

Notes to the Financial Statements

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

For the year ended 30th June 2005

1. GENERAL

The Company is incorporated and registered as an exempted company in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (“SEHK”).

The Company acts as an investment holding company. The principal activities of the subsidiaries and a jointly controlled entity are stated in notes (13) and (14) of the notes to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on SEHK. A summary of the significant accounting policies adopted by the Group is set out below.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified for the valuation of intangible asset and financial assets at fair value through profit or loss.

The Group has applied, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January 2005. The Group has early adopted the following new HKFRSs in the preparation of the financial statements for the year ended 30th June 2005:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKAS 1, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 31 and 33 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's consolidated financial statements. The impact of adopting the other HKASs and HKFRSs is disclosed in the following notes.

For the year ended 30th June 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

The results of the subsidiaries and a jointly controlled entity which are acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances have been eliminated on consolidation.

(d) Goodwill

In previous years, goodwill arising on acquisitions prior to 1st January 2001 was held in reserves, and goodwill arising on acquisitions after 1st January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's accumulated losses on 1st July 2004. As a result of the change in accounting policy, the goodwill previously held in reserves of HK\$4,963,000 had been transferred to the Group's accumulated losses on 1st July 2004.

(e) Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in the income statement in the year in which the acquisition takes place. In previous years, negative goodwill arising on acquisition prior to 1st January 2001 was held in reserves, and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised the negative goodwill at 1st July 2004 of HK\$1,700,000 which was previously recorded in reserves with a corresponding decrease to accumulated losses.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Share-based payments

In the current year, the Group has applied HKFRS 2 which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st July 2004. In relation to share options granted before 1st July 2004, the Group has not applied HKFRS 2 to share options granted on or before 7th November 2002 and share options that were granted after 7th November 2002 and had vested before 1st January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November 2002 and had not yet vested on 1st January 2005.

(g) Investments in subsidiaries

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment losses.

(h) Interest in a jointly controlled entity

In the current year, the Group has applied HKAS 31 “Interests in Joint Ventures” which allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to apply the equity method to account for its interest in jointly controlled entity.

The Group’s interest in a jointly controlled entity is stated in the consolidated balance sheet at the Group’s share of net assets under the equity method of accounting, less any impairment losses.

(i) Revenue recognition

(i) *Service income*

Service income is recognised when the services are rendered.

(ii) *Sales of investments in securities*

Sales of investments in securities are recognised when the sales contract becomes unconditional.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

(iii) Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is provided to write off the costs of the property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Land held on long leases	Over the terms of the leases
Land held on medium term leases	2.5% or over the terms of the leases whichever is shorter
Buildings	2.5% or over the terms of the leases whichever is shorter
Leasehold improvement	10% to 50% or over the terms of the leases whichever is shorter
Furniture, fixtures and equipment	20%
Motor vehicle	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Intangible asset

Intangible asset represents the costs of acquisition of patents and technology for the provision of credit card security device and digital network authorisation services.

Prior to 1st July 2004, intangible asset was previously amortised over their estimated lives and stated in the balance sheet at cost less accumulated amortisation and impairment losses. HKAS 38 requires intangible assets to be assessed at the individual asset level as having either finite or indefinite life. A finite-life intangible asset is amortised over its estimated useful life whereas an intangible asset with an indefinite useful life is carried at cost less accumulated impairment losses (if any). Intangible assets with indefinite lives are not subject to amortisation but are tested for impairment annually or more frequently when there are indications of impairment. Upon the early adoption of HKAS 36 and HKAS 38 and changes in accounting policies, the Group reassessed the useful life of previously recognised intangible asset. As a result of this assessment, the acquired patents and technology was classified as indefinite-lived intangible asset in accordance with HKAS 38. This view is supported by an independent professional appraiser, appointed by the Group to assess the useful life of intangible asset in accordance with the requirement of HKAS 38. Under the new accounting policy, intangible asset with an indefinite useful life is stated at their deemed costs at 1st July 2004 and discontinue amortisation.

(l) Investments

Financial instruments

In the current year, the Group has applied HKAS 32 and HKAS 39. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

Convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to accumulated losses).

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(I) Investments (Continued)

Convertible notes (Continued)

This change was adopted by way of an adjustment to the opening balance of the equity component of convertible notes reserve as at 1st July 2004 of HK\$4,340,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Prior to 1st July 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised gains or losses included in the income statement. Held-to-maturity investments are carried at amortised cost less impairment losses. From 1st July 2004 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in the income statement and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st July 2004, the Group classifies and measures its debt and equity securities in accordance with the requirements of HKAS 39. Other investments classified under current assets with carrying amount of HK\$56,000 were redesignated to financial assets at fair value through profit or loss on 1st July 2004. Investment securities classified under non-current assets with no carrying amount due to provision of impairment loss recognised in previous year was redesignated to available-for-sale financial assets on 1st July 2004.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Investments (Continued)

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short-term.

Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the income statement in the year in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the income statement.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Investments under this category are measured at fair value in the balance sheet with fair value changes recognised directly in equity, through the statement of changes in equity. The cumulative gain or loss that was recognised in equity is recognised in profit or loss when an available-for-sale financial asset is derecognised.

(m) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or whenever events or changes in circumstances that the carrying amount may not be recovered. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised immediately in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount, that is the higher of the asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a decline in revaluation.

In respect of assets other than goodwill, impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the circumstances and events leading to the impairment cease to exist. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of impairment loss is credited to the income statement except when the asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation movement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations which are denominated in currencies other than Hong Kong dollars are translated at exchange rates ruling on the balance sheet date. Income and expenses are translated into Hong Kong dollars at the average exchange rates for the year. All exchange differences arising on consolidation are dealt with in reserves and are recognised as income or expenses in the period in which the operation is disposed of.

(o) Retirement benefit scheme

The retirement benefit scheme contributions relating to the mandatory provident fund scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

The amount of contributions payable to pension scheme in jurisdictions other than Hong Kong is charged to the income statement.

(p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted on or before the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(p) Taxation** (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interest in a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(q) Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the accounts of the Group.

