



CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LTD

(Incorporated in Bermuda with limited liability)

(Stock Code: 1051)

**Interim Financial Report
For The Six Months
Ended 31st December, 2005**

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Wong Kam Fu (*Chairman*)
Mr. Tam Wai Keung, Billy (*Vice President*)
Mr. Song Xiao Hai
Mr. Lew Mon Hung
Mr. Yi Xing Wu
Mr. Wong Hong Loong
Mr. Sin Chi Keung, Mega

Independent Non-Executive Directors

Ms. Ha Ping
Mr. Wong Che Man, Eddy

AUDIT COMMITTEE

Mr. Wong Che Man, Eddy (*Chairman*)
Ms. Ha Ping

REMUNERATION COMMITTEE

Mr. Wong Che Man, Eddy (*Chairman*)
Ms. Ha Ping

QUALIFIED ACCOUNTANT

Ms. Ho Mei Sheung

COMPANY SECRETARY

Ms. Tam Pui Ling, Elaine

AUDITORS

Shine Wing (HK) CPA Limited
Certified Public Accountants

LEGAL ADVISORS

Hong Kong: Preston Gates Ellis
Bermuda: Appleby, Spurling & Kempe

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Industrial and Commercial
Bank of China (Asia) Limited
Bank of China (Hong Kong) Limited

SHARE REGISTRARS

Hong Kong
Union Registrars Limited
311-312 Two Exchange Square
Central
Hong Kong

Bermuda
Butterfield Corporate Services Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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23 Harbour Road
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WEBSITE:

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GROUP RESULTS

The Board of Directors (the “Board”) of Credit Card DNA Security System (Holdings) Ltd. (the “Company”) announced the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st December, 2005 together with the comparative figures for the six months ended 31st December, 2004.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st December, 2005

	<i>Notes</i>	For the six months ended	
		31.12.2005 (unaudited) HK\$'000	31.12.2004 (unaudited) (restated) HK\$'000
Turnover	4	2,041	1,442
Cost of sales		(1,677)	(1,633)
Gross profit/(loss)		364	(191)
Other operating income		874	261
Distribution costs		(456)	(5,362)
Administrative expenses		(22,549)	(15,580)
Finance costs		(104)	(819)
Gain attributable to investments		1,347	6
Gain on redemption of convertible note		945	–
Share of loss of a jointly controlled entity		(187)	–
Loss before taxation	5	(19,766)	(21,685)
Taxation	6	–	460
Loss for the period and attributable to equity holders of the Company		<u>(19,766)</u>	<u>(21,225)</u>
Loss per share			
– Basic	7	<u>HK(0.17) cents</u>	<u>HK(0.20) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET*As at 31st December 2005*

		31.12.2005 (unaudited) HK\$'000	30.6.2005 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	3,431	2,461
Intangible asset	9	47,600	47,600
Available-for-sales financial assets		–	–
Interest in a jointly controlled entity		886	1,080
		<hr/> 51,917	<hr/> 51,141
CURRENT ASSETS			
Debtors, deposits and prepayments	10	1,124	2,429
Financial assets at fair value through profit or loss	11	40,282	71
Pledged deposit	12	150	–
Bank balances and cash		62,066	11,229
		<hr/> 103,622	<hr/> 13,729
CURRENT LIABILITIES			
Creditors and accrued charges	13	2,185	2,172
		<hr/> 101,437	<hr/> 11,557
NET CURRENT ASSETS			
		<hr/> 153,354	<hr/> 62,698
TOTAL ASSETS LESS CURRENT LIABILITIES			
CAPITAL AND RESERVES			
Share capital	14	128,951	108,203
Reserves		16,595	(66,137)
		<hr/> 145,546	<hr/> 42,066
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
NON-CURRENT LIABILITIES			
Convertible note	15	–	12,824
Deferred taxation		7,808	7,808
		<hr/> 7,808	<hr/> 20,632
		<hr/> 153,354	<hr/> 62,698

The financial statements on pages 2 to 12 were approved and authorised for issue by the Board of Directors on 14 March 2006 and are signed on its behalf by :

Wong Kam Fu
Director

Tam Wai Keung Billy
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st December 2005

