

## RESULTS

Turnover of the Group for the year ended 30th June 2005 was HK\$3.33 million compared to HK\$3.27 million in the same period of 2004, representing an increase of 1.8%. Gross loss from operation was HK\$0.02 million compared to HK\$1.00 million in the same period of 2004, representing a decrease of 98.0%. Loss for the year (excluding interest, taxation, depreciation, impairment loss or amortization of intangible asset) was HK\$30.09 million compared to HK\$32.13 million in the same period of 2004, representing a decrease of 6.3%. Loss attributable to shareholders was HK\$71.41 million compared to HK\$35.71 million, representing an increase of approximately 100%. The enlarged loss was mainly due to the impairment loss recognised in respect of the intangible asset – patents and technology amounting to HK\$38.28 million, the loss arising from the adoption of the new HKFRS and the additional operating expenses incurred due to establishment of a sales office in Beijing. Loss per share for the current year was HK0.67 cents compared to HK0.48 cents for the corresponding period in 2004, representing an increase of approximately 39.6%.

## BUSINESS REVIEW

e-banking and e-business continued to report a strong growth in China and Hong Kong. However, banks in both China and Hong Kong were prioritizing their resources in competing for higher market share in this regard and leaving little effort in enhancing the security of their systems at this stage, though understood to be mandatory in the immediate future. As a result, we were not able to sign up more user banks during the period despite the fact that strong interests of our products have been shown from prospective user banks.

Our product range has been expanded to include front-end e-business applications for commercial as well as the banking sector. With the introduction of our present web-based electronic payment platform and newly developed web based e-business development tools for business entities, we are now able to provide banks and their corporate customers with one-stop total solution for their e-business development. This expansion of our business scope will warrant our competitiveness in the market place and diversify our revenue opportunities into e-commerce and benefit from the e-commerce boom.

Despite the huge extension in business coverage and adoption of a more competitive human resources policy to attract new talents to join the Group and retaining those loyal and competent staff, we still managed to control our operational cost at a reasonable level. The total number of staff under the Group's employment did not increase comparably and maintained at 63 (including executive directors) as at 30th June 2005.

### DNA security business

Banks in PRC continued to focus their effort in preparing for the competition upon the opening up of the banking industry to foreign participation at the end of 2006. In response, they were occupied in operational restructuring, personnel adjustment, system upgrade for core business in improving operation efficiency and new capital injection. Our sales, therefore, remained stagnant due to these unfavorable market conditions. Meanwhile, banks in Hong Kong and Macau focused their effort in capturing business opportunities arising from CEPA and RMB business, the demand for back-end security products for e-banking was also adversely affected. As a result, we were not able to sign up new user bank during the year.

## Management Discussion & Analysis

Credit Card DNA Security System (Holdings) Ltd. • Annual Report 2005

DNA service recorded a loss of HK\$8.30 million compared to HK\$8.86 million in the same period of 2004, representing a decrease of 6.3%. The loss for the year was mainly due to the expenses incurred in establishing a Beijing office, operating expenses of Shenzhen office and more active marketing and sales activities.

Amongst the three partner banks that had implemented DNA system, two partner banks already launched DNA service. The number of subscribers though fell short of our expectation was growing steadily.

The remaining one partner bank has delayed the launch of DNA service to synchronize with the completion date of their project in centralizing their data processing operation in their centralized computer system. The Group and the management of its subsidiaries in the China have been working very closely with the partner banks in promoting DNA service. It is expected that the number of subscribers will reach a reasonable level in 2006.

### *DNAPAY-a web based e-payment platform*

DNAPAY platform allows retailers/merchants to collect payments electronically from purchasers' bank cards/accounts or any prepaid financial instruments at all sales channels via [www.stareps.com](http://www.stareps.com). These sales channels include Internet-shops, television shopping channels, telephone and mail orders, collectively known as virtual channels and at the traditional retail shops.

It is anticipated that the DNAPAY platform, jointly offered with Shenzhen Development bank in China, is to be operational in before the end of 2005. DNAPAY will offer the bank's cardholder and merchant a brand new innovative e-payment/e-payment collection service. It is anticipated that DNAPAY will be well received by users due to its fraud prevention capability and user-friendliness. As we are entitled to share the payment settlement commission chargeable to merchants from our partner banks, it is expected that DNAPAY will contribute significant commission revenue to the Group when capitalizing on the fast growing e-commerce business in China and Hong Kong in the near future.

