



TECHNOLOGIES
UNIVERSAL

Universal Technologies Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT

2003/2004

Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at “www.hkgem.com” in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Universal Technologies Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the requirement of the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on the basis and assumptions that are fair and reasonable.

SUMMARY

- Turnover for the three-month period ended 30 June 2003 amounted to approximately HK\$2,365,000 (2002: HK\$526,000), representing an increase of approximately 350% over the corresponding period in the last financial year.
- Net loss for the three-month period ended 30 June 2003 reduced to approximately HK\$2.87 million (2002: HK\$4.06 million). The improvement was primarily due to the effectiveness of the Group's marketing and promotional activities for building up its business coverage in the PRC.
- Basic loss per share for the three-month period ended 30 June 2003 amounted to approximately HK0.45 cents (2002: approximately HK0.66 cents)
- The Board does not recommend payment of any dividend for the three-month period ended 30 June 2003 (2002: Nil).

RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three-month period ended 30 June 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:-

	Notes	For the three-month period ended 30 June 2003 HK\$'000	For the three-month period ended 30 June 2002 HK\$'000
Turnover			
Representing:			
– Continuing operation	2	2,365	526
– Discontinued operation	3	–	–
		2,365	526
Other revenue		19	49
		2,384	575
Cost of computer hardware and software/services rendered		(1,756)	–
Staff costs		(1,345)	(1,544)
Depreciation		(256)	(93)
Minimum operating lease rentals		(338)	(177)
Other operating expenses		(2,052)	(3,771)
Loss from operations		(3,363)	(5,010)
Representing:			
– Continuing operation		(3,363)	(4,889)
– Discontinued operation	3	–	(121)
Taxation	4	–	–
Loss after taxation		(3,363)	(5,010)
Minority interests		492	952
Loss attributable to shareholders		(2,871)	(4,058)
Basic loss per share (in HK cents)	5	(0.45)	(0.66)

Notes:

1. Basis of presentation

The Company was incorporated in the Cayman Islands on 27 March 2001 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The Company's shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The results presented above have been prepared under the historical cost convention basis and in accordance with accounting principles generally accepted in Hong Kong and Statements of Standard Accounting Practices ("SSAP") issued by the Hong Kong Society of Accountants (the "HKSA").

The basis of preparation and principal accounting policies adopted for the preparation of the results presented above are consistent with those used in the preparation of the Group's annual financial report for the year ended 31 March 2003, except for the adoption of SSAP12 "Income Taxes" (Revised) ("SSAP12 (Revised)") issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The adoption of SSAP12 (Revised) has no significant effect on the results of the current or comparative accounting periods presented above.

2. Turnover – continuing operation

Turnover – continuing operation represents revenue recognised from the provision of enterprise solution services, system integration and the related consultancy services, net of value-added tax and business tax.

3. Discontinued operation

On 25 March 2003, Universal Cyberworks International Limited, a wholly-owned subsidiary of the Company, disposed of its entire 60% direct interest in Universal mPayment International Limited and 60% indirect interest in Universal mPayment (China) Limited (collectively known as "mPayment Group"). mPayment Group was principally engaged in the provision of mobile payment enterprise solution services and the related consultancy services in the PRC.

Details of the disposal of mPayment Group have been included in the Group's annual financial report for the year ended 31 March 2003.

The unaudited results of the mPayment Group for the three-month period ended 30 June 2003 are as follows:

	For the three-month period ended 30 June 2003 HK\$'000	For the three-month period ended 30 June 2002 HK\$'000
Turnover	-	-
Other revenue	-	4
	<hr/>	<hr/>
	-	4
Cost of computer hardware and software/services rendered	-	-
Staff costs	-	(15)
Depreciation	-	-
Minimum operating lease rentals	-	-
Other operating expenses	-	(110)
	<hr/>	<hr/>
Loss from operation	-	(121)
Taxation	-	-
	<hr/>	<hr/>
Loss after taxation	-	(121)
Minority interests	-	49
	<hr/>	<hr/>
Loss attributable to shareholders	<u>-</u>	<u>(72)</u>

4. Taxation

- (i) No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the periods presented.
- (ii) The Group's subsidiaries operating in the PRC did not generate any profits assessable to the PRC's enterprise income tax during the periods presented.
- (iii) There was no significant unprovided deferred taxation for the periods presented.