HKAS 19 Amendment	Actuarial Gains or Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Interpretation 4	Determining whether an Arrangement contains a Lease
HKFRS-Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

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3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The effects of changes in accounting policies described in note (2) above on the results of the Group for the current and previous years are as follows:

(a) Effects on loss for the year

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
HKFRS 2		
Increase in share option benefits	1,184	–
HKAS 32 and 39		
Increase in interest expenses on convertible note	1,264	–
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Increase in loss for the year	2,448	–

3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES (Continued)

- (b) The cumulative effects of the application of the new HKFRSs on the balance sheet as at 30th June 2004 and 1st July 2004 is summarised as follows:

The Group

	As at 30th June 2004 HK\$'000 (Originally stated)	Adjustments HK\$'000	As at 1st July 2004 HK\$'000 (Restated)
Investments in securities	56	(56)	–
Financial assets at fair value through profit or loss	–	56	56
Other assets	106,482	–	106,482
Total assets	106,538	–	106,538
Current liabilities	3,805	–	3,805
Total assets less current liabilities	102,733	–	102,733
Share capital	102,776	–	102,776
Share premium	274,433	–	274,433
Capital reserve	1,700	(1,700)	–
Equity component of convertible notes reserve	–	4,340	4,340
Goodwill reserve	(4,963)	4,963	–
Accumulated losses	(294,921)	(3,263)	(298,184)
Equity attributable to equity holders of the Company	79,025	4,340	83,365
Non-current liabilities			
Convertible note	15,900	(4,340)	11,560
Deferred taxation	7,808	–	7,808
	23,708	(4,340)	19,368
	102,733	–	102,733

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3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES (Continued)

- (b) The cumulative effects of the application of the new HKFRSs on the balance sheet as at 30th June 2004 and 1st July 2004 is summarised as follows: (Continued)

The Company

	As at 30th June 2004 HK\$'000 (Originally stated)	Adjustment HK\$'000	As at 1st July 2004 HK\$'000 (Restated)
Non-current assets	111,944	–	111,944
Current assets	14,930	–	14,930
Current liabilities	(2,015)	–	(2,015)
Total assets less current liabilities	124,859	–	124,859
Share capital	102,776	–	102,776
Share premium	274,433	–	274,433
Contributed surplus	93,289	–	93,289
Equity component of convertible notes reserve	–	4,340	4,340
Accumulated losses	(391,520)	–	(391,520)
Equity attributable to equity holders of the Company	78,978	4,340	83,318
Non-current liabilities			
Convertible note	15,900	(4,340)	11,560
Other non-current liabilities	29,981	–	29,981
	45,881	(4,340)	41,541
	124,859	–	124,859

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4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for the followings:

	2005	2004
	HK\$'000	HK\$'000
Provision of financial information services	2,309	2,631
Provision of credit card security device and digital network authorisation services	984	580
Others	39	59
	3,332	3,270

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4. TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Business segments

For management purposes, the Group is currently organised into two (2004: two) operating divisions as detailed above. These divisions are the basis on which the Group reports its primary information. An analysis of the Group's turnover and contributions to operating results and segmental assets and liabilities by business segments is as follows:

	Provision of financial information services		Provision of security device and digital network authorisation services		Provision of credit card Others		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External sales	2,309	2,631	984	580	39	59	3,332	3,270
SEGMENT RESULT	(441)	(702)	(8,301)	(8,863)	(88)	(38)	(8,830)	(9,603)
Unallocated corporate expenses							(22,650)	(19,154)
Impairment loss recognised in respect of investment in securities							-	(3,420)
Loss from operations							(31,480)	(32,177)
Finance costs							(1,582)	(854)
Loss on disposal of subsidiaries							-	(10)
Gain/(loss) attributable to investments							15	(2,746)
Share of loss of a jointly controlled entity							(79)	-
Impairment loss recognised in respect of intangible asset							(38,284)	-
Loss before taxation							(71,410)	(35,787)
Taxation							-	74
Loss for the year							(71,410)	(35,713)

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4. TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Provision of financial information services		Provision of credit card security device and digital network authorisation services		Others		Unallocated		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Restated)										
ASSETS										
Segment assets	355	374	54,084	87,939	192	294	-	-	54,631	88,607
Unallocated corporate assets									10,239	17,931
Total assets									64,870	106,538
LIABILITIES										
Segment liabilities	816	1,358	149	384	-	-	-	-	965	1,742
Unallocated corporate liabilities									21,839	21,431
Total liabilities									22,804	23,173
OTHER INFORMATION										
Capital additions	-	10	433	86,893	-	-	474	75	907	86,978
Amortisation and depreciation	97	201	235	1,031	90	90	1,031	1,411	1,453	2,733
Non-cash expenses other than amortisation and depreciation	40	-	38,393	-	-	-	3,136	6,170	41,569	6,170

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4. TURNOVER AND SEGMENT INFORMATION (Continued)

(b) Geographical segments

The Group's operations are located in Hong Kong and the People's Republic of China, other than Hong Kong ("PRC"). The business segment of provision of credit card security device and digital network authorisation services is located in PRC. The remaining segment is located in Hong Kong.

The following provides an analysis of the Group's turnover and contribution to loss from operations by geographical market, irrespective of the origin of the services:

	Turnover		Contribution to loss from operations	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,731	2,924	(27,504)	(29,297)
PRC	601	346	(3,976)	(2,880)
	3,332	3,270	(31,480)	(32,177)

The following is an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	62,220	104,675	731	85
PRC	2,650	1,863	176	196
	64,870	106,538	907	281

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5. LOSS FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Loss from operations has been arrived at after charging/(crediting):		
Staff costs:		
Directors' remuneration	8,310	7,890
Other staff costs	10,688	7,650
Contributions to retirement benefit scheme	265	343
Total staff costs	19,263	15,883
Auditors' remuneration	480	660
Amortisation of intangible asset	–	813
Depreciation	1,453	1,920
Bad debts written off	697	–
Operating lease charges on rented premises	2,412	1,164
Loss on disposal of property, plant and equipment	140	–
Gain on disposal of investment properties	–	(592)
Interest income	(137)	(7)

6. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest expenses on:		
– convertible notes	1,582	400
– promissory note	–	454
Total	1,582	854

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7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Executive Directors:		
Salaries and other benefits (<i>Note (i)</i>)	8,688	13,709
Contributions to retirement benefit scheme	60	37
Discretionary bonus	1,490	1,260
	10,238	15,006
Independent non-executive Directors:		
Fees	70	20
	10,308	15,026

(i) Other benefits include housing allowance and share option benefits exercised.

