



信用卡防盜系統(控股)有限公司*

CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1051)

**FINAL RESULTS
FOR THE YEAR ENDED 30TH JUNE, 2004**

GROUP RESULTS

The board of directors (the “Board”) of Credit Card DNA Security System (Holdings) Ltd (the “Company”) announced that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 30th June, 2004 together with the comparative figures for the year ended 30th June, 2003. The Company’s audit committee has already reviewed the annual report before the announcement.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30TH JUNE, 2004

	<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
Turnover		3,270	11,176
Cost of sales		(4,266)	(10,643)
Gross (loss) profit		(996)	533
Other operating income		1,393	1,553
Distribution costs		(1,189)	(2,322)
Administrative expenses		(27,965)	(34,268)
Deficit on revaluation of investment properties		–	(60)
Impairment loss recognised in respect of goodwill		–	(11,000)
Impairment loss recognised in respect of investment in securities		(3,420)	–
Loss from operations	4	(32,177)	(45,564)
Finance costs		(854)	(650)
Loss on disposal of discontinuing operations		–	(14,411)
Gain on disposal of associates		2	–
Loss on disposal of subsidiaries		(10)	–
Loss attributable to investments		(2,748)	(332)
Loss before taxation		(35,787)	(60,957)
Taxation	5	74	–
Loss before minority interests		(35,713)	(60,957)
Minority interests		–	1,380
Net loss for the year		(35,713)	(59,577)
Loss per share			
– Basic	6	(0.48 cents)	(1.16 cents)

CONSOLIDATED BALANCE SHEET*AT 30TH JUNE, 2004*

	<i>Notes</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Investment properties		–	1,910
Property, plant and equipment		3,147	5,466
Intangible asset		85,884	–
Interest in an associates		–	28,500
Investments in securities		–	3,570
		89,031	39,446
CURRENT ASSETS			
Debtors, deposits and prepayments	7	4,815	1,382
Investments in securities		56	54
Bank balances and cash		12,636	6,409
		17,507	7,845
CURRENT LIABILITIES			
Creditors and accrued charges	8	3,805	6,332
NET CURRENT ASSETS			
		13,702	1,513
		102,733	40,959
CAPITAL AND RESERVES			
Share capital		102,776	54,094
Reserves		(23,751)	(63,935)
		79,025	(9,841)
NON-CURRENT LIABILITIES			
Convertible notes		15,900	23,800
Promissory note		–	27,000
Deferred taxation		7,808	–
		23,708	50,800
		102,733	40,959

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2004

1. BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention as modified for the valuation of investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the term of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAP(s)”) and Interpretations approved by the HKICPA.

The principal effect of the implementation of SSAP 12 (Revised) “Income Taxes” is in relation to deferred taxation. In previous years, partial provision was made for deferred taxation using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this SSAP had no material effects on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been made.

3. SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into two (2003: four) operating divisions. 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 by business segments is as follows:

For the year ended 30th June, 2004

	Continuing operations			
	Provision of financial information services	Provision of credit card security device and digital network authorisation services	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	<u>2,631</u>	<u>580</u>	<u>59</u>	<u>3,270</u>
SEGMENT RESULT	<u>(702)</u>	<u>(8,863)</u>	<u>(38)</u>	(9,603)
Unallocated corporate expenses				(19,154)
Impairment loss recognised in respect of investment in securities	-	-	-	<u>(3,420)</u>
Loss from operations				(32,177)
Finance costs				(854)
Gain on disposal of associates	-	-	-	2
Loss on disposal of subsidiaries	-	-	-	(10)
Loss attributable to investments	-	-	-	<u>(2,748)</u>
Loss before taxation				(35,787)
Taxation				<u>74</u>
Net loss for the year				<u>(35,713)</u>

For the year ended 30th June, 2003

	Continuing operations			Discontinuing operations			
	Provision of credit card security device	Provision of financial information services	and digital network authorisation services	Manufacture and sales of electronic products	Sales of health products	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER							
External sales	<u>3,211</u>	<u>246</u>	<u>34</u>	<u>7,389</u>	<u>296</u>	<u>–</u>	<u>11,176</u>
SEGMENT RESULT	<u>(555)</u>	<u>(8,097)</u>	<u>(51)</u>	<u>(5,999)</u>	<u>(73)</u>	<u>–</u>	<u>(14,775)</u>
Unallocated corporate expenses							(19,789)
Impairment loss recognised in respect of goodwill	–	–	–	(11,000)	–	–	<u>(11,000)</u>
Loss from operations							(45,564)
Finance costs							(650)
Loss on disposal of discontinuing operations	–	–	–	(12,714)	(1,697)	–	(14,411)
Loss attributable to investments	–	–	–	–	–	(332)	<u>(332)</u>
Loss before minority interest							(60,957)
Minority interests							<u>1,380</u>
Net loss for the year							<u>(59,577)</u>