5. Loss per share

The calculation of basic loss per share for the three-month period ended 30 June 2003 is based on the following data:

	For the three-month period ended 30 June 2003 HK\$'000	For the three-month period ended 30 June 2002 HK\$'000
Loss for the periods used in the calculation of basic loss per share	<u>2,871</u>	<u>4,058</u>
Weighted average number of shares in issue, used for the purpose of calculation of basic loss per share (shares)	<u>643,187,033</u>	<u>618,509,121</u>

No diluted loss per share is shown as the share options of the Company which were outstanding during the three-month periods ended 30 June 2002 and 2003 had anti-dilutive effects on the respective basic loss per share.

6. Changes in shareholder's equity

	Share capital	Share premium	Capital reserve	Special reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	6,083	20,477	1,093	10,754	50	(5,856)	32,601
Placing of shares	167	-	-	-	-	-	167
Exercise of share options	30	-	-	-	-	-	30
Premium arising on placing of shares	-	14,836	-	-	-	-	14,836
Share issue expenses	-	(321)	-	-	-	-	(321)
Premium arising on exercise of share options	-	7	-	-	-	-	7
Exchange differences arising on translation of financial statements of the PRC subsidiaries	-	-	-	-	7	-	7
Loss for the period	-	-	-	-	-	(4,058)	(4,058)
	<u>6,280</u>	<u>34,999</u>	<u>1,093</u>	<u>10,754</u>	<u>57</u>	<u>(9,914)</u>	<u>43,269</u>
At 30 June 2002							
At 1 April 2003	6,419	35,094	1,093	10,754	60	(19,200)	34,220
Exercise of share options	25	-	-	-	-	-	25
Premium arising on exercise of share options	-	198	-	-	-	-	198
Exchange differences arising on translation of financial statements of the PRC subsidiaries	-	-	-	-	3	-	3
Loss for the period	-	-	-	-	-	(2,871)	(2,871)
	<u>6,444</u>	<u>35,292</u>	<u>1,093</u>	<u>10,754</u>	<u>63</u>	<u>(22,071)</u>	<u>31,575</u>
At 30 June 2003							

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the three-month period ended 30 June 2003 (2002: Nil).

BUSINESS REVIEW AND PROSPECTS

Operation review

During the three-month period ended 30 June 2003, the Group's business grew steadily and achieved encouraging results despite of the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC and Hong Kong during the period. The Group concentrated on its core businesses in the provision of payment and logistics enterprise solutions, system integration and related services and adopted effective strategies in marketing and promotion, with focus on the ease and speed of online payment, for building up its business coverage in the PRC.

During the period, SARS had a mixed impact on the Group's operational result from the provision of enterprise solutions and related services. The technical support services fee from Universal eCommerce China Limited ("UECL"), a company which is engaged in the operation of online payment platform in the PRC increased by approximately 24% during the three-month period ended 30 June 2003 when compared to the corresponding period in the prior year. The approximately 24% increase in technical support services fee, which was determined based on the volume of payment transactions conducted via the platform operated by UECL, is a natural consequence of SARS that attracted more individuals and small businesses to switch their purchasing habit from traditional offline marketplace to online trading platforms. As a result, the volume of payment transactions conducted via our online payment platform increased.

Subsequent to 30 June 2003, the Group entered into a conditional purchase agreement with Shanghai Gao Yuan Property (Group) Limited to acquire the 49% equity interest of UECL (the "Purchase"), as particularly described in the announcement of the Company dated 22 July 2003. The Directors are of the view that the Purchase will benefit the Group for the following reasons:-

- Upon completion of the Purchase, UECL and the Group will co-operate closely and market the services provided by each other. The user base of UECL and that of the Group are potential customers for each other.
- The Group's investment in UECL may increase in value as the operation of online payment platform in the PRC has good market and revenue potential.

The Purchase is expected to be completed within three months subsequent to 22 July 2003, being the date of the entering of the purchase agreement.

The Directors believe that, as stated in the prospectus of the Company dated 19 October 2001, as an online payment solution provider, the Group will be in an advantageous position to provide other e-commerce enabling services, such as the online payment platform offered by UECL, which are complementary to the Group's online enterprise solutions. Accordingly, the Purchase is in line with the business objectives of the Group as stated in the prospectus of the Company dated 19 October 2001 and beneficial to the Group.

Financial review

The Group recorded a turnover of approximately HK\$2,365,000 for the three-month period ended 30 June 2003 (2002: approximately HK\$526,000), representing approximately 350% increase as compared to the corresponding period in the last financial year.

The net loss attributable to shareholders amounted to approximately HK\$2.87 million for the three-month period ended 30 June 2003 (2002: approximately HK\$4.06 million), representing approximately 29% decrease as compared to the corresponding period in the last financial year. The significant decrease in net loss attributable to shareholders was mainly due to the effectiveness of the Group's marketing and promotional activities to build up and expand its business coverage in the PRC as mentioned in the operation review above.