Share option benefits exercised represents the difference between the market price of the Company's shares upon exercise of share options and the exercise price of share options granted to the directors and employees.

No share option benefits included as the share options granted to the directors were after 7th November 2002 but vested before 1st January 2005.

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7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' remuneration (Continued)

The details of directors' remuneration of every director for the years ended 30th June 2005 and 2004 are set out below:

Name of director	2005						Total HK\$'000
	Non-executive directors' fees HK\$'000	Executive directors' salaries HK\$'000	Contributions to retirement		Share option		
			Discretionary bonus HK\$'000	benefit scheme HK\$'000	Housing allowance HK\$'000	benefits exercised HK\$'000	
Wong Kam Fu	-	4,800	200	12	-	1,940	6,952
Wong Hoi Keung	-	1,440	60	12	147	58	1,717
Lew Mon Hung	-	-	1,220	24	-	-	1,244
Wong Hong Loong	-	300	10	12	-	-	322
Ha Ping (Note 2)	20	-	-	-	-	-	20
Cheng Kong Ming (Notes 1 & 2)	20	-	-	-	-	-	20
Wong Che Man, Eddy (Note 2)	30	-	-	-	-	-	30
Wang Zhao Bin (Note 3)	-	3	-	-	-	-	3
Song Xiao Hai	-	-	-	-	-	-	-
	70	6,543	1,490	60	147	1,998	10,308

Details of share option benefits exercised during the year:

Name of director	Exercise price HK\$	No. of options exercised during the year	Market value per share at exercise date HK\$	Amount HK\$'000
Wong Kam Fu	0.0386	100,000,000	0.058	1,940
Wong Hoi Keung	0.0670	20,000,000	0.069	40
	0.0670	6,000,000	0.070	18
				1,998

Notes:

1. Appointed on 30th September 2004.
2. They are independent non-executive directors.
3. Resigned on 6th July 2004.

Notes to the Financial Statements

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7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' remuneration (Continued)

Name of director	Non-executive directors' fees HK\$'000	Executive directors' salaries HK\$'000	Discretionary bonus HK\$'000	2004	Housing allowance HK\$'000	Share option benefits exercised HK\$'000	Total HK\$'000
				Contributions to retirement benefit scheme HK\$'000			
Wong Kam Fu	-	4,800	-	12	-	83	4,895
Wong Hoi Keung	-	1,440	-	12	88	3,870	5,410
Lew Mon Hung	-	-	1,260	1	-	384	1,645
Wong Hong Loong (Note 1)	-	5	-	-	-	-	5
Ha Ping (Note 2)	20	-	-	-	-	-	20
Cheng Kong Ming (Notes 2 & 3)	-	-	-	-	-	-	-
Wong Che Man, Eddy (Notes 2 & 4)	-	-	-	-	-	-	-
Wang Zhao Bin (Note 5)	-	240	-	12	-	2,799	3,051
Lau Mun Chiu (Notes 2 & 6)	-	-	-	-	-	-	-
Song Xiao Hai (Note 7)	-	-	-	-	-	-	-
	20	6,485	1,260	37	88	7,136	15,026

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)**(a) Directors' remuneration** (Continued)

Details of share option benefits exercised during the year:

Name of director	Exercise price HK\$	No. of options exercised during the year	Market value per share at exercise date HK\$	Amount HK\$'000
Wong Kam Fu	0.0127	10,000,000	0.021	83
Wong Hoi Keung	0.0127	30,000,000	0.061	1,449
	0.0135	7,000,000	0.019	38
	0.0135	15,000,000	0.023	143
	0.0386	100,000,000	0.061	2,240
Lew Mon Hung	0.0386	10,000,000	0.077	384
Wang Zhao Bin	0.0386	52,000,000	0.072	1,737
	0.0366	30,000,000	0.072	1,062
				7,136

Notes:

1. Appointed on 24th June 2004.
2. They are independent non-executive directors.
3. Appointed on 30th October 2003, resigned on 24th June 2004 and re-appointed on 30th September 2004.
4. Appointed on 24th June 2004.
5. Resigned on 6th July 2004.
6. Resigned on 30th October 2003.
7. Appointed on 15th March 2004.

Notes to the Financial Statements

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

For the year ended 30th June 2005

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' remuneration (Continued)

The number of directors whose remuneration falls within the bands set out below is as follows:

	No. of directors	
	2005	2004
Nil to HK\$1,000,000	6	6
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$4,500,001 to HK\$5,000,000	–	1
HK\$5,000,001 to HK\$5,500,000	–	1
HK\$6,500,001 to HK\$7,000,000	1	–

Of the five individuals with the highest emoluments in the Group, three (2004: four) were directors of the Company and details of their remuneration are set out above.

(b) Employees' emoluments

The aggregate emoluments of the remaining two (2004: one) individuals who are employees of the Group are as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Salaries, bonus and other benefits (Note (i))	1,201	866
Share option benefits (Note (ii))	310	–
Contributions to retirement benefit scheme	24	12
	1,535	878

(i) Other benefits include housing allowance and share option benefits exercised.

Share option benefits exercised represents the difference between the market price of the Company's shares upon exercise of share options and the exercise price of share options granted to the directors and employees.

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)**(b) Employees' emoluments** (Continued)

- (ii) Share option benefits represent fair value at grant date of share options issued under new share option scheme in 2004 amortised to the income statement during the year disregarding whether the options have been vested/exercised or not.
- (iii) The emoluments of each of the remaining individuals fall within the emoluments band ranging from Nil to HK\$1,000,000.

