



Jian ePayment Systems Limited

華普智通系統有限公司

(incorporated in the Cayman Islands with limited liability)



INTERIM REPORT 2003

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 the 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. 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 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 Jian ePayment Systems Limited (the “Company”) collectively and individually accept responsibility includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover for the six months ended 30 June 2003 was approximately RMB2,202,000, which represented a decrease of approximately 94% as compared to that of the corresponding period in 2002.
- Loss attributable to shareholders amounted to RMB8,341,000 for the six months ended 30 June 2003.
- Basic losses per share amounted to RMB0.021 for the six months ended 30 June 2003.

RESULTS

The Board of Directors ("the Board") of Jian ePayment Systems Limited ("the Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries for the six months and three months ended 30 June 2003 with comparative figure of the same period in 2002.

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2003	2002	2003	2002
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Turnover and revenue	3	589	27,437	2,202	36,261
Cost of sales		(29)	(7,339)	(693)	(8,269)
Gross profit		560	20,098	1,509	27,992
Distribution expenses		(403)	(1,022)	(956)	(1,446)
Research and development costs		(135)	(658)	(769)	(920)
General and administration expenses		(4,887)	(3,683)	(8,799)	(6,567)
(Loss)/profit from operations		(4,865)	14,735	(9,015)	19,059
Subsidy income		–	–	1,416	410
Interest income		2	7	6	22
Interest expense		(357)	(178)	(748)	(318)
(Loss)/profit before taxation	4	(5,220)	14,564	(8,341)	19,173
Taxation	5	–	–	–	–
(Loss)/profit after taxation but before minority interests		(5,220)	14,564	(8,341)	19,173
Minority interests		–	(161)	–	(218)
(Loss)/profit attributable to shareholders		<u>(5,220)</u>	<u>14,403</u>	<u>(8,341)</u>	<u>18,955</u>
(Losses)/earnings per share	6	RMB	RMB	RMB	RMB
– basic		<u>(0.013)</u>	<u>0.036</u>	<u>(0.021)</u>	<u>0.047</u>
– diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

		As at 30 June 2003	As at 31 December 2002
	<i>Notes</i>	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
ASSETS			
Non-current assets			
Fixed assets, net	9	57,689	57,466
Goodwill, net	10	1,463	1,568
Total non-current assets		<u>59,152</u>	<u>59,034</u>
Current assets			
Inventories		4,229	4,521
Accounts receivable	11	22,965	38,433
Prepayments and deposits	12	3,056	6,537
Other receivables	13	10,511	2,328
Due from a related company		360	45
Other current assets		1,949	2,022
Cash and cash equivalents		6,565	13,272
Total current assets		<u>49,635</u>	<u>67,158</u>
Current liabilities			
Accounts payable	14	9,624	9,143
Due to related companies		9	14
Due to the ultimate holding company		823	906
Deposit from customers		286	300
Accruals and other payables	15	13,245	18,688
Short-term borrowings		5,306	9,306
Total current liabilities		<u>29,293</u>	<u>38,357</u>
Net current assets		<u>20,342</u>	<u>28,801</u>
Total assets less current liabilities		<u><u>79,494</u></u>	<u><u>87,835</u></u>
EQUITY			
Capital and reserves			
Share capital		21,208	21,208
Reserves	16	47,675	56,016
Total capital and reserves		68,883	77,224
Minority interests		-	-
Non-current liabilities			
Convertible notes		10,611	10,611
		<u>79,494</u>	<u>87,835</u>