	Attributable to equity holders of the Company								
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Equity component of convertible note reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Share-based compensation reserve <i>HK\$'000</i>	Exchange translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
(Audited)									
At 1st July 2004 as originally stated	102,776	274,433	1,700	-	(4,963)	-	-	(294,921)	79,025
Effects of changes in accounting policies	-	-	(1,700)	4,340	4,963	-	-	(3,263)	4,340
At 1st July 2004 as restated	102,776	274,433	-	4,340	-	-	-	(298,184)	83,365
Issue of shares during the period	4,000	18,400	-	-	-	-	-	-	22,400
Exercise of share options	1,313	4,593	-	-	-	-	-	-	5,906
Share option benefits	-	-	-	-	-	272	-	-	272
Exchange differences arising on translation of the Group	-	-	-	-	-	-	(39)	-	(39)
Loss for the period	-	-	-	-	-	-	-	(21,225)	(21,225)
At 31st December 2004 and 1st January 2005 as restated	108,089	297,426	-	4,340	-	272	(39)	(319,409)	90,679
Exercise of share options	114	575	-	-	-	-	-	-	689
Share option benefits	-	55	-	-	-	857	-	-	912
Exchange differences arising on translation of :									
- the Group	-	-	-	-	-	-	(19)	-	(19)
- a jointly controlled entity	-	-	-	-	-	-	(10)	-	(10)
Loss for the period	-	-	-	-	-	-	-	(50,185)	(50,185)
At 30th June 2005 and 1st July 2005	108,203	298,056	-	4,340	-	1,129	(68)	(369,594)	42,066
(Unaudited)									
Issue of shares during the period	21,200	106,000	-	-	-	-	-	-	127,200
Repurchase of shares	(807)	(2,185)	-	-	-	-	-	-	(2,992)
Exercise of share options	355	1,777	-	-	-	-	-	-	2,132
Share option benefits	-	273	-	-	-	586	-	-	859
Redemption of convertible note	-	-	-	(4,020)	-	-	-	-	(4,020)
Transfer of equity component of convertible note reserve to accumulated losses on redemption	-	-	-	(320)	-	-	-	320	-
Exchange differences arising on translation of :									
- the Group	-	-	-	-	-	-	61	-	61
- a jointly controlled entity	-	-	-	-	-	-	6	-	6
Loss for the period	-	-	-	-	-	-	-	(19,766)	(19,766)
At 31st December 2005	<u>128,951</u>	<u>403,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,715</u>	<u>(1)</u>	<u>(389,040)</u>	<u>145,546</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st December 2005

	For the six months ended	
	31.12.2005 (unaudited) HK\$'000	31.12.2004 (unaudited) HK\$'000
Net cash used in operating activities	(19,727)	(12,883)
Net cash used in investing activities	(39,915)	(752)
Net cash generated from financing activities	<u>110,444</u>	<u>28,306</u>
Net increase in cash and cash equivalents	50,802	14,671
Cash and cash equivalents at the beginning of the period	11,229	12,636
Effect of changes in exchange rate	<u>35</u>	<u>–</u>
Cash and cash equivalents at the end of the period	<u>62,066</u>	<u>27,307</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>62,066</u>	<u>27,307</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31st December 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

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

As disclosed in the 2005 annual financial statements, the Group adopted various new Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA. The results for the six months ended 31st December 2004 have been restated in accordance with the new HKFRSs. The impact of adopting the new HKFRSs is disclosed in note (3) of the notes to the condensed financial statements.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th June 2005.

3. SUMMARY OF THE EFFECT OF CHANGES IN ACCOUNTING POLICIES

The effect of changes in accounting policies described in note (2) above on the condensed consolidated income statement for the six months ended 31st December 2004 is as follows :

	HKFRS 2 <i>HK\$'000</i>	HKAS 32 & HKAS 39 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Increase in share option benefits	272	–	272
Increase in interest expenses on convertible note	–	612	612
Increase in loss for the period	<u>272</u>	<u>612</u>	<u>884</u>

The effect of changes in accounting policies on equity as at 31st December 2004 is as follows :

	HKFRS 2 <i>HK\$'000</i>	HKFRS 3, HKAS 36 & HKAS 38 <i>HK\$'000</i>	HKAS 32 & HKAS 39 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Increase/(decrease) in equity				
Capital reserve	–	(1,700)	–	(1,700)
Equity component of convertible note reserve	–	–	4,340	4,340
Goodwill reserve	–	4,963	–	4,963
Share-based compensation reserve	272	–	–	272
Accumulated losses	–	(3,263)	(884)	(4,147)
Total effect on equity	<u>272</u>	<u>–</u>	<u>3,456</u>	<u>3,728</u>

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the condensed financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

4. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions as detailed below. These divisions are the bases on which the Group reports its primary information. An analysis of the Group's turnover and contributions to operating results is as follows :