Details of share option benefits exercised during the years of 2005 and 2004:

2005

	Exercise price HK\$	No. of options exercised during the year	Market value per share at exercise date HK\$	Amount HK\$'000
Employees	0.06	4,000,000	0.069	36
	0.06	3,990,000	0.068	32
				68

2004

	Exercise price HK\$	No. of options exercised during the year	Market value per share at exercise date HK\$	Amount HK\$'000
Employee	0.0127	2,000,000	0.018	11
	0.0127	3,000,000	0.019	19
	0.0156	2,000,000	0.019	7
	0.0156	1,000,000	0.023	7
	0.0156	10,000,000	0.021	54
	0.0168	10,000,000	0.049	322
	0.0386	3,000,000	0.053	43
				463

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8. GAIN/(LOSS) ATTRIBUTABLE TO INVESTMENTS

	2005 HK\$'000	2004 HK\$'000
Amortisation of premium on acquisition of an associate	–	(2,750)
Gain on disposal of an associate	–	2
Unrealised gain on investments in securities	–	2
Unrealised gain on financial assets at fair value through profit or loss	15	–
	15	(2,746)

9. TAXATION

The tax credit for the year ended 30th June 2004 represents deferred tax credit (Note 24).

No provision for tax in other jurisdictions for both years has been made in the financial statements as neither the Company nor any of its subsidiaries and a jointly controlled entity had any assessable profits subject to tax in other jurisdictions.

For the years ended 30th June 2005 and 2004, no provision for Hong Kong Profits Tax had been made in the financial statements as the Group had no assessable profit.

The tax credit for the years can be reconciled to the loss before taxation per the income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	(71,410)	(35,787)
Tax at Hong Kong Profits Tax rate of 17.5%	(12,497)	(6,263)
Tax effect of expenses not deductible for tax purpose	7,994	1,635
Tax effect of income not taxable for tax purpose	(169)	(129)
Tax effect of tax losses not recognised	4,697	4,393
Tax effect of other deferred tax assets not recognised	(124)	218
Effect of different tax rates of subsidiaries operating in other jurisdictions	99	72
Tax credit for the year	–	(74)

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of HK\$71,410,000 (2004: HK\$35,713,000) and on the weighted average number of 10,648,678,466 (2004: 7,388,561,370) ordinary shares in issue during the year.

No diluted loss per share has been presented for the current year as the exercise of the share options and convertible note would result in a decrease in the loss per share.

11. PROPERTY, PLANT AND EQUIPMENT**The Group**

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book value at					
1st July 2003 (<i>Note i</i>)	1,035	470	3,676	285	5,466
Additions	–	10	271	–	281
Disposals	(680)	–	–	–	(680)
Depreciation	(355)	(167)	(1,320)	(78)	(1,920)
Net book value at					
30th June 2004	–	313	2,627	207	3,147
At 30th June 2004					
Cost	–	1,152	5,134	388	6,674
Accumulated depreciation	–	(839)	(2,507)	(181)	(3,527)
Net book value	–	313	2,627	207	3,147
Net book value at					
1st July 2004	–	313	2,627	207	3,147
Additions	–	221	686	–	907
Disposals	–	–	(140)	–	(140)
Depreciation	–	(101)	(1,274)	(78)	(1,453)
Net book value at					
30th June 2005	–	433	1,899	129	2,461
At 30th June 2005					
Cost	–	587	4,789	388	5,764
Accumulated depreciation	–	(154)	(2,890)	(259)	(3,303)
Net book value	–	433	1,899	129	2,461
(i) The analysis of net book value as at 1st July 2003 was as follows:					
At cost	2,909	1,693	4,968	388	9,958
Accumulated depreciation	(1,874)	(1,223)	(1,292)	(103)	(4,492)
Net book value	1,035	470	3,676	285	5,466

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11. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Furniture, fixtures and equipment <i>HK\$'000</i>
Net book value at 1st July 2003 (<i>Note i</i>)	2,443
Additions	76
Depreciation	(895)
<hr/>	
Net book value at 30th June 2004	1,624
<hr/>	
At 30th June 2004	
Cost	4,505
Accumulated depreciation	(2,881)
<hr/>	
Net book value	1,624
<hr/>	
Net book value at 1st July 2004	1,624
Additions	112
Disposals	(129)
Depreciation	(871)
<hr/>	
Net book value at 30th June 2005	736
<hr/>	
At 30th June 2005	
Cost	4,085
Accumulated depreciation	(3,349)
<hr/>	
Net book value	736
<hr/>	
(i) The analysis of net book value as at 1st July 2003 was as follows:	
At cost	4,429
Accumulated depreciation	(1,986)
<hr/>	
Net book value	2,443
<hr/>	

12. INTANGIBLE ASSET**The Group****Patents and technology**

HK\$'000

COST

At 1st July 2004	86,697
Transfer from accumulated amortisation and impairment loss upon adoption of HKAS 38 (<i>Note (a)</i>)	(813)

At 30th June 2005	85,884
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ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS

At 1st July 2004	813
Transfer to cost upon adoption of HKAS 38 (<i>Note (a)</i>)	(813)
Impairment loss recognised in the income statement (<i>Note (b)</i>)	38,284

At 30th June 2005	38,284
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NET BOOK VALUE

At 30th June 2005	47,600
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At 30th June 2004	85,884
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Notes:

- (a) Upon adoption of HKAS 38, intangible asset is no longer amortised, and the accumulated amortisation of patents and technology as at 1st July 2004 of HK\$813,000 was eliminated against the cost.
- (b) During the year, the directors conducted reviews of the Group's intangible asset with the view supported by the independent professional appraiser and determined that the intangible asset was impaired due to the change in market conditions. Accordingly, impairment losses of approximately HK\$38,284,000 had been recognised for the year ended 30th June 2005.

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13. INTERESTS IN SUBSIDIARIES

	The Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost less provision	108,750	108,750
Amounts due from subsidiaries	107,932	88,726
Less: Impairment loss on amounts due from subsidiaries	(107,932)	(87,156)
	108,750	110,320
Amount due to a subsidiary	(29,859)	(13,981)

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts are unlikely to be repaid within one year from the balance sheet date and are therefore classified as non-current.

