



**CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LTD**

*(Incorporated in Bermuda with limited liability)*

**Interim Financial Report  
For The Six Months  
Ended 31st December, 2003**

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**CONDENSED CONSOLIDATED INCOME STATEMENT***For the six months ended 31st December, 2003*

|  |             | <b>For the six months ended</b> |                    |
|--|-------------|---------------------------------|--------------------|
|  |             | <b>31.12.2003</b>               | <b>31.12.2002</b>  |
|  |             | <b>(unaudited)</b>              | <b>(unaudited)</b> |
|  | <i>Note</i> | <b>HK\$'000</b>                 | <b>HK\$'000</b>    |
| Turnover   |             | <b>1,500</b>                    | 7,215              |
| Cost of sales  |             | <b>(2,164)</b>                  | (5,580)            |
| Gross (loss) profit                                    |             | <b>(664)</b>                    | 1,635              |
| Other operating income                                 |             | <b>557</b>                      | 692                |
| Distribution costs                                     |             | <b>(277)</b>                    | (1,386)            |
| Administrative expenses                                |             | <b>(11,831)</b>                 | (20,075)           |
| Unrealised gain (loss) on investments in securities    |             | <b>5</b>                        | (18)               |
| Gain on disposal of investment property                |             | <b>591</b>                      | –                  |
| Impairment loss on investments in securities           |             | <b>(3,420)</b>                  | –                  |
| Impairment losses recognised in respect of goodwill    |             | <b>–</b>                        | (11,000)           |
| Loss from operations                                   |             | <b>(15,039)</b>                 | (30,152)           |
| Loss on disposal of subsidiaries                       |             | <b>–</b>                        | (4,929)            |
| Amortisation of premium on acquisition of an associate |             | <b>(1,500)</b>                  | –                  |
| Finance costs  |             | <b>(608)</b>                    | (145)              |
| Loss before minority interest                          |             | <b>(17,147)</b>                 | (35,226)           |
| Minority interest                                      |             | <b>–</b>                        | 699                |
| Net loss for the period                                |             | <b>(17,147)</b>                 | (34,527)           |
| Loss per share   |             |                                 |                    |
| – Basic  | 5           | <b>(0.28) cents</b>             | (0.67) cents       |

## CONDENSED CONSOLIDATED BALANCE SHEET

At 31st December, 2003

|   | <i>Notes</i> | <b>31.12.2003</b><br><b>(unaudited)</b><br><b>HK\$'000</b> | 30.6.2003<br>(audited)<br>HK\$'000 |
|---|--------------|--|------------------------------------|
| <b>NON-CURRENT ASSETS</b>               |              |  |                                    |
| Investment properties                   | 6            | <b>1,300</b>   | 1,910                              |
| Property, plant and equipment           | 6            | <b>4,594</b>   | 5,466                              |
| Interests in associates                 | 7            | <b>27,000</b>  | 28,500                             |
| Investments in securities               | 8            | –  | 3,570                              |
|   |              | <u><b>32,894</b></u>                                       | <u>39,446</u>                      |
| <b>CURRENT ASSETS</b>                   |              |  |                                    |
| Debtors, deposits and prepayments       | 9            | <b>1,383</b>   | 1,382                              |
| Investments in securities               |              | <b>59</b>  | 54                                 |
| Bank balances and cash                  |              | <b>5,732</b>   | 6,409                              |
|   |              | <u><b>7,174</b></u>  | <u>7,845</u>                       |
| <b>CURRENT LIABILITIES</b>              |              |  |                                    |
| Creditors and accrued charges           | 10           | <b>5,334</b>   | 6,332                              |
| Convertible notes                       | 11           | <b>12,600</b>  | –                                  |
| Promissory note                         | 12           | <b>26,000</b>  | –                                  |
|   |              | <u><b>43,934</b></u>                                       | <u>6,332</u>                       |
| <b>NET CURRENT (LIABILITIES) ASSETS</b> |              | <u><b>(36,760)</b></u>                                     | <u>1,513</u>                       |
|   |              | <u><b>(3,866)</b></u>                                      | <u>40,959</u>                      |
| <b>CAPITAL AND RESERVES</b>             |              |  |                                    |
| Share capital                           | 13           | <b>70,871</b>  | 54,094                             |
| Reserves                                |              | <b>(74,737)</b>  | (63,935)                           |
|   |              | <u><b>(3,866)</b></u>                                      | <u>(9,841)</u>                     |
| <b>NON-CURRENT LIABILITIES</b>          |              |  |                                    |
| Convertible notes                       | 11           | –  | 23,800                             |
| Promissory note                         | 12           | –  | 27,000                             |
|   |              | –  | 50,800                             |
|   |              | <u><b>(3,866)</b></u>                                      | <u>40,959</u>                      |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 31st December, 2003*