	For the six months ended			
	31.12.2005		31.12.2004	
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i> (Restated)
Provision of financial information services	1,258	(55)	1,112	(242)
Provision of credit card security device and digital network authorisation services	768	(5,221)	309	(8,661)
Others	15	(36)	21	(27)
	<u>2,041</u>	<u>(5,312)</u>	<u>1,442</u>	<u>(8,930)</u>
Unallocated corporate expenses		(17,329)		(12,203)
Other operating income		874		261
Finance costs		(104)		(819)
Gain attributable to investments		1,347		6
Gain on redemption of convertible note		945		-
Share of loss of a jointly controlled entity		(187)		-
Loss before taxation		<u>(19,766)</u>		<u>(21,685)</u>

5. LOSS BEFORE TAXATION

	For the six months ended	
	31.12.2005	31.12.2004
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
Loss before taxation has been arrived at after charging/(crediting) :		
Staff costs :		
Staff costs, including directors' emoluments	16,015	9,135
Retirement benefit schemes contributions	168	172
Total staff costs	16,183	9,307
Depreciation of property, plant and equipment	782	735
Amortisation of intangible assets	-	4,245

6. TAXATION

The tax credit for the period ended 31st December 2005 represents deferred tax credit.

No provision for tax in other jurisdictions for both periods has been made as neither the Company nor any of its subsidiaries had any assessable profits subject to tax in other jurisdictions.

For the periods ended 31st December 2005 and 2004, no provision for Hong Kong Profits Tax had been made in the condensed financial statements as the Group had no assessable profit.

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period of HK\$19,766,000 (six months ended 31st December 2004 : HK\$21,225,000) and on the weighted average number of 11,745,862,122 (six months ended 31st December 2004 : 10,483,152,339) ordinary shares in issue during the period.

No diluted loss per share has been presented for the six months ended 31st December 2005 and 2004 as the exercise of the share options and convertible note would result in a decrease in the loss per share.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$1,736,000 (six months ended 31st December 2004 : HK\$752,000) on additions of property, plant and equipment.

9. INTANGIBLE ASSET

During the period, no amortisation (six months ended 31st December 2004 : HK\$4,245,000) was charged to the income statement in respect of the Group's intangible asset with indefinite useful life.

10. 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 :

	31.12.2005 <i>HK\$'000</i>	30.6.2005 <i>HK\$'000</i>
0-60 days	191	191
61-90 days	-	53
Over 90 days	-	644
	<hr/>	<hr/>
Trade debtors	191	888
Other debtors, deposits and prepayments	933	1,541
	<hr/>	<hr/>
	1,124	2,429
	<hr/> <hr/>	<hr/> <hr/>

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2005 <i>HK\$'000</i>	30.6.2005 <i>HK\$'000</i>
Equity securities listed in Hong Kong	15,242	71
Unlisted investment funds	22,700	-
Bank deposit with embedded derivatives	2,340	-
	<hr/>	<hr/>
	40,282	71
	<hr/> <hr/>	<hr/> <hr/>

12. PLEDGED DEPOSIT

At 31st December 2005, the Group has a pledged deposit of HK\$150,000 to secure for utilising the merchant acquiring services of a bank.

13. CREDITORS AND ACCRUED CHARGES

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

	31.12.2005 <i>HK\$'000</i>	30.6.2005 <i>HK\$'000</i>
0-60 days	355	-
61-90 days	-	-
Over 90 days	-	-
	<hr/>	<hr/>
Trade creditors	355	-
Accrued charges	1,830	2,172
	<hr/>	<hr/>
	2,185	2,172
	<hr/> <hr/>	<hr/> <hr/>

14. SHARE CAPITAL

Ordinary shares of HK\$0.01 each

	Number of shares	Value HK\$'000
<i>Authorised :</i>		
At 30th June 2005 and 31st December 2005	<u>60,000,000,000</u>	<u>600,000</u>
<i>Issued and fully paid :</i>		
At 1st July 2005	10,820,340,165	108,203
Issue of shares (note a)	2,120,000,000	21,200
Exercise of share options (note b)	35,530,000	355
Repurchase of shares (note c)	<u>(80,700,000)</u>	<u>(807)</u>
At 31st December 2005	<u>12,895,170,165</u>	<u>128,951</u>

The movements in the ordinary share capital for the period ended 31st December 2005 are as follows :

- 2,120,000,000 shares of HK\$0.01 each were issued and allotted to the independent third parties at a price of HK\$0.060 per share representing a discount of approximately 15.5% to the closing price of HK\$0.071 per share on 22nd September 2005, under a private share placement pursuant to the general mandate granted by the shareholders to the directors on 3rd December 2004.
- During the period, 35,530,000 share options were exercised by the employees of the Company at subscription price of HK\$0.06 for a total consideration of HK\$2,131,800 resulting in the issue of 35,530,000 new shares of HK\$0.01 each.
- During the period, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited pursuant to the general mandate to repurchase securities approved by the shareholders of the Company on 3rd December 2004.