In addition, [www.stareps.com](http://www.stareps.com) started offering e-business development tools, which include building of web site; on-line inventory control; member loyalty program; SMS/MMS/Email communication gateway and issuance/redemption facilities, to merchants in setting up their own electronic operation at minimal cost. This paid service will not only able to broaden our revenue base but also enabling Shenzhen Development bank to recruit more merchants to use DNAPAY service.

Furthermore, the electronic payment platform, EPAY, which is developed by Beijing Superpass e-payment Co. Ltd., a jointly controlled entity formed between the Group and Beijing Municipal Administration & Communications Card Co. Ltd., (BMACC) is due operational in November 2005 in Beijing. Apart from being an e-payment platform, EPAY has been trying to expand its business scope to electronic ticketing services using IC card issued by BMACC. It could be used electronically as an access identification device or ticket claiming identification at events venues to prevent forgery tickets. We are exploring the possibility of using the system for Olympic ticket issuance and access control in 2008.

It is anticipated that there will be no further capital injection into the jointly controlled entity in the near future.

## Member services

With the anticipated fast growing DNA users in China for both individuals and merchants, a member club has been formed to offer registered club members a wide range of benefits in Hong Kong, Macau and China as part of our DNA subscription campaign at banks. This club is operating under a company, DNA Club Ltd. (to be renamed as Supreme Zone Limited). It is planned to offer to our business partners an access to our members at a nominal fee to cover our operating expenses at the early stage. When our memberships grow to a target level, we will offer more paid services to our members and business partners alike and turn the club into a revenue generating business unit.

## Financial information service (WINFCS)

For the year ended 30th June 2005, WINFCS, an on-line and instant financial information services providing real time Hong Kong stock quotation and financial news; commentaries and information of Hong Kong listed companies to the professional and individual investors in Hong Kong & China, reported a gross profit of HK\$192,000.

It is believed that the subscribers base of WINFCS will be increased due to the improved investment market conditions in Hong Kong and new services features to be launched before end of this year to make WINFCS more competitive in the market place.

## Net asset value

As at 30th June 2005, the Group's total net asset amounted to HK\$42.07 million, represented a decrease of HK\$41.30 million comparing to last year ended 30th June 2004. The significant reduction in asset value was attributable to the impairment loss of intangible asset amounting to HK\$38.28 million plus the HK\$2.45 million loss arising from the adoption of new HKFRS.

Based on the total number of 10,820,340,165 ordinary shares issued as at 30th June 2005, net asset value per share was HK0.39 cents, a decrease of 51.9% comparing with HK0.81 cents per share as at 30th June 2004.

## Liquidity and financing

The Group's bank balance and cash decreased by HK\$1.41 million to HK\$11.23 million as at 30th June 2005. The decrease was represented by cash inflow of HK\$28.99 million from placement of new shares and exercise of share option minus HK\$28.08 million being used for operating activities and HK\$1.17 million used as cash advanced and paid up capital for our 50% interest in a jointly controlled entity, Beijing Superpass e-payment Co Ltd".

Other than the convertible note in the face value of HK\$15.9 million which bear interest at 2% per annum, there were no other material contingent liabilities and no bank loan for the Group as at 30th June 2005. Also there was no asset of the Group being charged nor pledged.

On 22nd September 2005, a net proceeds of HK\$127 million was raised via placing of 2.12 billion of new ordinary shares. It is planned that HK\$62 million will be used as general working capital and products and brand name promotion and balance of HK\$65 million will be reserved for investment purpose.

## BUSINESS OUTLOOK

During the year under review, business result was not satisfactory despite the continued hard work and dedication of our people in exploring and developing business opportunities in China, Hong Kong and Macau. However, business for our full range of products remains promising due to the continued e-banking and e-commerce boom in both Hong Kong and China and implementation of the new business plan as mentioned in our chairman's statement. It is expected that the Group's performance will improve gradually in the years to come.