|  | <b>Share<br/>capital</b><br><i>HK\$'000</i> | <b>Share<br/>premium</b><br><i>HK\$'000</i> | <b>Capital<br/>reserve</b><br><i>HK\$'000</i> | <b>Goodwill<br/>reserve</b><br><i>HK\$'000</i> | <b>Retained<br/>profits</b><br><i>HK\$'000</i> | <b>Total</b><br><i>HK\$'000</i> |
|--|---|---|---|--|--|---------------------------------|
| At 1st July, 2002                                      | 50,983                                      | 194,167                                     | 1,700   | (22,971)                                       | (199,631)                                      | 24,248                          |
| Issue of new shares                                    | 380   | 3,040                                       | –   | –  | –  | 3,420                           |
| Impairment losses recognised<br>in respect of goodwill | –   | –   | –   | 11,000   | –  | 11,000                          |
| Net loss for the period                                | –   | –   | –   | –  | (34,527)                                       | (34,527)                        |
| At 31st December, 2002                                 | 51,363                                      | 197,207                                     | 1,700   | (11,971)                                       | (234,158)                                      | 4,141                           |
| Issue of new shares                                    | 1,939                                       | 1,164                                       | –   | –  | –  | 3,103                           |
| Exercise of share options                              | 792   | 277   | –   | –  | –  | 1,069                           |
| Realised on disposal of<br>subsidiaries                | –   | –   | –   | 6,896  | –  | 6,896                           |
| Net loss for the period                                | –   | –   | –   | –  | (25,050)                                       | (25,050)                        |
| At 30th June, 2003                                     | 54,094                                      | 198,648                                     | 1,700   | (5,075)  | (259,208)                                      | (9,841)                         |
| Issue of new shares                                    | 6,000                                       | 3,600                                       | –   | –  | –  | 9,600                           |
| Exercise of share options                              | 1,643                                       | 679   | –   | –  | –  | 2,322                           |
| Conversion of convertible<br>notes                     | 9,134                                       | 2,066                                       | –   | –  | –  | 11,200                          |
| Net loss for the period                                | –   | –   | –   | –  | (17,147)                                       | (17,147)                        |
| <b>At 31st December, 2003</b>                          | <b>70,871</b>                               | <b>204,993</b>                              | <b>1,700</b>                                  | <b>(5,075)</b>                                 | <b>(276,355)</b>                               | <b>(3,866)</b>                  |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 31st December, 2003*

|  | <b>For the six months ended</b> |             |
|--|---------------------------------|-------------|
|  | <b>31.12.2003</b>               | 31.12.2002  |
|  | <b>(unaudited)</b>              | (unaudited) |
|  | <b>HK\$'000</b>                 | HK\$'000    |
| Net cash used in operating activities  | <b>(12,635)</b>                 | (2,875)     |
| Net cash from investing activities   | <b>1,036</b>                    | 1,217       |
| Net cash from (used in) financing activities   | <b>10,922</b>                   | (203)       |
|  | <hr/>                           | <hr/>       |
| Decrease in cash and cash equivalents  | <b>(677)</b>                    | (1,861)     |
| Cash and cash equivalents at beginning of the period                                     | <b>6,409</b>                    | 6,077       |
|  | <hr/>                           | <hr/>       |
| Cash and cash equivalents at end of the period, represented<br>by bank balances and cash | <b>5,732</b>                    | 4,216       |
|  | <hr/> <hr/>                     | <hr/> <hr/> |

