audiences when they realized the effectiveness and efficiency of the products in fraud prevention. Business result has yet to be seen as all subscribers have been given a free trial of two months from date of subscription. The response from ABC is encouraging so far. In September 2003, we have started negotiating with ABC's head office to launch the project national-wide for their credit card users.

Another break-through is the installation of DNA and DNAPAY in Shenzhen Development Bank Co. Ltd. (the "SZDB"). SZDB is one of the national banks with nation-wide presence. The system installed shall serve all their branches in China. It is expected that the product shall be launched in the middle of November 2003.

In addition, we have completed the installation of DNA in CITIC bank's head office in Beijing. It is anticipated that CITIC will launch the service soon.

Talks with other banks, national or municipal, have never stopped and responses are favorable. It is anticipated more banks in China shall adopted DNA as their primarily fraud prevention tool for electronic payments. It is the intention of the management that DNA products becomes the most sophisticated but easy to deploy security system for banks and by its own name stands for security and confidence for secure electronic payment.

Management Discussion and Analysis (continued)

BUSINESS REVIEW (continued)

Business Outlook (continued)

The market (continued)

We on the other hand do not overlook the market of Hong Kong and other overseas places. In Hong Kong, we are exploring the opportunity to extend DNA and DNAPAY services jointly with telecommunication company and banks to Chinese visitors in Hong Kong to capture business opportunity arising from the recent policy change allowing application of entry visa to Hong Kong by individual in selected provinces and cities. It is expected that more affluent Chinese will visit Hong Kong that creates a huge opportunity for a more secure and convenient electronic payment facility to supplement cash payment of which DNA is the perfect choice. The Company will announce the progress of this project in due course.

We are exploring business opportunity for DNA and DNAPAY application software in overseas markets as well to fully capitalize on our know-how and experience in electronic payment security. Initial response from overseas markets is positive.

Last but not least, our effort to stay focus in our core businesses of electronic payment security and electronic payment services shall pay off in the years to come. The restructuring of the Group though painful shall benefit all parties by converging efforts of our management team and senior management as well to improve our operational efficiency to order to increase return for our shareholders.