Date of repurchase	Number of shares of HK\$0.01 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
27th October 2005	2,700,000	0.039	0.038	104
28th October 2005	<u>78,000,000</u>	0.040	0.030	<u>2,888</u>
Total	<u>80,700,000</u>			<u>2,992</u>

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

15. CONVERTIBLE NOTE

	<i>HK\$'000</i>
Liability component at 1st July 2005	12,824
Redemption of convertible note	<u>(12,824)</u>
Liability component at 31st December 2005	<u><u>–</u></u>

On 11th June 2004, the Company issued a convertible note in the amount of HK\$69,000,000 to Alpha Logistics Group Limited (“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\$53,100,000 has been converted into 663,750,000 shares of HK\$0.01 each at a price of HK\$0.08 on 21st June 2004.

Convertible note of HK\$15,900,000 was redeemed on 28th October 2005.

16. 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 :

	31.12.2005 <i>HK\$'000</i>	30.6.2005 <i>HK\$'000</i>
Authorised and contracted for	<u>–</u>	<u>7</u>

- (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 :

	31.12.2005 <i>HK\$'000</i>	30.6.2005 <i>HK\$'000</i>
Within one year	1,864	1,628
In the second to fifth year inclusive	<u>103</u>	<u>703</u>
	<u>1,967</u>	<u>2,331</u>

- (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 :

	31.12.2005 <i>HK\$'000</i>	30.6.2005 <i>HK\$'000</i>
Within one year	<u>70</u>	<u>20</u>

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

17. RELATED PARTY TRANSACTIONS

During the period, the Group have entered into the following transactions with related parties:

- (a) Key management personnel compensation

	For the six months ended	
	31.12.2005	31.12.2004
	HK\$'000	HK\$'000
Salaries, bonus and other benefits	11,439	5,621
Share option benefits (Note (i))	106	97
Contributions to retirement benefit scheme	62	67
	<hr/>	<hr/>
	11,607	5,785
	<hr/>	<hr/>

- (i) Share option benefits represent fair value at grant date of share options issued under 2004 Scheme amortised to the income statement during the period disregarding whether the options have been vested/exercised or not.
- (b) Amount due from a jointly controlled entity of HK\$224,000 is unsecured, interest-free and has no fixed terms of repayment.
- (c) During the period, the Group redeemed the convertible note of HK\$15,900,000 from Alpha Logistics which is wholly owned by the chairman and controlling shareholder of the Company, Wong Kam Fu.
- (d) During the period, the Group has interest expenses on convertible note of approximately HK\$104,000 payable to Alpha Logistics which is wholly owned by the chairman and controlling shareholder of the Company, Wong Kam Fu.
- (e) During the period, the chairman and controlling shareholder of the Company, Wong Kam Fu acquires 25,110,000 shares of HK\$0.01 each of the Company on the market at a price ranging from HK\$0.032 and HK\$0.042 per share.

18. SUBSEQUENT EVENTS

- (a) On 25th January 2006, the Group entered into the Acquisition Agreement with Barta Holdings Limited (“Barta”) to purchase the entire issued share capital of Hopestar Group Limited with consideration of HK\$40,020,000 in which HK\$6,000,000 was satisfied by cash on 25th January 2006 and the remaining balance of HK\$34,020,000 was satisfied by issue and allotment of 567,000,000 ordinary shares to Barta at HK\$0.06 per share on 22nd February 2006 pursuant to the general mandate granted by the shareholders to the Directors on 28th November 2005.
- (b) On 21st February 2006, the Group proposed to effect a Share Consolidation whereby which every six existing shares will be consolidated into one consolidated share. The Group also proposed to effect, subject to the Share Consolidation becoming effective, a Capital Reduction under which the paid up capital of the Consolidated Shares will be reduced from HK\$0.06 per consolidated shares to HK\$0.01 per new share by cancellation of HK\$0.05 paid up capital for each consolidated share. Since the Capital Reorganisation is subject to the fulfillment of the conditions stated, Capital Reorganisation may or may not be completed.
- (c) On 24th February 2006, the Group entered into the Acquisition Agreement with Feliz Group Limited (“Feliz”) to purchase the entire issued share capital of Dorson Group Limited with consideration of HK\$100,000,000 in which HK\$50,000,000 will be satisfied by cash and the remaining balance of HK\$50,000,000 will be satisfied by issue and allotment of 925,925,926 ordinary shares to Feliz at HK\$0.054 per share pursuant to the general mandate granted by the shareholders to the Directors on 28th November 2005.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 31st December, 2005 (for the six months ended 31st December, 2004: Nil).