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the six months ended 31st December, 2003*

### **1. BASIS OF PREPARATION**

The condensed 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 (“HKSA”) 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 financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities and net liabilities of approximately HK\$36,760,000 and HK\$3,866,000 as at 31st December, 2003 respectively. Subsequent to the balance sheet date the Group has entered into a total of three placing agreements to issue a total of 1,400,000,000 placing shares at a price of HK\$0.018 each to three independent third parties for HK\$25,200,000. The directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the interim 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 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, 2003, except that the Company in the current period has adopted SSAP 12 (Revised) “Income Taxes” issued by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### 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, 2003*

|   | Continuing operations  |  |                   | Consolidated<br>HK\$'000 |
|---|--|--|-------------------|--------------------------|
|   | Provision of<br>financial<br>information<br>services<br>HK\$'000 | Provision of<br>credit and<br>security device<br>and digital<br>network<br>authorisation<br>services<br>HK\$'000 | Other<br>HK\$'000 |                          |
| TURNOVER  | <u>1,285</u>   | <u>191</u>   | <u>24</u>         | <u>1,500</u>             |
| SEGMENT RESULT  | <u>(417)</u>   | <u>(4,440)</u>   | <u>(24)</u>       | (4,881)                  |
| Unallocated corporate expenses                            |  |  |                   | (7,329)                  |
| Gain on disposal of investment properties                 |  |  |                   | 591                      |
| Impairment loss on investments<br>in securities           |  |  |                   | <u>(3,420)</u>           |
| Loss from operations                                      |  |  |                   | (15,039)                 |
| Amortisation of premium on acquisition<br>of an associate |  | (1,500)  |                   | (1,500)                  |
| Finance costs   |  |  |                   | <u>(608)</u>             |
| Loss before minority interest                             |  |  |                   | <u>(17,147)</u>          |

*For the six months ended 31st December, 2002*

|   | Continuing operations  |   | Discontinuing operations  |  | Consolidated<br>HK\$'000 |
|---|--|---|---|--|--------------------------|
|   | Provision of<br>financial<br>information<br>services<br>HK\$'000 | Provision of<br>credit card<br>security<br>device and<br>digital network<br>authorisation<br>services<br>HK\$'000 | Manufacturing<br>and sales of<br>electronic<br>products<br>HK\$'000 | Sales of<br>health<br>products<br>HK\$'000 |                          |
| TURNOVER  | <u>1,668</u>   | <u>123</u>  | <u>5,294</u>  | <u>130</u>                                 | <u>7,215</u>             |
| SEGMENT RESULT  | <u>(276)</u>   | <u>(3,023)</u>  | <u>(3,990)</u>  | <u>(100)</u>                               | (7,389)                  |
| Unallocated corporate<br>expenses                         |  |   |   |  | (11,763)                 |
| Impairment losses<br>recognised in respect<br>of goodwill |  |   | (11,000)  |  | <u>(11,000)</u>          |
| Loss from operations                                      |  |   |   |  | (30,152)                 |
| Loss on disposal of<br>subsidiaries                       |  |   |   | (4,929)                                    | (4,929)                  |
| Finance costs   |  |   |   |  | <u>(145)</u>             |
| Loss before minority interest                             |  |   |   |  | <u>(35,226)</u>          |



#### 4. TAXATION

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

The charge for the six months ended 31st December, 2003 can be reconciled to the loss per the income statement as follows:

|   | Six months ended 31st December,<br>2003 |             | 2002            |            |
|---|---|-------------|-----------------|------------|
|   | HK\$'000                                | %           | HK\$'000        | %          |
| Loss before minority interest                               | <u>(17,147)</u>                         |             | <u>(35,226)</u> |            |
| Tax at the domestic income tax rate<br>of 17.5% (2002: 16%) | (3,001)                                 | (17.5)      | (5,636)         | (16.0)     |
| Tax effect of expenses not deductible<br>for tax purpose    | 861                                     | 5.0         | 2,549           | 7.2        |
| Tax effect of tax losses not recognized                     | <u>2,140</u>                            | <u>12.5</u> | <u>3,087</u>    | <u>8.8</u> |
| Tax effect and effective tax rate<br>for the period         | <u>-</u>                                | <u>-</u>    | <u>-</u>        | <u>-</u>   |