Details of the Company's subsidiaries as at 30th June 2005 are as follows:

Name of subsidiary	Place of incorporation and operations	Class of shares/equity held	Issued and fully paid/registered capital	Effective percentage of equity interests/voting rights held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Star Cyberpower V.F. Limited	BVI	Ordinary	US\$1	100	–	Investment holding
Star Cyber DNA Limited	BVI	Ordinary	US\$1	–	100	Investment holding
Star Mobile DNA Payment Gateway Limited	Hong Kong	Ordinary	HK\$2	–	100	Provision of credit card security device and digital network authorisation services
天碼軟件開發(深圳)有限公司	PRC	Registered capital	US\$1,000,000	–	100	Provision of credit card security device and digital network authorisation services
Credit Card DNA Security System (Shenzhen) Limited (Note (i))						digital network authorisation services

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13. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operations	Class of shares/equity held	Issued and fully paid/registered capital	Effective percentage of equity interests/voting rights held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Starstruck Group Limited	BVI	Ordinary	US\$1	-	100	Investment holding
Star Internet Financial Information Services Limited	Hong Kong	Ordinary	HK\$200	-	100	Provision of financial information services
SENDXQ.COM Limited (Note (ii))	Hong Kong	Ordinary	HK\$10,000	-	100	Provision of SMS personalised gateway services
Star Cyberpower Limited	BVI	Ordinary	US\$1	100	-	Investment holding
China Eastern Investments Limited	BVI	Ordinary	US\$1	-	100	Investment holding
Star Cyberpower Management Limited	Hong Kong	Ordinary	HK\$10,000	100	-	Provision of management services
Ming Yuen Assets Limited	BVI	Ordinary	US\$10	100	-	Holding of patents and technology
Star EPS.com Limited	BVI	Ordinary	US\$1	100	-	Investment holding
星光易辦事科技(深圳)有限公司	PRC	Registered capital	US\$150,000	-	100	Provision of e-business solution and e-commerce platform
Star EPS.com (Shenzhen) Limited (Note (i))						

Notes:

- (i) It is a wholly-owned foreign enterprise established in the PRC and the english name is for identification purpose only.
- (ii) The name of the Company was changed to DNA Club Limited on 27th August 2005.

None of the subsidiaries of the Group had any debt securities outstanding at the balance sheet date or at any time during the year.

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14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	856	–
Amount due from a jointly controlled entity	224	–
	1,080	–

Details of the Company's jointly controlled entity as at 30th June 2005 are as follows:

Name of jointly controlled entity	Place of incorporation and operations	Class of equity held	Registered capital	Effective percentage of equity interests/voting rights held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
北京一卡通電子支付 科技有限公司 Beijing Superpass e-payment Co. Ltd. (Note)	PRC	Registered capital	RMB2,000,000	–	50	Provision of electronic payment platform

Note: The english name is for identification purpose only.

Notes to the Financial Statements

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14. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

Extracts of the results and financial position of Beijing Superpass e-payment Co., Ltd. based on the unaudited management accounts as at 30th June 2005, prepared under accounting principles generally accepted in Hong Kong are as follows:

	2005 HK\$'000
Operating results:	
Turnover	-
<hr/>	
Loss for the period	(157)
<hr/>	
Financial positions:	
Non-current assets	10
Current assets	1,943
Current liabilities	(241)
<hr/>	
Net assets attributable to venturers	1,712
<hr/>	

15. 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 ageing analysis:

	The Group	
	2005 HK\$'000	2004 HK\$'000
0-60 days	191	167
61-90 days	53	107
Over 90 days	644	211
<hr/>		
Trade debtors	888	485
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Other debtors, deposits and prepayments	1,541	4,330
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	2,429	4,815
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Notes to the Financial Statements

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

For the year ended 30th June 2005

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Equity securities:		
Unlisted outside Hong Kong	3,420	3,420
Less: Impairment loss recognised	(3,420)	(3,420)
	<hr/>	<hr/>
	-	-

During the year ended 30th June 2004, the Group has recognised impairment loss of the HK\$3,420,000 entire investment in W-Phone, Inc ("W-Phone"). W-Phone was engaged in the manufacturing and providing wireless data software infrastructure products and services of real-time and broadband solution for wireless mobile devices.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Equity securities held for trading, at fair value		
– Listed in Hong Kong	71	56
	<hr/>	<hr/>
Market value of listed securities	71	56

Notes to the Financial Statements

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18. CREDITORS AND ACCRUED CHARGES

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

	The Group	
	2005	2004
	HK\$'000	HK\$'000
0-60 days	-	128
Over 90 days	-	214
Trade creditors	-	342
Accrued charges	2,172	3,463
	2,172	3,805

19. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1st July 2003, 30th June 2004 and 30th June 2005	60,000,000,000	600,000
Issued and fully paid		
Ordinary shares of HK\$0.01 each at 1st July 2003	5,409,468,165	54,094
Issue of new shares of HK\$0.01 each (Notes a, b, c)	2,000,000,000	20,000
Exercise of share options (Note d)	541,000,000	5,410
Conversion of convertible notes (Note e)	2,327,082,000	23,272
Ordinary shares of HK\$0.01 each at 30th June 2004 and 1st July 2004	10,277,550,165	102,776
Issue of new shares of HK\$0.01 each (Note f)	400,000,000	4,000
Exercise of share options (Note g)	142,790,000	1,427
Ordinary shares of HK\$0.01 each at 30th June 2005	10,820,340,165	108,203

Notes to the Financial Statements

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

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19. SHARE CAPITAL (Continued)

The movements in the ordinary share capital for the year ended 30th June 2004 are as follows:

- (a) 200,000,000 shares of HK\$0.01 each were issued and allotted to a third party at HK\$0.016 per share, representing a discount of approximately 5.88% on the closing price of HK\$0.017 per share on 20th October 2003, under a private share placement.
- (b) 400,000,000 shares of HK\$0.01 each were issued and allotted to third parties at HK\$0.016 per share, representing a discount of approximately 11.11% on the closing price of HK\$0.018 per share on 12th November 2003, under a private share placement.
- (c) 1,400,000,000 shares of HK\$0.01 each were issued and allotted to third parties at HK\$0.018 per share, representing a discount of approximately 14.29% on the closing price of HK\$0.021 per share on 20th February 2004.