MANAGEMENT DISCUSSION & ANALYSIS

Results

Turnover of the Group for the six months ended 31st December, 2005 was HK\$2.04 million compared to HK\$1.44 million in the same period of 2004 representing an increase of 42%. Gross profit from operation was HK\$364,000 compared to the Gross loss from operation of HK\$191,000 in the same period of 2004 representing a gigantic increase of 290%. Loss attributable to shareholders was HK\$19.77 million compared to HK\$21.22 million representing an decrease of approximately 6.8%. The decrease of loss is mainly due to the gain attributable to investments and the redemption of convertible note during the period. Loss per share for the first six months in this period was HK0.17 cents compared to HK0.20 cents for the corresponding period in 2004, representing a decrease of approximately 15%.

BUSINESS REVIEW

The results for the period under review are encouraging. Loss for the period has been cut down. e-banking and e-business continued to grow in a healthy and steady pace both in China and Hong Kong. During the period, the Company was able to sign up some banks in China. The banks in Hong Kong show their strong interests of our products. With our web-based electronic payment platform and web based e-business development tools for business entities, the Company was able to provide banks and their corporate customers with one-stop total solution for their e-business development. This expansion of business scope continues to warrant the competitiveness of the Company in the market place and diversify its revenue opportunities into e-commerce and benefit from the e-commerce boom. During the period under review, apart from the core businesses of provision of financial information services and provision of credit card security device, digital network authorization services, the Company has diversified its business scope into the oil and gas exploitation industry for the prospect of which the Board has assessed as promising.

On the other hand, the Company still continued to control the operation cost at a reasonable level. The total number of staff under the Group's employment maintained at 65 (including executive directors) as at 31st December, 2005.

DNA security business

Despite banks in China 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, the sales improved under these unfavorable market conditions.

DNA service recorded a loss of approximately HK\$5.22 million, representing a substantial decrease of 40% compared to HK\$8.66 million in the same period of 2004. This improvement was mainly due to no amortization charges for intangible asset with indefinite useful life in this period.

The Group and the management of its subsidiaries in China continue to work very closely with the partner banks in promoting DNA service. During the period, the Company has formed an active Advisory Committee, which is led by Mr. Zhou Dao-Jiong, an ex-Chairman of Security Supervisory & Management Committee of China and ex-President of China Construction Bank, as the Chairman of the Committee and together with The Honourable Chuang Shih-Ping, G.B.M., ex-member of the Chinese People's Political Consultative and Conference (CPPCC) and Honorary Chairman of Nanyang Commercial Bank, Ltd. as the Honorary Chairman of the Committee. Other than Mr. Zhou and Mr. Chuang, all of other committee members of the Advisory Committee is also a prestigious person in

the finance and commercial field in China and in Hong Kong. The Committee will advise on and introduce DNA security products to the banks in China and in Hong Kong. Thus, 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. These sales channels include Internet-shops, television shopping channels, telephone and mail orders, collectively known as virtual channels and at the traditional retail shops.

In addition, www.stareps.com continues to offer e-business development tools, which include building of web site; on-line inventory control; member loyalty program; SMA/MMS/Email communication gateway and issuance/redemption facilities, to merchants in setting up their own electronic operation at minimal cost. This paid service continues to broaden the revenue base of the Company and it also enables Shenzhen Development bank to recruit more merchants to use DNAPAY service.

DNAPAY platform, jointly offered with Shenzhen Development bank in China, is now in full operation. DNAPAY platform has offered the bank's cardholder and merchant a brand new innovative e-payment/e-payment collection services. DNAPAY platform has successfully benefited on the traveling tickets. In China, Supreme Zone members now can buy domestic/international electronic air tickets through Supreme Zone hotlines.

The Company have successfully signed the agreements with Lanzhou City Commercial Bank (蘭州市城商銀行) and Beijing Postal Savings and Remittance Bureau (北京郵政儲匯局) during the period. It is expected that DNAPAY will be well received by users in China and Hong Kong. It is further expected that DNAPAY will contribute significant revenue to the Group when capitalizing on the fast growing e-commerce business in China and Hong Kong in the near future.

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) will be in full operation in Beijing very soon.

Financial information service (WINFCS)

For the period under review, WINFCS, which provided on-line and instant financial and stock market information, reported a gross profit of HK\$140,000. The Company aimed at developing WINFCS being wireless in the future in order to make users able to access various information via WINFCS when they are traveling. Moreover, WINFCS will support the PDA and mobile phone in the near future.