At 31st December, 2003, the Group has unused tax losses of HK\$326,600,000 (30th June, 2003: HK\$314,371,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

There was no other significant unprovided deferred taxation for the period or at the balance sheet date.

#### 5. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$17,147,000 (six months ended 31st December, 2002: HK\$34,527,000) and on the weighted average number of 6,022,189,882 (six months ended 31st December, 2002: weighted average number of 5,132,616,774) shares in issue.

No diluted loss per share for the six months ended 31st December 2003 and 31st December, 2002 has been presented as the exercise of the share options and the conversion of convertible notes would result in a decrease in the loss per share for both periods.

#### 6. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of approximately HK\$1,037,000 (2002: HK\$1,392,000) was charged in respect of the Group's property, plant and equipment.

One of the Group's investment properties was disposed of to an independent third party resulting in a gain on disposal of approximately HK\$591,000 and the remaining investment property was revalued by an independent firm of professional property valuers at 30th June, 2003. The directors considered that there was no material change in the market value of the investment property since last balance sheet date.

#### 7. INTEREST IN AN ASSOCIATE

|  | 31.12.2003<br>(unaudited)<br>HK\$'000 | 30.6.2003<br>(audited)<br>HK\$'000 |
|--|---------------------------------------|------------------------------------|
| Share of net assets  | -                                     | -                                  |
| Premium on acquisition of an associate                       | 30,000                                | 30,000                             |
| Less: Amortisation of premium on acquisition of an associate | <u>(3,000)</u>                        | <u>(1,500)</u>                     |
|  | <u>27,000</u>                         | <u>28,500</u>                      |

The Group has 30% equity interest in Ming Yuen Assets Limited ("Ming Yuen"), a private company incorporated in the British Virgin Islands and engaged in holding and licensing the intellectual property rights in respect of a credit card security system.

## 8. INVESTMENTS IN SECURITIES

For the year end 30th June, 2003, the Group entered into an agreement with a third party to invest in a company which is engaged in telecommunication business. Following an assessment of its business prospects by the directors for the period, an impairment of HK\$3,420,000 was made during the period. The remaining item was disposed of at cost during the period.

## 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:

|   | <b>31.12.2003</b><br><b>(unaudited)</b><br><b>HK\$'000</b> | 30.6.2003<br>(audited)<br>HK\$'000 |
|---|--|------------------------------------|
| 0 – 60 days                             | 133  | 94                                 |
| 61 – 90 days                            | 25   | –                                  |
| Over 90 days                            | 32   | 7                                  |
|   | <hr/>  | <hr/>                              |
|   | 190  | 101                                |
| Other debtors, deposits and prepayments | 1,193  | 1,281                              |
|   | <hr/>  | <hr/>                              |
|   | <b>1,383</b>   | <b>1,382</b>                       |
|   | <hr/> <hr/>  | <hr/> <hr/>                        |

## 10. CREDITORS AND ACCRUED CHARGES

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

|                 | <b>31.12.2003</b><br><b>(unaudited)</b><br><b>HK\$'000</b> | 30.6.2003<br>(audited)<br>HK\$'000 |
|-----------------|--|------------------------------------|
| 0 – 60 days     | 378  | 378                                |
| 61 – 90 days    | 23   | –                                  |
| Over 90 days    | 42   | 1,357                              |
|                 | <hr/>  | <hr/>                              |
|                 | 443  | 1,735                              |
| Accrued charges | 4,891  | 4,597                              |
|                 | <hr/>  | <hr/>                              |
|                 | <b>5,334</b>   | <b>6,332</b>                       |
|                 | <hr/> <hr/>  | <hr/> <hr/>                        |

## 11. CONVERTIBLE NOTES

The Company issued a convertible note in the amount of HK\$10,000,000 to Ming Sang Finance Ltd. The convertible note bears interest at 3% plus the prime lending rate on the business day immediately before any date of interest payment quoted by the Hongkong and Shanghai Banking Corporation Limited per annum and is redeemable on 20th December, 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, subject to adjustment, at any time during the period from 20th June, 2003 to 20th December, 2004.