Prospects

The Directors anticipate that the Group will be facing growing competition and opportunities in the coming years. In view of this, the Group will continue to implement effective strategies and measures to meet the coming challenges and changes. In the near future, the Directors foresee the following business opportunities:–

- The number of internet users in the PRC purchasing online will keep growing. The online payment method will make online trading more compelling. The popularity of online payment services will keep increasing as a result of ease, speed and safety;

- Upon the enhancement in the development of IPS system, the database storage and network coverage of internet payment system will be empowered. This enables the Group to accommodate more potential clients to use the Group's services;
- The membership database in the IPS system will be built up. The Group will be able to provide instant and efficient service and technical support to its clients with such database;
- The business arm in the provision of system integration and related technical support services will further contribute to the Group's performance; and
- Growing business opportunity in Shanghai is expected after Shanghai has been selected as the host city for the "2010 World Expo". As a result, the Group's establishment in Shanghai will be advantageous to the Group for further expansion of its enterprise solutions business arms in the PRC.

The Directors will continue to position the Group to capitalise on the opportunities arising from the growth of e-commerce in the PRC. The Directors will identify prospective complementary business to invest in and will also continue to seek cooperative opportunities with other market practitioners.

Notes:

- a. The interests of Mr. Lau Sik Suen in underlying shares of the Company represent the interests in share options granted to Mr. Lau Sik Suen under certain share option schemes of the Company. The interests of Madam Wu Wai Lai in underlying shares of the Company represent the interests in share options granted to Mr. Lau Yeung Sang, the husband of Madam Wu Wai Lai, under a share option scheme of the Company. Madam Wu Wai Lai is therefore deemed to be interested in these underlying shares.

Details of the interests in share options granted are separately disclosed in the paragraph headed "SHARE OPTION SCHEMES" below.

- b. The family interests of Madam Wu Wai Lai in the ordinary shares of the Company are held by (i) Mr. Lau Yeung Sang, the husband of Madam Wu Wai Lai, and (ii) World One Investments Limited ("World One") of 6,000,000 shares and 229,570,000 respectively. The entire issued share capital of World One is wholly and beneficially owned by Mr. Lau Yeung Sang. Madam Wu Wai Lai is therefore deemed to be interested in these shares.
- c. The corporate interests of Mr. Zhang Wen Bing in the ordinary shares of the Company are held by East Concord International Limited ("East Concord"). The entire share capital of East Concord is wholly and beneficially owned by Mr. Zhang Wen Bing. Mr. Zhang Wen Bing is therefore deemed to be interested in these shares.
- d. During the three-month period ended 30 June 2003, there was no debt securities nor debentures issued by the Group at any time during the period.

Save as disclosed above, as at 30 June 2003, none of the Directors or chief executives or their associates of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares, underlying shares and debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholders	Total interests in ordinary shares	Total interests in underlying shares <i>(Note i)</i>	Aggregate interests	% of the Company's issued share capital
World One <i>(Note ii)</i>	229,570,000	–	229,570,000	35.62%
Mr. Lau Yeung Sang <i>(Note iii)</i>	240,370,000	6,000,000	246,370,000	38.23%
East Concord <i>(Note iv)</i>	130,000,000	–	130,000,000	20.17%
Mr. Lau Kui Long <i>(Note v)</i>	59,990,000	–	59,990,000	9.31%

Notes:

- (i) The interests of Mr. Lau Yeung Sang in underlying shares of the Company represent the interests in share options granted under a share option scheme of the Company. Details of the interests in share options granted are separately disclosed in the paragraph headed "SHARE OPTION SCHEMES" below.
- (ii) World One is wholly and beneficially owned by Mr. Lau Yeung Sang.
- (iii) Total interests of Mr. Lau Yeung Sang in ordinary shares of the Company of 240,370,000 shares referred above include 6,000,000 shares held by Mr. Lau Yeung Sang himself, 4,800,000 shares held by his wife – Madam Wu Wai Lai and 229,570,000 shares held by World One. Mr. Lau Yeung Sang is deemed to be interested in ordinary shares held by Madam Wu Wai Lai and World One.
- (iv) East Concord is wholly and beneficially owned by Mr. Zhang Wen Bing.

- (v) Total interests of Mr. Lau Kui Long in ordinary shares of the Company of 59,990,000 shares include 29,990,000 shares held by Mr. Lau Kui Long himself and 30,000,000 shares held by Great Wall (China) Limited, of which Mr. Lau Kui Long hold 40% share capital of Great Wall (China) Limited. Mr. Lau Kui Long is deemed to be interested in ordinary shares held by Great Wall (China) Limited.