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	2003 <i>RMB'000</i> <i>(Unaudited)</i>	2002 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash (outflow) inflow from operating activities	<u>(35)</u>	<u>11,552</u>
Cash flows from investing activities		
Purchases of fixed assets	(2,595)	(440)
Effect of foreign exchange difference	–	51
Decrease in pledged bank deposits	–	2,980
Interest received	<u>6</u>	<u>22</u>
Net cash (outflow) inflow from investing activities	<u>(2,589)</u>	<u>2,613</u>
Net cash (outflow) inflow before financing	<u>(2,624)</u>	<u>14,165</u>
Cash flows from financing activities		
Repayment of bank loans	(4,000)	(2,850)
Increase in payable to minority interest	–	214
Advances (to) from the ultimate holding company	<u>(83)</u>	<u>–</u>
Net cash outflow from financing activities	<u>(4,083)</u>	<u>(2,636)</u>
(Decrease)/increase in cash and cash equivalents	(6,707)	11,529
Cash and cash equivalents, beginning of period	<u>13,272</u>	<u>22,329</u>
Cash and cash equivalents, end of period	<u><u>6,565</u></u>	<u><u>33,858</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	2003 <i>RMB'000</i> <i>(Unaudited)</i>	2002 <i>RMB'000</i> <i>(Unaudited)</i>
Total equity as at 1 January	77,224	52,901
Exchange difference on translation of the financial statements of foreign entities	–	51
(Loss)/profit attributable to shareholders	<u>(8,341)</u>	<u>18,955</u>
Total equity as at 30 June	<u><u>68,883</u></u>	<u><u>71,907</u></u>

1. BASIS OF CONSOLIDATION

The Company was incorporated in the Cayman Islands on 30 November 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 December 2001.

The Company is an investment holding company. The Group is principally engaged in the development and operation of a back end electronic receipt/payment and data recording and processing software system ("Jian ePayment System") and manufacturing and distribution of the associated commercial applications.

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement, respectively.

Significant intra-group transactions and balances have been eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 "Interim Financial Reporting", and on a basis consistent with the accounting policies adopted by the Group in preparation of its financial statements for the year ended 31 December 2002.

The financial statements are prepared on historical convention and in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

3. TURNOVER AND REVENUE

Turnover represents gross invoiced sales (excluding value-added tax), net of discounts and returns.

Turnover consisted of:

	Three months ended 30 June		Six months ended 30 June	
	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)
Sales of hardware and software	–	27,066	1,309	28,356
Provision of systems integration services	–	–	–	7,076
Transaction levies	589	371	893	829
	<u>589</u>	<u>27,437</u>	<u>2,202</u>	<u>36,261</u>

4. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation was arrived at after crediting and charging the following:

	Six months ended 30 June	
	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)
Crediting:		
Interest income on bank deposits	6	22
Exchange gain, net	<u>–</u>	<u>8</u>
Charging:		
Exchange loss, net	–	–
Cost of goods sold	693	8,269
Interest expense on bank loans repayable within five years	112	318
Interest expense on other borrowings	318	–
Interest expense on convertible notes	318	–
Depreciation of fixed assets	2,372	241
Amortisation of goodwill	105	105
Operating lease rentals on premises	<u>1,338</u>	<u>902</u>

5. TAXATION

The companies comprising the Group are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which they operate.

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided for as the Group has no assessable profit arising in or derived from those jurisdictions during the six months ended 30 June 2003 (2002: Nil).

The Group's subsidiary, Zhengzhou Jian-O'Yuan ITS Systems Co. Ltd. ('Jian-O'Yuan'), was incorporated in the PRC as a privately owned limited liability company on 26th April, 1999. In July 2001, Jian-O'Yuan obtained the tax registration as an enterprise with foreign investment. Pursuant to the PRC laws of Enterprise Income Tax ('EIT') for Enterprises with foreign Investment and Foreign Enterprise, as a manufacturing enterprise with foreign investment, Jian-O'Yuan is entitled to full exemption from EIT for the first two years and a 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. The first profitable year of Jian-O'Yuan was 2002 and, Jian-O'Yuan is entitled to the EIT exemption from year 2002 and 2003 as an enterprise with foreign investment.

No EIT provision for the other two subsidiaries incorporated in the PRC, Beijing Jian ePayment Science and Technology Co., Ltd. and Wuhan Jian ePayment Science and Technology Co., Ltd., as they have no assessable profit during the six months ended 30 June 2003.

There was no significant unprovided deferred taxation for the six months ended 30 June 2003 (2002: Nil).