The entire amount of the convertible note has been converted into 150,000,000 shares and 683,332,000 shares of HK\$0.01 each at a price of HK\$0.012 on 10th October, 2003 and 15th October, 2003 respectively.

The Company issued a convertible note in the amount of HK\$13,800,000 to Gain Master Assets Ltd. 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 3%; and (ii) 2% per annum and is redeemable on 16th July, 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, subject to adjustment, at any time during the period from 16th July, 2001 to 16th July, 2004.

Convertible note of HK\$1,200,000 has been converted into 80,000,000 shares of HK\$0.01 each at a price of HK\$0.015 on 22nd October, 2003. The title of the note with outstanding balance of HK\$12,600,000 was transferred to Mr. Yim Sang during the period.

## 12. PROMISSORY NOTE

Promissory note bears interest at 2% per annum and is payable to an associate, Ming Yuen. The date of maturity of the promissory note is 17th September, 2004.

## 13. SHARE CAPITAL

|  | <b>Number of<br/>shares</b> | <b>Value<br/>HK\$'000</b> |
|--|-----------------------------|---------------------------|
| Ordinary shares of HK\$0.01 each           |                             |                           |
| Issued and fully paid:                     |                             |                           |
| At 30th June, 2003                         | <b>5,409,468,165</b>        | 54,094                    |
| Issue of new shares at HK\$0.016 per share | <b>600,000,000</b>          | 6,000                     |
| Exercise of share options                  | <b>164,300,000</b>          | 1,643                     |
| Conversion of convertible bonds            | <b>913,332,000</b>          | 9,134                     |
|  | <hr/>                       | <hr/>                     |
| At 31st December, 2003                     | <b><u>7,087,100,165</u></b> | <b><u>70,871</u></b>      |

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

## 14. POST BALANCE SHEET EVENTS

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

- (a) On 21st February, 2004 and 22nd February, 2004 the Company entered into a total of three placing agreements, pursuant to which the Company agreed to issue a total of 1,400,000,000 placing shares at a price of HK\$0.018 each to three independent third parties. The above placing was completed before the date of these interim financial statements.
- (b) On 25th February, 2004, Mr. Yim Sang, the convertible note holder, converted the entire amount of the convertible note of HK\$12,600,000 into 750,000,000 new ordinary shares at HK\$0.0168 each.
- (c) On 19th March, 2004, BFIL has increased the stake in the Company of 20 million shares at an average price of HK\$0.088 through the market.

## INDEPENDENT REVIEW REPORT

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## TO THE BOARD OF DIRECTORS OF CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LIMITED

### INTRODUCTION

We have been instructed by the Company to review the interim financial report.

### 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 No. 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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" ("SAS 700") issued by the Hong Kong Society of Accountants, except that the scope of our review was limited as explained below.

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.

The scope of our review was limited as evidence available to us was limited as set out below.

The Group's interest in an associate represents a 30% interest in Ming Yuen Assets Limited ("Ming Yuen") stated at a carrying value of HK\$27,000,000. However, we were unable to obtain sufficient evidence to assess whether any impairment loss is required to be recognised in respect of the goodwill arising on acquisition of Ming Yuen. Accordingly, we were unable to satisfy ourselves that the Group's interest in Ming Yuen was fairly stated.

Any adjustments to the interests in associates would have a consequential effect as appropriate on the net liabilities of the Group as at 31st December, 2003 and on the net loss of the Group for the period then ended.