Save as disclosed above, as at 30 June 2003, there was no person (other than a Director or chief executive or their associate of the Company) who had any interests or short positions in the shares, underlying shares and debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEMES

Pursuant to the written resolutions passed by all the shareholders of the Company on 12 October 2001, the Company adopted the following share option schemes:–

(A) Share Option Scheme

The purpose of the Share Option Scheme is to advance the interests of the Company and its shareholders by enabling the Company to grant options to attract, retain and reward all the directors (whether executive or non-executive and whether independent or not), the employees (whether full-time or part-time), any consultants or advisers of or to any company in the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid (“Eligible Persons”) and any other persons who, in the absolute opinion of the Board, have contributed to the Group and to provide to the Eligible Persons a performance incentive for continued and improved service with the Group and by enhancing such persons’ contribution to increase profits by encouraging capital accumulation and share ownership. The Directors may at their discretion, invite any Eligible Persons to take up options to subscribe for shares.

The maximum entitlement for any one participant (including both exercised and outstanding options) in any twelve-month period shall not exceed 1% of the total number of shares in issue.

The period within which the shares must be taken up under the option must not be more than ten years from the date of grant of the option. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. The subscription price for shares in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion may determine save that such price shall not be less than the higher of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option.

A summary of the movements of the share options granted under the Share Option Scheme during the period is as follows:–

Grantees	Date of grant	Vesting period	Exercise period	Exercise Price	Number of share options				
					Outstanding as at 1 April 2003	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2003
Initial management shareholder and employees	7 February 2002	Fully vested on 7 February 2002	7 February 2002 to 6 February 2012	HK\$1.300	1,250,000	-	-	(200,000)	1,050,000
Initial management shareholder and employees	7 February 2002	Fully vested on 7 August 2002	7 August 2002 to 6 February 2012	HK\$1.300	3,000,000	-	-	(3,000,000)	-

Grantees	Date of grant	Vesting period	Exercise period	Exercise Price	Number of share options				
					Outstanding as at 1 April 2003	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2003
Former – executive director	9 April 2002	9 April to 9 October 2002 (inclusive)	Maximum 50%: 9 April 2002 to 8 April 2012 Remaining 50%: 9 October 2002 to 8 April 2012	HK\$1.400 (Note 3)	3,000,000	-	-	-	3,000,000
Senior management and staff of the Group	9 April 2002	Fully vested on 9 April 2002	9 April 2002 to 8 April 2012	HK\$1.400	3,970,000	-	-	(750,000)	3,220,000
Senior management and staff of the Group	22 November 2002	Fully vested on 22 November 2002	22 November 2002 to 21 November 2012	HK\$0.090	3,800,000	-	(1,400,000) (Note 2)	-	2,400,000
Executive director	23 December 2002	Fully vested on 23 December 2002	23 December 2002 to 22 December 2012	HK\$0.108	3,500,000 (Note 4)	-	-	-	3,500,000
Former – executive director	23 December 2002	Fully vested on 23 December 2002	23 December 2002 to 22 December 2012	HK\$0.108	2,000,000 (Note 3)	-	-	-	2,000,000
Senior management and staff of the Group	23 December 2002	Fully vested on 23 December 2002	23 December 2002 to 22 December 2012	HK\$0.108	2,000,000	-	-	-	2,000,000
Senior management and staff of the Group	23 December 2002	1 July 2003 to 1 January 2004 (inclusive)	Maximum 50%: 1 July 2003 to 22 December 2012 Remaining 50%: 1 January 2004 to 22 December 2012	HK\$0.108	11,070,000	-	-	-	11,070,000

Grantees	Date of grant	Vesting period	Exercise period	Exercise Price	Number of share options				
					Outstanding as at 1 April 2003	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2003
Executive director	10 April 2003	10 October 2003 to 9 April 2004 (inclusive)	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK\$0.165 (Note 1)	-	2,000,000 (Note 4)	-	-	2,000,000
Senior management and consultant of the Group	10 April 2003	10 October 2003 to 9 April 2004 (inclusive)	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK\$0.165 (Note 1)	-	7,000,000 (Note 5)	-	-	7,000,000
					33,590,000	9,000,000	(1,400,000)	(3,950,000)	37,240,000

(B) Pre-IPO Share Option Schemes

The purpose of each of the Pre-IPO Share Option Scheme A and the Pre-IPO Share Option Scheme B is to recognise the contribution of certain directors and senior management staff of the Group to the growth of the Group and/or to the listing of the Company's shares on GEM.

(i) Pre-IPO Share Option Scheme A

The persons qualified under this scheme to accept options include executive directors and senior management of the Group.