Shares mentioned in (a), (b) and (c) were issued under the general mandate granted to the directors on 12th December 2003, 9th July 2003 and 26th March 2004.

- (d) 541,000,000 shares of HK\$0.01 each were issued and allotted as a result of the exercise of share options by the directors and employees of the Company.
- (e) 833,332,000, 80,000,000, 750,000,000 and 663,750,000 shares of HK\$0.01 each were issued and allotted to Ming Sang Finance Limited ("Ming Sang"), Gain Master Assets Limited ("Gain Master"), Mr. Yim Sang ("Mr. Yim") and Alpha Logistics Group Limited ("Alpha Logistics") at HK\$0.012, HK\$0.015, HK\$0.0168 and HK\$0.08 per share, respectively, as a result of the conversion of convertible notes.

The movements in the ordinary share capital for the year ended 30th June 2005 are as follows:

- (f) 400,000,000 shares of HK\$0.01 each were issued and allotted to a third party at HK\$0.056 per share, representing a discount of approximately 18.8% on the closing price of HK\$0.069 per share on 27th September 2004, under a private share placement.

Shares were issued under the general mandate granted to the directors on 26th March 2004.

- (g) 142,790,000 shares of HK\$0.01 each were issued and allotted as a result of the exercise of share options by the directors and employees of the Company, details of which are set out in note 20.

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

20. SHARE OPTION SCHEME

The Company's share option scheme (the "1994 Scheme"), was adopted pursuant to a resolution passed on 11th April 1994 for the primary purpose of providing incentives to directors and eligible employees, and expired on 10th April 2004. Under the 1994 Scheme, the Board of Directors of the Company might grant options to eligible employees, including executive directors of the Company or any subsidiaries, to subscribe for shares in the Company.

On 30th July 2004, the Company adopted a new share option scheme (the "2004 Scheme") for the purpose of providing incentives or rewards to directors, eligible employees, shareholders, invested entities, suppliers and customers of the Group and entities that provide research, development or technological support or other services to the Group, and will expire on 29th July 2014. Under the 2004 Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company or any subsidiaries, to subscribe for shares in the Company.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per each share option granted. The exercise period of the share options granted under the 2004 Scheme shall be determined by the Board of Directors when such options are granted, provided that such period shall not end more than 10 years from the date of grant. The exercise price is determined by the Board of Directors of the Company, and will not be less than the highest of the closing price of the Company's shares at the date of grant, the average closing price of the Company's shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

On 18th October 2004, the date before 450,000,000 options with an exercise price of HK\$0.067 were granted, the closing price per share of the Company was HK\$0.066.

On 4th November 2004, the date before 104,500,000 options with an exercise price of HK\$0.06 were granted, the closing price per share of the Company was HK\$0.06.

On 21st January 2005, the date before 20,000,000 options with an exercise price of HK\$0.068 were granted, the closing price per share of the Company was HK\$0.068.

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20. SHARE OPTION SCHEME (Continued)

Movements of the share options during the year are as follows:

2005					2004 Scheme				
Date of grant	Exercisable period	Vesting period	Exercise price HK\$	Number of share options					
				Outstanding at 1st July 2004	Granted during the year	Exercised during the year	Cancelled/lapsed during the year	Outstanding at 30th June 2005	
18.10.2004	18.10.2004 – 17.10.2006	N/A	0.0670	-	450,000,000	(26,000,000)	-	-	424,000,000
04.11.2004	09.11.2004 – 03.11.2006	N/A	0.0600	-	29,000,000	(9,500,000)	-	-	19,500,000
	10.11.2004 – 03.11.2006	N/A	0.0600	-	13,000,000	(3,990,000)	-	-	9,010,000
	13.11.2004 – 03.11.2006	N/A	0.0600	-	14,000,000	-	-	-	14,000,000
	01.01.2005 – 03.11.2006	04.11.2004 – 31.12.2004	0.0600	-	3,000,000	-	-	-	3,000,000
	01.03.2005 – 03.11.2006	04.11.2004 – 28.02.2005	0.0600	-	2,000,000	-	-	-	2,000,000
	01.04.2005 – 03.11.2006	04.11.2004 – 31.03.2005	0.0600	-	2,000,000	-	-	-	2,000,000
	30.04.2005 – 03.11.2006	04.11.2004 – 29.04.2005	0.0600	-	37,500,000	(3,000,000)	(3,000,000)	-	31,500,000
	01.07.2005 – 03.11.2006	04.11.2004 – 30.06.2005	0.0600	-	2,000,000	-	-	-	2,000,000
	01.09.2005 – 03.11.2006	04.11.2004 – 31.08.2005	0.0600	-	2,000,000	-	-	-	2,000,000
				-	104,500,000	(16,490,000)	(3,000,000)	-	85,010,000
21.01.2005	21.01.2005 – 20.01.2007	N/A	0.0680	-	20,000,000	-	-	-	20,000,000
				-	574,500,000	(42,490,000)	(3,000,000)	-	529,010,000

Movements of the share options during the year are as follows:

2005					1994 Scheme				
Date of grant	Exercisable period	Vesting period	Exercise price HK\$	Number of share options					
				Outstanding at 1st July 2004	Granted during the year	Exercised during the year	Cancelled/lapsed during the year	Outstanding at 30th June 2005	
02.08.2001	02.08.2001 – 01.08.2004	N/A	0.4000	256,250	-	-	(256,250)	-	-
01.09.2001	01.09.2001 – 31.08.2004	N/A	0.4000	100,000	-	-	(100,000)	-	-
30.10.2002	30.10.2002 – 29.10.2004	N/A	0.0386	100,000,000	-	(100,000,000)	-	-	-
28.11.2003	02.12.2003 – 01.12.2005	N/A	0.0127	300,000	-	(300,000)	-	-	-
				100,656,250	-	(100,300,000)	(356,250)	-	-

20. SHARE OPTION SCHEME (Continued)

Summary of the movements of the share options during the year by category are as follows:

