

Management Discussion & Analysis

RESULTS

For the year ended 30th June 2006, the Group's turnover amounted to approximately HK\$3.97 million, comparing to HK\$3.33 million reported in the preceding year. It was an increase of approximately 19%. Gross profit from operation was approximately HK\$0.55 million, comparing to a gross loss of HK\$0.02 million in the last year. Loss attributable to shareholders for the year was HK\$83.19 million, compared to loss of HK\$71.41 million in year 2005, representing an increase of 16.5%. The loss was mainly due to the recognised impairment loss in respect of the intangible asset – patents and technology amounting to HK\$37.13 million and the additional operating expenses incurred for business expansion in the year.

BUSINESS REVIEW

During the year under review, DNA security service, e-payment platform service (DNAPAY) and financial information services (WINFCS) were still the Group's core business segments, while the Group diversified its business scope into the oil and gas exploitation industry.

During the year ended 30th June 2006, the DNA security service and DNAPAY service contributed to approximately 36% of the Group's total turnover, amounting to approximately HK\$1.41 million. It was reported a healthy growth in China and Hong Kong.

In DNA security service, the Group signed up more banks for using our services in China. Our prospective user banks continued to show their strong interests in our services in China and Hong Kong. This expansion of business scope enhanced the competitiveness of the Group in the market and diversified its revenue opportunities into e-commerce business.

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.

The Group has successfully signed the agreements with Lanzhou City Commercial Bank (蘭州市城商銀行), Beijing Postal Savings and Remittance Bureau (北京郵政儲匯局) and BOC Credit Card (International) Ltd. during the year. DNAPAY will generate revenue to the Group very soon. We are looking forward to the future prospect of the DNA security service and DNAPAY service due to that the above mentioned parties have been adopting our technology and services in their businesses. It is expected that DNAPAY will be well received by users in China and Hong Kong and will provide better return to the Group 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), had been delayed to commerce business. It is believed that EPAY would be fully operative in Beijing very soon.

The Group's financial information service (WINFCS) recorded a turnover of HK\$2.53 million which accounted for 63% of the total turnover. The Group aimed at developing WINFCS which will provide users with wireless services to access various information while they are traveling. Moreover, users will be supported to access into WINFCS by using PDA and mobile phone in near future.

In January and February 2006, the Group entered into the acquisition agreements respectively with Barta Holdings Limited and Feliz Group Limited for acquiring total 21% issued share capital of Madagascar Petroleum International Limited ("MPIL"). MPIL had been vested with the rights of oil and gas exploitation and operation in respect of an onshore block of land of approximately 20,100 square kilometers (the "Block 2104") in the Republic of Madagascar by the Office Des Mines Nationales Et Des Industries Strategiques for a minimum term of 25 years.

The Engineering Technology Research Institute, Liaohe Petroleum Exploration Bureau (the “PRC Institution”) was engaged to conduct fieldwork search of Block 2104 and prepared a geological assessment report dated 22nd February 2006. In the report, the PRC Institution estimated that the crude oil reserve of Block 2104 amounting to 21.2 x 10⁸ tons. Based on the results of such report, the Company estimates that the crude oil reserve of Block 2104 amounts to not less than 15 billion barrels. On 29th May 2006, Dr Wang Tao (“Dr. Wang”), the former minister at the Ministry of Petroleum Industry in China, has been appointed as a senior consultant of MPIL. The main duty of Dr Wang is to direct and co-ordinate the exploration and development of Block 2104. It is known to us that the investment and its performance in the Madagascar were appreciated and recognized by the PRC senior official. With the anticipated economic growth in the world, the directors expect that the nationwide oil and gas consumption demand would continue to rise. The acquisition represents a good opportunity for the Group to invest in the oil and gas exploitation and operation in the Republic of Madagascar. The Group will enjoy these benefits through this acquisition in the coming years.