Under this scheme, options were granted to the executive directors and senior management of the Group to subscribe for an aggregate of 15,600,000 shares in the Company at a price of HK\$0.01 per share.

None of these options can be exercised during the first six months after 26 October 2001 ("Listing Date"). The period within which the shares must be taken up under the option must be within a period of ten years commencing on the expiry of six months after the Listing Date and expiring on the last day of such ten-year period.

Upon acceptance of an option under this scheme, the grantee must pay HK\$1.00 to the Company as consideration for the grant.

There was no share option outstanding under Pre-IPO Share Option Scheme A as at 1 April 2003 and all 15,600,000 shares were subscribed by the exercise of options before the three-month period ended 30 June 2003.

(ii) Pre-IPO Share Option Scheme B

The persons qualified under this scheme to accept options include an executive director, an employee and two consultants.

Under this scheme, options were granted to an executive director, employee and consultants of the Group to subscribe for an aggregate of 16,240,000 shares in the Company at a price of HK\$0.084 per share.

None of these options can be exercised during the first six months after Listing Date. The period within which the shares must be taken up under the option must be within a period of ten years commencing on the expiry of six months after the Listing Date and expiring on the last day of such ten-year period.

Upon acceptance of an option under this scheme, the grantee must pay HK\$1.00 to the Company as consideration for the grant.

A summary of the movements of the share options granted under the Pre-IPO Share Option Scheme B during the period is as follows:–

Grantees	Date of grant	Vesting period	Exercise period	Exercise Price	Number of share options			Outstanding as at 30 June 2003
					Outstanding as at 1 April 2003	Exercised during the period	Lapsed during the period	
Executive director	17 October 2001	Fully vested on 26 April 2002	26 April 2002 to 25 April 2012	HK\$0.084	7,840,000 (Note 4)	-	-	7,840,000
Senior management/ consultants of the Group	17 and 18 October 2001	Fully vested on 26 April 2002	26 April 2002 to 25 April 2012	HK\$0.084	8,300,000	(1,150,000) (Note 2)	(6,600,000)	550,000
					<u>16,140,000</u>	<u>(1,150,000)</u>	<u>(6,600,000)</u>	<u>8,390,000</u>

Notes:–

- (1) The closing price of the shares immediately before the date on which the options were granted was HK\$0.165.
- (2) The weighted average closing price of the shares immediately before the exercise date of the share options was HK\$0.13.
- (3) The share options were previously granted to Mr. Man Wing Pong, a former executive director of the Company. Upon his resignation as an executive director on 6 June 2003, Mr. Man Wing Pong remained as senior management of the Group.
- (4) The share options were granted to Mr. Lau Sik Suen, an executive director of the Company.
- (5) The share options were granted to (i) Mr. Lau Yeung Sang, a substantial shareholder and also a consultant of the Group, for 6,000,000 shares and (ii) Mr. Man Wing Pong for 1,000,000 shares.

- (6) The Company received a consideration of HK\$1.00 from each of the grantees of the share option schemes.
- (7) The directors consider it is inappropriate to value the share options as the generally accepted methodology to calculate the value of options such as the Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected share price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, such generally accepted methodology such as the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the Company's share options.

COMPETING INTERESTS

During the period under review, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their associates had any interest in any business that competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the three-month period ended 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

SPONSOR'S INTERESTS

DBS Asia Capital Limited ("DBS Asia") has been appointed as the continuing sponsor of the Company for the purpose of the GEM Listing Rules. Pursuant to the sponsorship agreement dated 4 May 2001 between the Company and DBS Asia, DBS Asia received and will receive fees for acting as the Company's continuing sponsor for the period from 26 October 2001 to 31 March 2004.

As updated and notified by DBS Asia, as at 30 June 2003, neither DBS Asia nor any of its directors, employees or associates had any interests in the listed shares of the Company or shares of any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the listed shares of the Company or shares of any member of the Group.

AUDIT COMMITTEE

The Company has established an audit committee on 12 October 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control systems.

The audit committee currently comprises two independent non-executive directors, namely Mr. Wan Xie Qiu and Mr. Meng Li Hui, and the company secretary of the Group, Mr. Man Kwok Leung. Mr. Meng Li Hui is the chairman of the audit committee. Mr. Man Kwok Leung is a replacement of Mr. Wong Chun Kit.

The Group's unaudited results for the three-month period ended 30 June 2003 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standard and the requirements of GEM Listing Rules and adequate disclosures had been made.

BOARD PRACTICES AND PROCEDURES

During the three-month period ended 30 June 2003, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By order of the Board

Lau Sik Suen

Director

Hong Kong, 12 August 2003