6. (LOSSES)/EARNINGS PER SHARE

The calculation of basic losses per share for the six months ended 30 June 2003 are based on the loss attributable to shareholders of approximately RMB8,341,000 (2002: profit attributable to shareholders of approximately RMB18,955,000) and the weighted average number of 400,000,000 shares (2002: 400,000,000 shares) deemed to be in issue during the period.

No diluted earnings per share are presented for the six months ended 30 June 2003 and 2002 because the exercise price of the Company's options was higher than the average market price of the Company's shares after the options were granted.

7. DIVIDEND

The directors do not recommend the payment of dividend for the period from 1 January 2003 to 30 June 2003 (2002: Nil).

8. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

The Group had the following material transactions with related parties, which the directors considered were conducted in the normal course of business:

	Six months ended 30 June	
	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)
(i) Sales of hardware and software, provision of systems integration services and transaction levies		
– Nanning Huapu Zhengfang Parking Construction and Management Co., Ltd.	42	6,102
– Guangzhou Electronic Parking Management Co. Ltd.	106	95
– Haikou Huapu Lide Parking Management Co. Ltd.	56	48
– Yichang Wuhua Electronic Parking Management Co., Ltd.	4	–
– Weihai Tian Chuang Electronic System Co., Ltd.	5	–
– Zhengzhou Daokang Electronic Parking Management Co., Ltd.	20	–
	<u>233</u>	<u>6,245</u>
(ii) Operating leases rentals paid/payable to:		
– Beijing Huapu International Plaza Co. Ltd.	468	468
– Qingdao Huapu Business Union Building Co. Ltd.	–	30
– A director	191	180
	<u>659</u>	<u>678</u>

(b) Guarantee provided by a related company

As at 31 December 2002, a short-term bank loan of RMB4,000,000 borrowed by a subsidiary of the Group was secured by a mortgage over leasehold land and buildings of Beijing Jian Enterprise (Group) Co. Ltd. ("Beijing Jian Enterprise") and a corporate guarantee provided by Beijing Jian Enterprise. The short-term bank loan was repaid as at 30 May 2003, and the mortgage and corporate guarantee provided by Beijing Jian Enterprise were released.

9. FIXED ASSETS, NET

	2003 (unaudited)					Total
	Systems	Machinery	Office equipment	Leasehold improve-ments	Systems under development	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
COST						
As at 1 January	–	802	934	92	56,286	58,114
Additions	–	–	203	–	2,392	2,595
Transfer	32,824	1,686	3	–	(34,513)	–
As at 30 June	32,824	2,488	1,140	92	24,165	60,709
ACCUMULATED DEPRECIATION						
As at 1 January	–	332	231	85	–	648
Provision for the period	1,999	271	95	7	–	2,372
As at 30 June	1,999	603	326	92	–	3,020
NET BOOK VALUE						
As at 30 June	30,825	1,885	814	–	24,165	57,689
As at 1 January	–	470	703	7	56,286	57,466

10. GOODWILL, NET

	2003
	RMB'000
	(Unaudited)
Cost	
As at 1 January	2,090
Additions	–
As at 30 June	2,090
Amortisation	
As at 1 January	522
Charge for the period	105
As at 30 June	627
Net book value	
As at 30 June	1,463
As at 1 January	1,568

Goodwill was recognised upon the acquisition of 18% equity interest in Jian-O'Yuan. The directors are of the opinion that the recoverable amount of goodwill was not less than its carrying amount as at 30 June 2003.

11. ACCOUNTS RECEIVABLE

Ageing analysis of accounts receivable was as follows:

	As at 30 June 2003 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2002 <i>RMB'000</i> <i>(Audited)</i>
0-30 days	342	4,413
31-60 days	53	5,083
61-90 days	180	6,284
91-120 days	107	575
121-180 days	1,710	236
181-365 days	15,092	23,842
Over 365 days	7,481	–
	<hr/>	<hr/>
	24,965	40,433
Provision for doubtful accounts	(2,000)	(2,000)
	<hr/>	<hr/>
	22,965	38,433
	<hr/> <hr/>	<hr/> <hr/>

Out of the trade receivables with balances overdue more than 180 days, approximately RMB11,600,000 was settled up to 31 July 2003.