Net asset value

As at 31st December, 2005, the Group's total net asset amounted to HK\$145.55 million represented an increase of HK\$103.48 million comparing to financial year ended 30th June, 2005. The significant increase in asset value was attributable to the capital of approximately HK\$129.33 million was raised by placement of 2.12 billion new shares and around 0.03 billion new shares were issued due to exercise of share option during the period. During the period, the Company has repurchased 80.7 million shares at the price from HK 3.0 cents to HK 4.0 cents.

Based on the total number of 12,895,170,165 ordinary shares issued as at 31st December, 2005, net asset value per share was HK1.13 cents, an increase of 189.74% comparing with HK0.39 cents per share as at 30th June, 2005.

Liquidity and financing

The Group's bank balance and cash increase by HK\$50.84 million to HK\$62.07 million as at 31st December, 2005. The increase was represented by cash inflow of HK\$129.33 million was raised by placement of new shares and exercised of share option minus HK\$19.73 million being used for operating activities and HK\$15.90 million being used for redemption of convertible notes. During the period, the Group has invested HK\$47.56 million in equity and fund market.

There were no material contingent liabilities and no bank loan for the Group as at 31st December, 2005. Other than the pledged deposit of HK\$150,000 to secure for utilizing the merchant acquiring services of a bank, there was no asset of the Group being charged nor pledged. The share capital of the Group as at 31st December, 2005 increased by approximately 19% to approximately HK\$128.95 million compared to HK\$108.20 million as at 30th June, 2005. The gearing ratio was Nil (2004: Nil). The computation is based on long-term borrowings of the Group divided by shareholders' fund as at 31st December, 2005.

The Group's assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars, the exchange rate between them are relative stable, and therefore the Group's exposure to currency exchange risk was minimal.

On 22nd September, 2005, a net proceeds of HK\$127 million was raised through placing of 2.12 billion of new ordinary shares, of which, HK\$56 million has been used to acquire 21% interests of Madagascar Petroleum International Limited for investment purpose at the beginning of 2006.

BUSINESS OUTLOOK

During the period under review, business result was slightly improved under the continued hard work and dedication of the Company in exploring and developing business opportunities in China and Hong Kong.

On the other hand, at the beginning of 2006, the Company, with the view of expanding its revenues base, has tapped into the oil and gas exploitation business by the acquisition of 21% interests of Madagascar Petroleum International Limited (the "MPIL"), which had rights to explore and develop the onshore 20,100 square-kilometer of an oil block – Block 2104 for a minimum of 25 years in Madagascar Nation. The result of a geological assessment report dated 22nd February 2006 prepared by the PRC Institution which estimated that the crude oil reserve of Block 2104 amounted to 21.1×10^8 tons. Since ample analyst reports and statistics show that the business sector of oil and gas exploitation has been enjoying a high growth potential during the past few years and will continue to secure a high growth pace in the coming years, through this acquisition. The Board has confidence that the Group will enjoy these benefits in the coming years. It is anticipated that there will be further capital injection into this project in the near future.

The Board believes that the continued e-banking and e-commerce boom in both Hong Kong and China shall bring about a continuous growth in demand for our products and, together with the expected returns from the investment of MPIL, the Board is confident in managing a successful turnaround.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

At 31st December 2005, the interests and short positions of the Directors and their respective associates in the shares, underlying shares and convertible notes of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), were as follows:

Long positions in shares, underlying shares and convertible notes of the Company

Name of director	Number of shares held		Underlying shares Share options	Total interests	Approximate percentage (including underlying shares) of the issued share capital
	Personal interest	Corporate interest			
Wong Kam Fu	129,000,000	2,872,376,543 (Note 1)	100,000,000	3,101,376,543	24.05
Lew Mon Hung	–	–	100,000,000	100,000,000	0.78
Song Xiao Hai	–	–	100,000,000	100,000,000	0.78
Wong Hoi Keung (Note 3)	–	–	74,000,000	74,000,000	0.57
Wong Hong Loong	–	–	50,000,000	50,000,000	0.38
Yi Xing Wu	144,272,000	1,820,000,000 (Note 2)	10,000,000	1,974,270,000	15.31
Ha Ping	–	–	1,000,000	1,000,000	0.01
Wong Che Man, Eddy	–	–	1,000,000	1,000,000	0.01

Notes:

- 2,208,626,543 and 663,750,000 shares are held by Sheung Hai Developments Limited (“Sheung Hai”) and Alpha Logistics Group Limited (“Alpha Logistics”) respectively and Sheung Hai and Alpha Logistics are wholly-owned by Mr. Wong Kam Fu. By virtue of SFO, Mr. Wong Kam Fu was deemed to be interested in all of the 2,872,376,543 shares.
- 1,820,000,000 shares are held by China Sound Limited which is wholly-owned by Mr. Yi Xing Wu. By virtue of SFO, Mr. Yi Xing Wu was deemed to be interested in those shares.
- Mr. Wong Hoi Keung resigned as the executive director of the Company on 24 January 2006.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares, convertible notes or debentures of the Company or any of its associated corporations as at 31st December 2005.