Category	Exercise price HK\$	Outstanding at 1st July 2004	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding at 30th June 2005
Directors	0.0386	100,000,000	–	(100,000,000)	–	–
	0.0670	–	450,000,000	(26,000,000)	–	424,000,000
	0.0600	–	3,000,000	–	–	3,000,000
Employees of the Group	0.4000	356,250	–	–	(356,250)	–
	0.0127	300,000	–	(300,000)	–	–
	0.0600	–	96,500,000	(16,490,000)	(3,000,000)	77,010,000
	0.0680	–	20,000,000	–	–	20,000,000
Others	0.0600	–	5,000,000	–	–	5,000,000
		100,656,250	574,500,000	(142,790,000)	(3,356,250)	529,010,000

21. SHARE-BASED COMPENSATION RESERVE

	The Group and the Company HK\$'000
At 1st July 2004	–
Share option benefits	1,129
At 30th June 2005	1,129

Under the 2004 Scheme, share options were granted to:

- (i) an employee on 4th November 2004 which are exercisable between 1st March 2005 and 3rd November 2006 at an exercise price of HK\$0.06 per share;
- (ii) an employee on 4th November 2004 which are exercisable between 1st April 2005 and 3rd November 2006 at an exercise price of HK\$0.06 per share;

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21. SHARE-BASED COMPENSATION RESERVE (Continued)

- (iii) a number of employees on 4th November 2004 which are exercisable between 30th April 2005 and 3rd November 2006 at an exercise price of HK\$0.06 per share;
 - (iv) an employee on 4th November 2004 which are exercisable between 1st July 2005 and 3rd November 2006 at an exercise price of HK\$0.06 per share;
 - (v) an employee on 4th November 2004 which are exercisable between 1st September 2005 and 3rd November 2006 at an exercise price of HK\$0.06 per share; and
 - (vi) an employee on 21st January 2005 which are exercisable between 21st January 2005 and 20th January 2007 at an exercise price of HK\$0.068 per share.
- (a) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
2004 Scheme				
Outstanding at beginning of the year	-	-	-	-
Granted during the year	574,500,000	0.0658	-	-
Exercised during the year	42,490,000	0.0643	-	-
Cancelled/lapsed during the year	3,000,000	0.0600	-	-
Outstanding at end of the year	529,010,000	0.0659	-	-
Exercisable at end of the year	527,010,000	0.0659	-	-
1994 Scheme				
Outstanding at beginning of the year	100,656,250	0.0398	345,175,000	0.0421
Granted during the year	-	-	302,000,000	0.0147
Exercised during the year	100,300,000	0.0385	541,000,000	0.0236
Cancelled/lapsed during the year	356,250	0.4000	5,518,750	0.4000
Outstanding and exercisable at end of the year	-	-	100,656,250	0.0398

21. SHARE-BASED COMPENSATION RESERVE (Continued)

- (b) At 30th June 2005, out of the 529,010,000 outstanding options (2004: 100,656,250), 527,010,000 options (2004: 100,656,250) were exercisable at a weighted average exercise price of HK\$0.0659 (2004: HK\$0.0398).

During the year, the 2004 Scheme were exercised to subscribe for 42,490,000 shares (2004: Nil) in SEHK at a weighted average exercise price of HK\$0.0643 each (2004: Nil). The weighted average closing share price on the dates on which the options were exercised was HK\$0.0688 (2004: Nil) per share. The 1994 Scheme were exercised to subscribe for 100,300,000 shares (2004: 541,000,000 shares) in SEHK at a weighted average exercise price of HK\$0.0385 each (2004: HK\$0.0236 each). The weighted average closing share price on the dates on which the options were exercised was HK\$0.0570 (2004: HK\$0.041) per share.

- (c) Share options outstanding at the end of the year have the following remaining contractual lives and exercise prices:

Exercise price	2005		2004	
	Remaining contractual life	Number of options	Remaining contractual life	Number of options
2004 Scheme				
HK\$0.060	1.35 years	85,010,000	–	–
HK\$0.067	1.30 years	424,000,000	–	–
HK\$0.068	1.56 years	20,000,000	–	–
1994 Scheme				
HK\$0.0127	–	–	1.41 years	300,000
HK\$0.0386	–	–	0.33 years	100,000,000
HK\$0.4000	–	–	0.11 years	356,250

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21. SHARE-BASED COMPENSATION RESERVE (Continued)

- (d) According to the Black-Scholes-Merton Option Pricing Model, the value and adjusted value of the options granted during the year are as follows:

	Date of grant	
	4th November 2004	21st January 2005
Variables		
Closing share price at date of grant	HK\$0.06	HK\$0.068
Exercise price	HK\$0.0600	HK\$0.0680
Risk free rate (i)	0.587%	1.205%
Expected volatility (ii)	120.42%	115.02%
Expiration of the option	2 Years from 4th November 2004	2 Years from 21st January 2005
Expected ordinary dividend (iii)	–	–

- (i) The risk free rate is determined by the reference to the Exchange Fund Notes and their expected life.
- (ii) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the one year immediately preceding the grant date.
- (iii) The expected dividend yield was based on historical dividend payment record of the Group.

22. RESERVES**The Company**

	Share premium	Contributed surplus	Equity component of convertible notes reserve	Share-based compensation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note 21)		
At 1st July 2003	198,648	93,289	-	-	(364,290)	(72,353)
Premium on issue of shares	75,785	-	-	-	-	75,785
Loss for the year	-	-	-	-	(27,230)	(27,230)
At 30th June 2004 and 1st July 2004 as original stated	274,433	93,289	-	-	(391,520)	(23,798)
Effect of changes in accounting policies at 1st July 2004 (Note 3)	-	-	4,340	-	-	4,340
At 1st July 2004 as restated	274,433	93,289	4,340	-	(391,520)	(19,458)
Issue of shares during the year	18,400	-	-	-	-	18,400
Exercise of share options	5,168	-	-	-	-	5,168
Share option benefits	55	-	-	1,129	-	1,184
Loss for the year	-	-	-	-	(39,682)	(39,682)
At 30th June 2005	298,056	93,289	4,340	1,129	(431,202)	(34,388)

The contributed surplus of the Company includes (i) the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1994; and (ii) the surplus arising from the group reorganisation in 1998.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, no reserves are available for distribution to shareholders at 30th June 2005 and 2004.