12. PREPAYMENTS AND DEPOSITS

	As at 30 June 2003 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2002 <i>RMB'000</i> <i>(Audited)</i>
Prepayments to suppliers	3,056	1,416
Prepayments of enterprise income tax ("EIT")	–	5,121
	<hr/>	<hr/>
	3,056	6,537
	<hr/> <hr/>	<hr/> <hr/>

13. OTHER RECEIVABLES

	As at 30 June 2003	As at 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Advances to staff	394	794
Deposits for interests of convertible notes	637	1,061
Others	9,480	473
	<u>10,511</u>	<u>2,328</u>

The advances to staff were unsecured, non-interest bearing and repayable on demand.

14. ACCOUNTS PAYABLE

The ageing analysis of accounts payable was as follows:

	As at 30 June 2003	As at 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
0-30 days	394	1,488
31-60 days	–	1,574
61-90 days	195	–
91-120 days	–	217
121-180 days	–	476
181-365 days	4,028	5,388
Over 365 days	5,007	–
	<u>9,624</u>	<u>9,143</u>

15. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2003	As at 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Value-added tax payable	6,096	8,634
Provision for staff and workers' bonus and welfare fund	817	817
Other payables	1,891	1,328
Payable for purchase of fixed assets	–	4,260
Accruals for operating expenses	3,745	2,606
Salary and welfare payable	696	1,043
	<u>13,245</u>	<u>18,688</u>

16. RESERVES

	Share premium	Capital reserve	General reserve fund	Enterprise expansion fund	Cumulative translation adjustment	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Consolidated (unaudited)							
Balances, as at 1 January 2003	1,476	6,304	2,870	1,435	(8)	43,939	56,016
Foreign exchange adjustment (Loss)/profit attributed to shareholders	-	-	-	-	-	-	-
	-	-	-	-	-	(8,341)	(8,341)
Balances, as at 30 June 2003	<u>1,476</u>	<u>6,304</u>	<u>2,870</u>	<u>1,435</u>	<u>(8)</u>	<u>35,598</u>	<u>47,675</u>

17. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2003 not provided for in the accounts are summarised as follows:

	As at 30 June 2003 RMB'000 (Unaudited)	As at 31 December 2002 RMB'000 (Audited)
Contracted	2,451	4,843
Authorised but not contracted	-	11,040
	<u>2,451</u>	<u>15,883</u>

(b) Operating lease commitments

The Group leases plant and office premises under operating leases. The leases typically run for an initial period of three to four years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually adjusted annually to reflect market rentals. None of the leases includes contingent rentals.

As at 30 June 2003, the total future aggregate minimum lease payments payable under non-cancelable operating leases of the Group are as follows:

	As at 30 June 2003	As at 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Amount payable		
– Not later than one year	1,128	2,354
– Later than one year and not later than five years	3,060	2,302
	<u>4,188</u>	<u>4,656</u>

18. SEGMENT REPORTING

a. Business segment

The Group is principally engaged in a focused line of business, namely the development and operation of Jian ePayment System, and manufacturing and distribution of the associated commercial applications in the PRC.

b. Geographical segments

The Group's activities for the six months ended 30 June 2003 and corresponding period of 2002 are mainly conducted in the Southern China, Northern China, Central China, Eastern China and Northeastern China in the PRC. An analysis by geographical segment is as follows:

	Southern China		Northern China		Central China		Eastern China		Northeastern China		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
External sales	204	6,245	24	-	1,899	371	5	4,940	70	24,705	<u>2,202</u>	<u>36,261</u>
Contribution to net income	194	4,790	21	-	1,223	371	5	4,414	66	18,417	<u>1,509</u>	<u>27,992</u>

FINANCIAL REVIEW

For the six months ended 30 June, 2003, the Group's turnover amounted to RMB2,202,000. Loss attributable to shareholders for this period was RMB8,341,000.