### INABILITY TO REACH A REVIEW CONCLUSION

Because of the significance of the possible effect of the limitations in evidence available to us, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 31st December, 2003.

**DELOITTE TOUCHE TOHMATSU**  
*Certified Public Accountants*

Hong Kong, 29th March, 2004

## MANAGEMENT DISCUSSION & ANALYSIS

### Results

For the last six months ended December 2003, turnover of the Group for the period under review was HK\$1.5 million compared to HK\$7.2 million in 2002. It was a decrease of approximately 79.20% from last year. The Group has resulted a gross loss of HK\$0.67 million from our core businesses compared to gross profit of HK\$1.63 million last year. Loss from operations is reduced by nearly 50.12% to HK\$15.04 million this year from HK\$30.15 million last year. Loss attributable to shareholders is HK\$17.14 million compared to loss of HK\$34.53 million in year 2002 representing a decrease of almost 50.36%. Consequently loss per share for the current period was HK\$0.28 cents per share compare to loss of HK\$0.67 cents per share for the period ended December 2002.

### BUSINESS REVIEW

Before the start of this financial year, the Group has divested businesses that were either reporting loss or being stalemated for some time. Consequently, turnover of the group reduced by 79.20% to HK\$1.5 million comparing to the HK\$7.2 million turnover same period last year. The decrease in sales was mainly attributable to the postponement of DNA service by two of our partner banks due to longer than expected system implementation. Such delay is caused by partner banks' enthusiasm of expanding DNA security service to cover all other major electronic banking systems on top of the originally planned bankcard services. Consequently, DNA service subscription rate fell far short of our expectation though expanded service scope shall benefit the company in the long term. Over the period under review, loss attributable to the DNA services in the mainland China was reported at HK\$4.4 million with subscription of approximately 130,000 members. The result though not satisfactory the board believes more proactive sales and marketing strategies to be adopted in the first two quarters in 2004 shall improve DNA service subscription rate substantially. Winfcs which provides on-line and instant financial and share market information has reported a net profit of HK\$0.42 million. The management believes that with the improved sentiment in the currency and securities trading and under the prediction of growth in GDP by more than 3% this year, the performance of Winfcs will improve overtime. The administrative expenses dropped from HK\$20.0 million last year to HK\$11.8 million this half year representing a decrease of approximately 41% as a result of management's determination and effort to trim down expenditures and further rationalize operation to maximize operational efficiency of the Group. As at the end of December, 2003, the Group has approximately 50 staff inclusive of directors and salary paid employees. We have adopted the industry average staff compensation approach to ensure our competitiveness in attracting new talents to join the Company and retaining those loyal and competent staff to stay competitive

Even though the Group has a net liabilities of HK\$3.8 million as at 31st December, 2003, there is no immediate threat of liquidity from creditors since the Group has no bank loans nor creditors of large overdue. Also there is no asset of the Group being charged. Since the Group has a net liabilities of HK\$3.8 million, gearing ratio is meaningless to be considered. Nevertheless due to some share replacement took place in February, 2004 as mentioned in Business Outlook below with cash injection of approximately HK\$25.2 million, the Group has turned to a net asset positions by then. Similar to last period, the Company has HK\$12.6 million Convertible Bond which however was converted to shares on 25th February, 2004 and HK\$26.0 million loan from an associate with maturity of 30th September, 2004. Cash balance was HK\$5.7 million which mainly is denominated in Hong Kong dollars. The Company was not exposed to any material exchange rate fluctuation during the period.

### BUSINESS OUTLOOK

For the last six months ended 31st December, 2003 the Group was still under a very difficult time and was striving to get more banks in both China and Hong Kong to offer DNA security services to their customers to safeguard security in electronic banking transactions and urging those partner banks to promote DNA services to their customers. Further acceptance of DNA services by the banks in Hong Kong and China are facing an uphill battle. A more proactive and aggressive approach to recruit partner banks and promoting DNA services subscription are imperative.