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

As at 31st December 2005, so far as known to the Directors or chief executives of the Company, the following persons/entity are the substantial shareholders (other than the interests and short positions of the Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company.

Long positions in shares and underlying shares of the Company

Name	Type of Interest	Number of shares held	Total interest	Approximate interest as a percentage of the issued share capital
Lam Ching Kui	Personal Corporate	458,678,000 278,798,000 (Note 1)	737,476,000	5.72
Chan Oi Mo	Spouse	737,476,000 (Note 2)	737,476,000	5.72
The Hong Kong Beijing Finance and Investment Limited	Corporate	1,020,000,000	1,020,000,000	7.91

Notes:

- (1) 278,798,000 shares are held by Chinese Success Limited (“Chinese Success”), which is wholly-owned by Mr. Lam Ching Kui. By virtue of SFO, Mr. Lam Ching Kui was deemed to be interested in all of the 278,798,000 shares.
- (2) Ms. Chan Oi Mo is the spouse of Mr. Lam Ching Kui. By virtue of SFO, Ms. Chan Oi Mo was deemed to be interested in all of Mr. Lam Ching Kui’s interests in the 737,476,000 shares.

Other than as disclosed above, the Company has not been notified by any other person (other than the Directors or chief executives of the Company) who has interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance or had otherwise notified the Company as at 31st December 2005.

SHARE OPTION SCHEME

The following table discloses movements in the Company's share options held by each of the Directors and the employees of the Company in aggregate granted under the share option scheme of the Company during the period ended 31st December 2005:

Name or category of participants	Date of grant	Exercisable period	Exercise price HK\$	Outstanding as at 01.07.2005	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the year	Outstanding as at 31.12.2005	Market value per share at date of grant of options HK\$	Option value per share HK\$
(a) Directors											
Wong Kam Fu	18.10.2004	18.10.2004 – 17.10.2006	0.0670	100,000,000	-	-	-	-	100,000,000	0.066	0.020185
Lew Mon Hung	18.10.2004	18.10.2004 – 17.10.2006	0.0670	100,000,000	-	-	-	-	100,000,000	0.066	0.020185
Song Xiao Hai	18.10.2004	18.10.2004 – 17.10.2006	0.0670	100,000,000	-	-	-	-	100,000,000	0.066	0.020185
Wong Hoi Keung	18.10.2004	18.10.2004 – 17.10.2006	0.0670	74,000,000	-	-	-	-	74,000,000	0.066	0.020185
Wong Hong Loong	18.10.2004	18.10.2004 – 17.10.2006	0.0670	50,000,000	-	-	-	-	50,000,000	0.066	0.020185
Ha Ping	04.11.2004	04.11.2004 – 03.11.2006	0.0600	1,000,000	-	-	-	-	1,000,000	0.060	0.018225
Wong Che Man, Eddy	04.11.2004	04.11.2004 – 03.11.2006	0.0600	1,000,000	-	-	-	-	1,000,000	0.060	0.018225
Cheng Kong Ming	04.11.2004	04.11.2004 – 03.11.2006	0.0600	1,000,000	-	-	(1,000,000)	-	-	0.060	0.018225
Yi Xing Wu	02.11.2005	02.11.2005 – 01.11.2007	0.0470	-	10,000,000	-	-	-	10,000,000	0.047	0.0083709
Total for directors				<u>427,000,000</u>	<u>10,000,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>	<u>436,000,000</u>	-	-
(b) Employees											
	04.11.2004	04.11.2004 – 03.11.2006	0.0600	77,010,000	-	(35,530,000)	-	-	41,480,000	0.060	0.018225
	21.01.2005	21.01.2005 – 20.01.2007	0.0680	20,000,000	-	-	-	-	20,000,000	0.068	0.020817
	3.11.2005	1.11.2006 – 2.12.2007	0.049	-	6,000,000	-	-	-	6,000,000	0.049	0.0078032
	3.11.2005	1.4.2006 – 2.12.2007	0.049	-	5,000,000	-	-	-	5,000,000	0.049	0.0078032
	9.11.2005	1.4.2006 – 8.12.2007	0.058	-	20,000,000	-	-	-	20,000,000	0.057	0.0085184
Total for employees				<u>97,010,000</u>	<u>31,000,000</u>	<u>(35,530,000)</u>	<u>-</u>	<u>-</u>	<u>92,480,000</u>	-	-
(c) Others											
	04.11.2004	04.11.2004 – 03.11.2006	0.0600	5,000,000	-	-	-	-	5,000,000	0.060	0.018225
	10.11.2005	10.11.2005 – 09.11.2006	0.0600	-	55,000,000	-	-	(10,000,000)	45,000,000	0.058	0.0065708
	25.11.2005	25.11.2005 – 24.11.2006	0.0600	-	15,000,000	-	-	-	15,000,000	0.058	0.0070633
	28.11.2005	28.11.2005 – 27.11.2006	0.0600	-	2,000,000	-	-	-	2,000,000	0.058	0.0069849
	01.12.2005	01.12.2005 – 30.11.2006	0.0600	-	20,000,000	-	-	-	20,000,000	0.059	0.0078930
Total for others				<u>5,000,000</u>	<u>92,000,000</u>	<u>-</u>	<u>-</u>	<u>(10,000,000)</u>	<u>87,000,000</u>	-	-
Total for the Scheme				<u>529,010,000</u>	<u>133,000,000</u>	<u>(35,530,000)</u>	<u>(1,000,000)</u>	<u>(10,000,000)</u>	<u>615,480,000</u>	-	-