Geographical segments

The Group operations are located in Hong Kong, People's Republic of China, excluding Hong Kong ("PRC") and other Asian countries. The business segment of manufacture and sales of electronic products and provision of credit card security device and digital network authorisation services are located in PRC. Part of manufacture and sales of electronic products segment is carried out in other Asian countries. 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 goods or services:

	Turnover		Contribution to loss from operations	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,924	9,174	(29,297)	(41,107)
PRC	346	1,394	(2,880)	(4,279)
Other Asian countries	-	608	-	(178)
	<u>3,270</u>	<u>11,176</u>	<u>(32,177)</u>	<u>(45,564)</u>

For the year ended 30th June, 2003, the revenue from the Group's discontinuing operations was derived principally from PRC of HK\$1,394,000, Hong Kong of HK\$5,683,000 and other Asian countries of HK\$608,000.

4. LOSS FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation and amortisation		
Owned assets	1,920	2,562
Assets held under finance leases	-	48
Amortisation of intangible assets, included in distribution cost	813	-
Gain on disposal of investment properties	(592)	-
Interest income	<u>(7)</u>	<u>(90)</u>

5. TAXATION

The taxation credit for the year ended 30th June, 2004 represents deferred tax credit.

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 had any assessable profits subject to tax in other jurisdictions.

For the year ended 30th June, 2004 and 2003, no provision for Hong Kong Profits Tax had been made in the financial statements as the Group had no assessable profit.

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$35,713,000 (2003: net loss of HK\$59,577,000) and on the weighted average number of 7,388,561,370 (2003: weighted average number of 5,154,619,706) 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 notes would result in a decrease in the loss per share.

7. 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 aged analysis:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0-60 days	167	94
61-90 days	107	—
Over 90 days	211	7
	485	101
Other debtors, deposits and prepayments	4,330	1,281
	4,815	1,382

8. CREDITORS AND ACCRUED CHARGES

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0-60 days	128	378
Over 90 days	214	1,357
	342	1,735
Accrued charges	3,463	4,597
	3,805	6,332

9. EXTRACT FROM AUDITOR'S REPORT

The auditors' report on the Group's financial statements for the year ended 30th June, 2004 contained a disclaimer opinion. The followings are extracted from the auditors' report:

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

The intangible asset with a carrying value of HK\$85,884,000 at 30th June, 2004 represents a patent licence for the provision of credit card security device and digital network authorisation services. However, we were unable to obtain sufficient audit evidence to satisfy ourselves that the amount of approximately HK\$86,697,000 was the fair value to this intangible asset as at the date of acquisition. Accordingly, we were unable to satisfy ourselves that the intangible asset is free from material misstatement as at 30th June, 2004. Any adjustments to the figure would have a consequential effect on the net assets of the Group and the Company as at 30th June, 2004 and on the net loss of the Group for the year then ended.

Disclaimer of opinion

Because of the significance of the possible effect of the limitation in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June, 2004 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

FINAL DIVIDEND

The Board does not recommend the payment of dividend in respect of the year ended 30th June, 2004 (2003: Nil).

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL RESULTS

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

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

BUSINESS REVIEW

The Group

During the financial year, the Group has divested businesses that were either reporting loss or being stalemated for some time. As a result, the turnover of the Group reduced by 70.5% to HK\$3.3 million this year from HKD11.2 million in 2003. The decrease in turnover was mainly caused by the discontinued businesses in one hand and DNA business's revenue contribution was lagging behind on the other.

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

DNA Security business

Service subscription

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

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

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

Marketing

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

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

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

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

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

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

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

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

Internet Financial Information

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

Net Asset Value

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

BUSINESS OUTLOOK

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30th June, 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

The Company was complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules through the year.

OTHER INFORMATION

Full announcement of the final results of the Group, containing information required by paragraph 45 of Appendix 16 of the Listing Rules of the Stock Exchange of Hong Kong Limited will be published on the Exchange's Website at <http://www.hkex.com.hk> on or before 31st October, 2004.

ANNUAL GENERAL MEETING

The 2004 Annual General Meeting of the Company will be held on 3rd December, 2004 and the Notice of Annual General Meeting will be published and despatched in the manner as required by the Listing Rules in due course.

APPOINTMENT

Reference was made to the announcement of the Company dated 30th September, 2004 in relation to the appointment of Mr. Cheng Kong Ming as independent non-executive director of the Company with effect from 30th September, 2004. The Board is pleased to announce that Mr. Cheng was also appointed as a member of audit committee of the Company with effect from 30th September, 2004.

By order of the Board
Wong Kam Fu
Chairman

Hong Kong, 15th October, 2004

As at the date of this announcement, Wong Kam Fu, Song Xiao Hai, Wong Hoi Keung, Lew Mon Hung and Wong Hong Loong are executive directors and Ha Ping, Cheng Kong Ming and Wong Che Man, Eddy are the independent non-executive directors of the Company.

* *For identification purpose only*

“Please also refer to the published version of this announcement in The Standard”