Supplemental to our core DNA security solution to electronic banking systems , an electronic payment system called DNAPAY has been developed which is ready to be deployed jointly with our partner banks. DNAPAY is an electronic payment collection system enabling participating merchants to securely collecting payment electronically not only for face-to-face sales at stores but also at emerging channels like catalogue, television, telephone, outdoor kiosk, delivery and on the internet. This one stop electronic payment collection system is the first of its kind. It shall improve operational efficiency for both merchants and banks. With introduction of DNAPAY, DNA subscribers shall enjoy extra convenience in electronic payment which can unlikely be matched by any other electronic payment systems and it helps to promote DNA service subscription.

Our unique one stop security solution (DNA) for all electronic banking operations and electronic payment collection systems (DNAPAY) meeting up with the expectation of bankers and merchants alike in China to improve their operational efficiency to stay competitive in the market place have received a lot of praise so far. Consequently, the Company has on 24th February, 2004 successfully introduced three strategic investors to the Company by placing 1.4 billion shares in total amount of HK\$25.2 million. One of the investors, the Hong Kong Beijing Finance and Investment Limited (“BFIL”) wholly owned by The Capital Group (“TCG”) becomes the second largest shareholder of the Company. Upon completion of the share placing BFIL will appoint a director to the board of the Company. TCG is one of the largest enterprises in Beijing and maintains a very good relationship with financial institutions including the four major banks in China. With this excellent business relationship, the Company is hopeful that TCG can assist to expand the DNA and DNAPAY business in China and in other Asian countries. Initial meeting with the management of BFIL has taken place and it was agreed that both TCG and BFIL shall try their best to assist the Company to expand DNA products into major banks in China.

#### **DIRECTORS’ INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY**

As at 31st December, 2003, the interests and short positions of the directors of the Company and their associates in the shares and underlying shares of the Company, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as notified to the Company were as follows:

|                | Personal Interests | Family Interests | Corporate Interests              | Other Interests | Total Interests | Total Interests as % of the issued share capital | Underlying shares (share options) | Total Interests (including underlying shares) as % of the issued share capital |
|----------------|--------------------|------------------|----------------------------------|-----------------|-----------------|--|-----------------------------------|--|
| Wong Kam Fu    | 19,000,000         | -                | 1,683,991,543<br><i>(Note 1)</i> | -               | 1,702,991,543   | 24.03  | 110,000,000<br><i>(Note 2)</i>    | 25.58  |
| Wong Hoi Keung | 15,000,000         | -                | -                                | -               | 15,000,000      | 0.21   | 130,000,000<br><i>(Note 2)</i>    | 2.05   |
| Lew Mon Hung   | -                  | -                | -                                | -               | -               | -  | 10,000,000<br><i>(Note 2)</i>     | 0.14   |
| Wang Zhao Bin  | -                  | -                | -                                | -               | -               | -  | 52,000,000<br><i>(Note 2)</i>     | 0.734  |

*Notes:*

1. 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.
2. These Share Options were granted under the Share Option Scheme adopted by the Company on 11th April, 1994 and modified on 14th July, 2001. These Share Options are exercisable during the period from 30th October, 2002 to 3rd November, 2004 respectively with exercise prices of between HK\$0.0127 to HK\$0.0386 per share.

Other than as disclosed above, none of the directors or their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporation within the meaning of Part XV of the SFO which were required to be notified to the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required to be entered in the register under section 352 of the SFO.

**INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS OTHER THAN THE DIRECTORS AND THEIR ASSOCIATE**

As at 31st December, 2003, the following parties, other than the Directors and their associate as disclosed in the above section, held an interest in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

| <b>Name of shareholders</b>                       | <b>Corporate Interest</b> | <b>Total Interest</b> | <b>Total Interests as % of issued share capital</b> |
|---|---------------------------|-----------------------|---|
| Win Channel Investments Limited ( <i>Note 1</i> ) | 1,993,192,348             | 1,993,192,348         | 28.12   |

*Note 1:*

The entire share capital of Win Channel Investments Limited was held by Mr. Chim Pui Chung.