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period ended 31st December 2005, the Company purchased its own shares on the Stock Exchange. Details are as follows:

Date of repurchase	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration paid HK\$
27th October 2005	2,700,000	0.039	0.038	103,500
28th October 2005	78,000,000	0.04	0.03	2,863,500

The repurchased shares were subsequently cancelled and accordingly, the issued share capital of the Company was reduced by the nominal value thereof and the nominal value of shares repurchased amounted to HK\$807,000.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

Compliance with of the Code on Corporate Governance Practices of the Listing Rules

The Company is committed to the establishment of good corporate governance practices and procedures. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 31st December 2005, except the following deviations:

Code provision A.4.1

The code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive directors and one executive director of the Company have not been appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company. However, the Company is taking steps to replace the independent non-executive director's and the executive director's current appointment with specific term of appointments as soon as practicable.

Code provision A.4.2

The code provision A.4.2 provides that all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In accordance to the Bye-laws of the Company, it requires that one-third of the directors, except the Chairman and the Managing Director (or, if their number is not a multiple of three (3), the number nearest to and not less than one-third) retire by rotation each year and that each director, except the Chairman and the Managing Director, will seek re-election at the annual general meeting at least every three years. New directors will hold office until the next following annual general meeting and shall then be eligible for re-election at the meeting. To comply with the code provision A.4.2, relevant amendments to the Bye-laws of the Company will be proposed and approved by shareholders at the next coming annual general meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Enquiry has been made with all Directors and the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 31st December 2005.

However, on 2 March 2006, Mr. Yi Xing Wu, an Executive Director, has breached the internal code of conduct of the Company by disposing shares through his wholly owned company, China Sound Limited, on the market during the prohibited period as prescribed by the internal code of conduct. The details have been disclosed on the announcement of the Company dated 6 March 2006.

AUDIT COMMITTEE

The Audit Committee, with terms of reference in compliance with the provisions set out in the CG Code, comprises three members who are all independent Non-executive Directors of the Company for the six months ended 31st December 2005. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including a review of the unaudited consolidated interim results for the six months ended 31st December 2005.

REMUNERATION COMMITTEE

The Remuneration Committee, with terms of reference in compliance with the provisions set out in the CG Code, comprises three members, a majority of whom are Independent Non-executive Directors of the Company for the six months ended 31st December 2005. The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure in relation to the remuneration of Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

NON-COMPLIANCE WITH REQUIREMENTS FOR INDEPENDENT NON-EXECUTIVE DIRECTOR AND AUDIT COMMITTEE

Following the resignation of Mr. Yu King Wah on 23 February 2006 as independent non-executive director, audit committee member and remuneration committee member, the Company has two independent non-executive Directors and two audit committee members only.

Pursuant to Rules 3.10(1) and 3.21 of the Listing Rules, the board of directors of every listed issuer must include at least three independent non-executive directors and three audit committee members.

The Company will commence its efforts immediately to seek a suitable candidate for appointment as a new independent non-executive director and audit committee member of the Company as soon as practicable. The Company aims to rely on referrals and personal introductions to seek a potential candidate for appointment. Further announcement will be made by the Company as and when appropriate.

APPRECIATION

The Board of Directors would like to thank the Group's management and staff for their hard work and dedication, as well as our shareholders and customers for their support to the Group.

By order of the Board
Wong Kam Fu
Chairman

Hong Kong, 14th March, 2006