

# Management Discussion and Analysis

## FINANCIAL RESULTS

Turnover of the Group for the year ended 30th June, 2004 was HK\$3.3 million compared to HK\$11.2 million in the same period of 2003. It was a decrease of approximately 70.5% under comparison from last year. Loss from operation is reduced by nearly 29.4% to HK\$32.2 million this year from HK\$45.6 million last year. Loss attributable to shareholders is HK\$35.7 million compared to loss of HK\$59.6 million in year 2003 representing a decrease of 40.1%. Consequently loss per share for the current year was HK0.48 cents per share compare to loss of HK1.16 cents per share for the year ended 30th June, 2003.

With the continued effective cost control, the administrative expenses dropped from HK\$34.3 million last year to HK\$28.0 million this year representing a decrease of approximately 18%. Under the management's determination and effort to trim down expenditures, the Group will further rationalize operation to maximize operational efficiency. As at 30th June, 2004, the Group employed 59 staff inclusive of directors. We have adopted the industry average staff compensation approach to ensure our competitiveness in attracting new talents to join the Company and competent staff to stay competitive.

## BUSINESS REVIEW

### The Group

During the financial year, the Group has divested businesses that were either reporting loss or being stalemated for some time. As a result, the turnover of the Group reduced by 70.5% to HK\$3.3 million this year from HK\$11.2 million in 2003. The decrease in turnover was mainly caused by the discontinued businesses in one hand and DNA business's revenue contribution was lagging behind on the other.

In May 2004 the Company has successfully acquired the remaining 70% ownership of Ming Yuen Assets Limited which owns the DNA and DNAPAY patent.

## DNA Security business

### Service subscription

During the year under review, operation of DNA service in China and Hong Kong incurred an operating loss of HK\$2.9 million. The subscription rate for the three banks already installed DNA system felt short of expectation due to the following reasons:

- (1) The postponement of launching DNA services by one of the banks due to delay of their system centralization process where DNA service is expected to be launched by the end of 2004.
- (2) Marketing effort was affected by SARS for two existing partner banks
- (3) Prolonged installation of DNA to cover more e-banking systems in one of the banks delayed the service launch from December 2003 to first quarter of 2004.

The result though not satisfactory but the management believed that via more proactive sales and marketing strategies to be adopted in 2004/2005 jointly with partner banks, we expect DNA service subscription rate shall improve substantially in 2005.

### Marketing

The adverse effect of SARS on our marketing effort for new users was obvious. The deregulation of Chinese RMB business in Hong Kong have drawn all the bank's resources for new business development while the banks in China were focused in upgrading the banking system to meet the challenge of market being opened in 2006, the temporary slower demand of security enhancement solution like DNA was unavoidable. As result, we were not managed to sign up new user during the period. However, most of the negotiation with prospective customers has resumed with positive feedback in second quarter of 2004.

# Management Discussion and Analysis (continued)

## **BUSINESS REVIEW** (continued)

### **DNAPAY: Platform of E-commerce and E-payment business**

The development of said platform has been completed to capture the fast growing business opportunities for on-line sales in particular for sales of services and payment gateway in Hong Kong and China.

This is a system enabling participating merchants to securely collect payment electronically for sales at a virtual store such as sales through the e-trading, television, mailing order, telephone or outdoor kiosk, recharging their prepaid payment instrument and post-paid bills. This one stop electronic payment collection system is the first of its kind.

In addition, the platform enabling us to distribute products mainly services to our members or members of our associated institutions including banks, prepaid card and SIM card issuers. The revenue in this regard could be substantial.

An agreement has been signed with Beijing Municipal Administration and Communications Card Co. Ltd. to form a joint venture company to build and operate an e-payment platform to serve the Beijing Superpass cardholders in the second quarter of 2004.

It is planned to deploy our second DNAPAY platform in Shenzhen jointly with Shenzhen Development bank serving all their DNA subscribers nationwide in the first quarter of 2005.

The two platforms will be linked to maximize our business opportunities via enlarged client and merchant base. It is planned to establish more platforms of this nature to capitalize on the era of e-commerce.

## **Internet Financial Information**

Winfcs which provides on-line and instant financial and share information has reported a gross profit of HK\$0.2 million for 12 months to June 2004. The management believed that with the improved sentiment in the currency and securities trading in the open market and under the growing real GDP, the performance of Winfcs shall improve considerably in 2004.

## **Net Asset Value**

As at 30th June, 2004, the Group's total net asset amounted to HK\$79.0 million comparing to net deficit of HK\$9.8 million at 30th June, 2003, an increase of HK\$88.8 million. It was mainly due to the raising of HK\$47.5 million from the placing of 2.0 billion new shares and the exercise of share option of 0.5 billion new shares for the year. The proceeds have been used for sales, marketing, implementation and maintenance of DNA products and the research and development of DNAPAY products as well as working capital of the Group. In addition, HK\$76.9 million was made from the conversion of convertible notes of approximately 2.3 billion new shares during the year. Other than the convertible notes of HK\$15.9 million which bears interest at 2% per annum, there were no other material contingent liabilities and no bank loan for the Group as at 30th June, 2004. Also there was no asset of the Group being charged nor pledged.

## Management Discussion and Analysis (continued)

### BUSINESS OUTLOOK

The Group believes that the above-mentioned unfavorable market conditions for our products shall turn into the driving force for DNA e-banking security system to penetrate the markets both in Hong Kong and China in the year to come.

The fast growing economy of China as evidenced from the tremendous growth in GDP from about RMB3.5 trillion in 1993 to about RMB11.7 trillion in 2003 is generally represented by the upward trend of purchasing power of the population. As a result, the consumers are more willing to spend and looking forward for a more convenient and secured on-line shopping and e-payment platform so that they can do their shopping round the clock. DNAPAY was developed for this purpose. It is anticipated that DNAPAY shall strengthen the Group's income base in the near future.

In addition, the Group raised further HK\$22.3 million from the placing of 400,000,000 new shares on 27th September, 2004. The net proceeds will be used for the research and development including functional enhancement for both DNA and DNAPAY, sales and marketing expenditure as well as working capital for the Group.

During the financial year, the management has been actively developing and exploring business opportunities in China and Hong Kong though without great immediate return, We do believed a solid foundation has been formed and all these efforts shall pay-off in the years to come.