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23. CONVERTIBLE NOTE

	The Group and the Company <i>HK\$'000</i>
Face value of convertible note	15,900
Equity component	(4,340)
<hr/>	
Liability component at 30th June 2004 and 1st July 2004	11,560
Interest charged to finance costs	1,582
Interest paid	(318)
<hr/>	
Liability component at 30th June 2005	12,824

On 11th June 2004, the Company issued a convertible note in the amount of HK\$69,000,000 to Alpha Logistics. The convertible note bears interest at 2% per annum which are payable semi-annually in arrears and 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 from 11th June 2004 to 10th June 2007.

Convertible note of HK\$53,100,100 has been converted into 663,750,000 shares of HK\$0.01 each at a price of HK\$0.08 on 21st June 2004.

In accordance with HKAS 32, the fair value of the liability component of the note was calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the value of equity conversion component, is included in shareholders' equity in equity component of convertible notes reserve. The liability component of the note at 30th June 2005 amounted to approximately HK\$12,824,000. Interest expenses on the note is calculated using the effective interest method by applying the effective interest rate of 6.67% per semi-annum to the liability component. For the year ended 30th June 2005, the Company accrued the related note interest of about HK\$1,264,000 (2004: Nil).

24. DEFERRED TAXATION

The movement for the year in the deferred tax liabilities in relation to intangible asset was as follows:

	<i>HK\$'000</i>
At 1st July 2003	–
On acquisition of a subsidiary	7,882
Credited to income statement for the year	(74)
<hr/>	
At 30th June 2004 and 30th June 2005	7,808

At the balance sheet date, the Group has estimated the unused tax losses of approximately HK\$151,230,000 (2004: HK\$145,255,000) available for offset against future profits in which HK\$98,992,000 (2004: HK\$93,016,000) has not yet been finalised by the Inland Revenue Department. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits stream.

25. DISPOSAL OF SUBSIDIARIES

	2004 <i>HK\$'000</i>
Net assets disposed of:	
Bank balances and cash	1
Investment properties	1,300
Property, plant and equipment	680
Investments in securities	150
Debtors, deposits and prepayment	282
Creditors and accrued charges	(907)
<hr/>	
	1,506
Goodwill realised on disposal of subsidiaries	112
Loss on disposal	(10)
<hr/>	
Consideration	1,608

The 2004 consideration of HK\$1,608,000 was settled by two instalments in July and November 2004 according to the sale and purchase agreements in respect of the disposal of subsidiaries.

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25. DISPOSAL OF SUBSIDIARIES (Continued)

	2004 HK\$'000
Analysis of the net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:	
Cash consideration received	–
Bank balances and cash disposed of	(1)
	(1)

The subsidiaries disposed of in 2004 contributed cash inflow of HK\$423,000 to the Group's net cash from operating activities and received HK\$1,202,000 in respect of investing activities.

The subsidiaries disposed of in 2004 contributed no turnover to the Group and HK\$486,000 to the Group's loss from operations.

26. MAJOR NON-CASH TRANSACTIONS

During the year ended 30th June 2005, the Group had no major non-cash transactions.

During the year ended 30th June 2004, the Group had the following major non-cash transactions:

- (i) The acquisition of 70% interest in Ming Yuen Assets Limited was settled by the issue of convertible note of HK\$69,000,000 and the HK\$14,000,000 debt of Mr. Wong Kam Fu owing to Ming Yuen Assets Limited in which HK\$53,100,000 had been converted into 663,750,000 shares of HK\$0.01 each; and
- (ii) Other convertible notes of HK\$23,800,000 were converted into 1,663,332,000 shares of HK\$0.01 each in the Company.

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27. COMMITMENTS

At the balance sheet date, the Group had the following commitments, so far as not provided for in the financial statements, in respect of:

- (a) Capital commitments in respect of acquisition of property, plant and equipment:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Authorised and contracted for	7	–

- (b) Operating lease commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	1,628	536
In the second to fifth year inclusive	703	440
	2,331	976

- (c) Operating lease commitments for future minimum lease payment under non-cancellable operating leases of a jointly controlled entity in respect of land and buildings which fall due as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	20	–

Operating lease payments represent rentals payable by the Group for certain of its office premises.

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28. RETIREMENT BENEFITS SCHEME

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year under review, the total amount contributed by the Group to the scheme and charged to the income statement was HK\$326,000 and no contributions were forfeited.

The employees in the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

29. POST BALANCE SHEET EVENTS

On 22nd September 2005, the Company entered into four Placing Agreements pursuant to which the Company agreed conditionally to issue a total of 2,120,000,000 Placing shares to the independent third parties at a price of HK\$0.060 per Placing share, representing discounts of approximately 15.5% to the closing price of HK\$0.0710 per share.

The shares were issued under the general mandate granted to the directors at the annual general meeting held on 3rd December 2004.

The net proceeds from the Placing are estimated to be approximately HK\$127 million which has been fully paid after the balance sheet date.

30. RELATED PARTY TRANSACTIONS

During the year, the Group and the Company have entered into the following transactions with related parties:

- (a) Key management personnel compensation

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Salaries, bonus and other benefits	12,363	18,689	10,793	14,969
Share option benefits (Note (i))	528	–	182	–
Contributions to retirement benefit scheme	106	96	72	37
	12,997	18,785	11,047	15,006

- (i) Share option benefits represent fair value at grant date of share options issued under 2004 Scheme amortised to the income statement during the year disregarding whether the options have been vested/exercised or not.

- (b) Balance with subsidiaries and a jointly controlled entity are unsecured, interest-free and have no fixed terms of repayment. Details of the balances with the subsidiaries and a jointly controlled entity are set out in the balance sheets of the Group and the Company.
- (c) During the year, the Group paid interest expenses on convertible note of approximately HK\$318,000 (2004: Nil) to Alpha Logistics which is wholly owned by the director, Wong Kam Fu.

31. COMPARATIVE FIGURES

Certain of the comparative figures have been restated in conformity to the presentation for the current year.