The Group recorded approximately RMB1,309,000 in revenue of Jian ePayment (華普智通) software and hardware sales and approximately RMB893,000 in transaction levies for the first half of the year. The dramatic fall in software and hardware sales revenue is attributed to the absence of any launch of any electronic parking fee collection system in the first half of the year 2003, i.e. no recognised revenue from the sale of hardware and software of roadside parking fee collection system and system integration for the period while in the past, these revenues constituted the main source of the Group's revenue. The increase in the number of Jian Smart Passes in circulation and the frequency of using smart cards were a result of the Group's efforts of strengthening the management and application promotion of roadside parking fee collection systems and the expansion of the number of cities adopting Jian ePayment Systems and the size of roadside parking fee collection areas in those cities. This led to an increase in the transaction levies recorded by the Group. The revenue derived from transaction levies by the Group for the three months ended 30 June 2003 was RMB589,000, an increase of 59% over that of the corresponding period of the preceding year.

The Group made overall losses for this six months period of the year mainly because of a dramatic fall in sales revenue as compared with that of last year. The contracts of installation of roadside parking fee collection systems in four cities namely Beijing, Guangzhou, Nanchang and Qingdao were valued at approximately RMB73,000,000 between the second half of 2002 and the first half of 2003, according to the business plan disclosed in the prospectus published by the Group on 27 November, 2001, but the revenue for installing parking fee collection systems in the above-mentioned four cities for the first half of the year only reached RMB20,000,000 as the progress of parking fee collection projects conducted by the Group's clients in each city was delayed by slower government planning. Moreover, because of the outbreak of Severe Acute Respiratory Syndrome ("SARS") in mainland China, the Group's business in the first half of the year was also adversely affected, leading to a decrease in business revenue. For the first half of 2003, there was no recognised sales revenue of parking system software and hardware as well as system integration. Meanwhile, the construction of a complete system of "One Card Multiple Uses" in Wuhan was the Group's business priority of the year aiming at achieving economies of scale with transaction volume and amount of transaction levies, but the performance was not fully reflected during the period. As a result, losses were made when revenue dropped but expenditure was increased for this quarter.

The distribution expenses was decreased due to the reduction in turnover for the period. However, the general and administration expenses was increased as a result of expansion of the Group's PRC operation. The "One Pass Multiple Uses" Scheme in Wuhan had commenced since June 2002, the full six months operation of Wuhan subsidiary in this period resulted a higher level of general and administration expenses of the Group in this period than the corresponding period in 2002.

In addition, the interest expenses for the period increased due to an increase in interest expenses on a convertible notes which was issued in November 2002.

BUSINESS DEVELOPMENT

The Group has been committed from the beginning to developing the Jian ePayment smart card system into a large scale electronic payment system accepted and used throughout China. The business goal of this year is to build a mature system of "One Card Multiple Uses" in Wuhan first, realizing the scale of economies in the Jian ePayment system transaction volume and amount of transaction levies. We will also expand the use of the Jian ePayment multi-application system to other cities such as Beijing and Haikou on the basis of the experience of operating the system in Wuhan. In the first half of the year, the Group concentrated on building the system of "One Card Multiple Uses" in Wuhan by utilizing substantial manpower and material resources. Meanwhile, the Group actively researched new application systems after the installation of the system for roadside parking, super-market shopping, consumption in chain drugstores and convenience stores in the preceding year. The adoption of the Jian ePayment system in the sector of public services such as parks has already succeeded and will extend to larger areas soon. The way and measures of expanding the use of the Jian ePayment system in other retail sectors, including large chain bookstores are being studied. The Group's strategy is to concentrate the comprehensive and intensive utilization of the Jian ePayment application system in focused districts and communities instead of building a system with scattered networks, higher transaction costs and low scale of economies in the past. A change in the deployment of the system is believed to yield benefits in the near future.

The retailers in Wuhan who subscribed for the use of commercial smart card readers numbered over 4,400 for the first half of 2003 with the number of smart card readers installed growing beyond 1,100.