NET ASSET VALUE

As at 30th June 2006, the Group’s total net asset amounted to HK\$174 million, represented an increase of HK\$132 million comparing to last year ended 30th June 2005. The significant increase in asset value was attributable to new capital injection of approximately HK\$213.8 million that was raised by placement of 602.1 million new shares (Shares after consolidation) and by exercise of share option of 7.22 million new shares (Shares after consolidation) during the current year. During the same year, the Group re-purchased 13.45 million shares (Shares after consolidation) at the prices from HK18.0 cents to HK24.0 cents per share (Shares after consolidation) from the market.

A capital reorganization exercise was conducted in March 2006 of which every six old shares was consolidated into one new share of the Company (the “Share Consolidation”) and the paid up capital of the consolidated new shares was reduced from HK\$0.06 per share to HK\$0.01 per share by cancellation of HK\$0.05 paid up capital for each consolidated new share (the “Reduction of Capital”) (the “Capital Reorganisation”). With a view to facilitating any capital fund-raising exercise in the future, the directors considered that the Capital Reorganisation would provide flexibility to the Company to issue new shares which was in the interest of the Company and the Shareholders as whole. A credit of approximately HK\$119.97 million was aroused as a result of the Capital Reduction and credited to the contributed surplus account of the Company and applied for the partial elimination of the accumulated losses of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded a net cash outflow of approximately HK\$8.28 million during the year. At 30th June 2006, cash and bank balances of the Group amounted to approximately HK\$2.98 million (2005: HK\$11.23 million). Bank and other borrowings of the Group as at the same date amounted to approximately HK\$1.94 million (2005: HK\$12.82 million). At 30th June 2006, the bank deposits of HK\$5.11 million (2005: Nil) was pledged to a bank to secure the general banking facility granted to a subsidiary.

The Group’s bank and other borrowings were denominated as to 100% in Renminbi. The Group conducted most of its business in Renminbi, United States dollars and Hong Kong dollars so that it does not have any significant exposure to foreign exchange fluctuation.

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The Group's gearing ratio, expressed as the percentage of the Group's total borrowings over shareholders' equity, was approximately 1.1% at 30th June 2006.

On 22nd September 2005, a net cash proceed of HK\$127 million was raised through placing of 353.33 million of new ordinary shares (Shares after consolidation), of which HK\$56 million was used to acquire 21% interests of Madagascar Petroleum International Limited for investment purpose in January and March 2006 and HK\$9 million was paid as a deposit for acquiring an office property for own use in Beijing in March 2006.

BUSINESS OUTLOOK

During the year under review, business result was not satisfactory despite the continued hard work and dedication of our people in improving the performance of the business products and services on one hand and in exploring and developing business opportunities in China and Hong Kong on the other hand. The management will throw more energy on reviewing the operating environment and its own business portfolio in Madagascar, the PRC and Hong Kong so as to put the situation into context. The Group will continue take measures to enhance cost control and to improve operational efficiency and positively respond to the market situation. In view of the promising future for our full range of products and services under the atmosphere of the continued e-banking and e-commerce boom in both Hong Kong and China, the Group will continue to place emphasis on these markets and to explore business opportunities on its existing foundation.

In the second half year of 2006, the MPIL will continue to conduct geological and scientific research of oilfields exploration and development of oil and gas. Following Dr. Wang Tao's participation in the fieldwork of Block 2104, it is believed that MPIL's pre-exploration preparation of Block 2104 will largely be enhanced.

On 25th September 2006, the Group entered into agreements to acquire 10% interests in a company with a goal of providing DNAPAY service to more financial institutions in Shenzhen. The Group will broaden our customer base and recruit more merchants using DNAPAY service in Shenzhen under the co-operative plan with the invested company.

The Group has identified a huge potential market for mobile email services. We address the ever-increasing needs of mobile email for any mobile user with or without data services enabled. With our services, a user can be notified when an email arrives, caller display will inform who send the email. User holds the decision which emails should be informed. The Group is actively engaged with major telecom operators, email providers and system integrators to launch mobile email services branded "EmailCallYou". Since "EmailCallYou" services are innovative, they create values to all parties. We believe our win-win revenue sharing model with partners will help the Group quickly penetrating into the market and gain significant market share. In the medium to long term, this business will provide promising return to the Group.