Save as disclosed herein, as at 31 December, 2003, the Company had not been notified by any other person (other than the Directors and their associate) who had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

## SHARE OPTION SCHEME

Share options are granted to the Directors, executives and employees under the Share Option Scheme of the company adopted on 10th April, 1994 and modified on 27th July, 2001 (the “Scheme”).

The following shows the particulars of the share options of the Company granted to the Directors, executives and employees of the Company that are required to be disclosed pursuant to Rule 17.07 of Chapter 17 and sub-paragraph 13(1) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) during the period:

|                      | Exercisable period      | Exercise price | Outstanding as at 1.07.2003 | Granted during the period | Exercise during the period | Cancelled during the period | Outstanding at 31. 12.2003 |
|----------------------|-------------------------|----------------|-----------------------------|---------------------------|----------------------------|-----------------------------|----------------------------|
| Wong Kam Fu          | 30.10.2002 – 29.10.2004 | 0.0386         | 100,000,000                 | nil                       | nil                        | nil                         | 100,000,000                |
|                      | 28.11.2003 – 27.11.2005 | 0.0127         | nil                         | 10,000,000                | nil                        | nil                         | 10,000,000                 |
|                      | 18.11.2001 – 17.11.2003 | 0.4            | 3,018,750                   | nil                       | nil                        | 3,018,750                   | nil                        |
| Wong Hoi Keung       | 30.10.2002 – 29.10.2004 | 0.0386         | 100,000,000                 | nil                       | nil                        | nil                         | 100,000,000                |
|                      | 7.5.2003 – 6.5.2005     | 0.0135         | 22,000,000                  | nil                       | 22,000,000                 | nil                         | nil                        |
|                      | 28.11.2003 – 27.11.2005 | 0.0127         | nil                         | 30,000,000                | nil                        | nil                         | 30,000,000                 |
| Wang Zhao Bin        | 30.10.2002 – 29.10.2004 | 0.0386         | 52,000,000                  | nil                       | nil                        | nil                         | 52,000,000                 |
|                      | 2.11.2002 – 1.11.2004   | 0.0366         | 30,000,000                  | nil                       | nil                        | nil                         | 30,000,000                 |
| Lew Mon Hung         | 30.10.2002 – 29.10.2004 | 0.0386         | 10,000,000                  | nil                       | nil                        | nil                         | 10,000,000                 |
| Total for directors  |                         |                | 317,018,750                 | 40,000,000                | 22,000,000                 | 3,018,750                   | 332,000,000                |
| Employees            | 18.11.2001 – 17.11.2003 | 0.4            | 2,500,000                   | nil                       | nil                        | 2,500,000                   | nil                        |
|                      | 2.8.2001 – 1.8.2004     | 0.4            | 256,250                     | nil                       | nil                        | nil                         | 256,250                    |
|                      | 1.9.2001 – 31.8.2004    | 0.4            | 100,000                     | nil                       | nil                        | nil                         | 100,000                    |
|                      | 30.10.2002 – 29.10.2004 | 0.0386         | 13,500,000                  | nil                       | nil                        | nil                         | 13,500,000                 |
|                      | 7.5.2003 – 6.5.2005     | 0.0135         | 11,800,000                  | nil                       | 6,800,000                  | nil                         | 5,000,000                  |
|                      | 14.07.2003 – 13.07.2005 | 0.0156         | nil                         | 103,000,000               | 73,000,000                 | nil                         | 30,000,000                 |
|                      | 28.11.2003 – 27.11.2005 | 0.0127         | nil                         | 84,000,000                | 62,500,000                 | nil                         | 21,500,000                 |
| Total for employee   |                         |                | 28,156,250                  | 187,000,000               | 142,300,000                | 2,500,000                   | 70,356,250                 |
| Total for the Scheme |                         |                | 345,175,000                 | 227,000,000               | 164,300,000                | 5,518,750                   | 402,356,250                |



## **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 31st December, 2003.

## **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 31st December, 2003 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 31st December, 2003.

On behalf of the Board  
**Wong Kam Fu**  
*Chairman*

Hong Kong, 29th March, 2004