The Group extended the use of the commercial smart card reader system to Beijing according to the Wuhan model in the first half of the year, increasing the number of cities adopting the system of "One Card Multiple Uses" to two. Currently, 28 Jian ePayment smart commercial card readers have been installed in nine supermarkets in Beijing and have entered the pilot operation stage. The Group intends to extend the operation of the system of "One Card Multiple Uses" in Beijing on the basis of its experience of operating the system in Wuhan. After the success in the operation of the system in Beijing and Wuhan, we will start the trial integration of the Jian ePayment systems for applying the Jian ePayment Passes through out cities in the PRC.

The Group continuous to improve the quality and capacity of the application system and after sales service in this half year of 2003, after the success in launching roadside parking fee collection systems in ten cities at the end of last year. There are no cities that had commenced operation of the Jian ePayment parking system in this period of time, constituting a relatively great impact on the financial results of the Group. The Group will keep on introducing the Jian ePayment parking system to a number of cities that intend to adopt roadside parking systems.

The sales of Jian ePayment automatic vending machine, bring certain revenue to the Group. It is expected that the Group will attract more clients while this equipment is being popularised. In near term, the application of Jian ePayment automatic vending machine will be promoted in Wuhan and Beijing where in the previous time it shows that urbanities are more adaptable and it is effective for focused promotion of new services there. Therefore, the Group plans to expand the use of this equipment in high-end office buildings, hotels, parks and communities to coincide with the simultaneous operation of other terminal equipment of Jian ePayment smart cards through corporate sales and operating leases.

RESEARCH AND DEVELOPMENT

The Group is actively involved in research and development, both extensively and intensively, of the commercial application of “One Card Multiple Uses” of the Jian ePayment smart card system. The Jian ePayment park fee collection sub-system, school campus comprehensive application system and taxi payment collection sub-system successfully developed in this period have entered the pilot use stage. This has substantially expanded the scope of applying the commercial application sub-system strenuously promoted by the Group in Wuhan. As the Group has come into the stage of stable business development, its research and development concentrates on integrating and improving original products in order to meet the requirement of various users and to make good use of the resources of comprehensive data management systems constructed by the Group in Wuhan and Beijing in the preceding year.

While placing emphasis on research and development for the first half of the year, the Group also concentrated on system after-sales services in order to bolster the promotion of the Jian ePayment system in the market. This is believed to be able to improve the services offered to card users and cooperating merchant customers and hence paving the way for expansion of the system scale and growth in the number of cards in use.

Because the development of the IC card payment service market in mainland China is quicker than expected, the Group concentrated its research resources on multi-card systems. Such research has already entered the laboratory testing stage. The Group also tracked the trend of the international development of special-shaped cards and researched developing special-shaped Jian Smart Passes such as key holders and personal accessories.

SALES AND MARKET PROMOTION

Currently, the Group is engaged in business negotiation and promotion in China's large- and medium-sized cities, of which negotiations in several cities have entered the stage of finalising contracts. The Group is confident in making agreements with these cities in the second half of the year.

The outbreak of SARS seriously affected the distribution channel of Jian Smart Passes, leading to a sluggish growth of the number of passes in circulation. However, the passes in circulation numbered 440,000 in June of 2003, of which the passes issued in Wuhan numbered over 120,000. While believing that the acceptance of the Jian ePayment system by Wuhan has become mature, the Group made great efforts in promoting the “One Card Multiple Uses” of the Jian ePayment system in the city. An electronic settlement operation centre was also established by the Group by using newly developed system management software, substantially enhancing the functions of settlement.

PROSPECTS

The Group is consistently dedicated to the development of its electronic payment system in China, driving up the number of cities utilizing Jian Smart Passes and expanding the scope of its application in each city. The number of Jian Smart Passes users, the transaction volume and amount of transaction levies all increased markedly accordingly.

No revenue of sales of roadside parking system hardwares and softwares and no revenue of system integration was recognised and losses were recorded for the first half of the year as a result of the effect on operations caused by the epidemic situation of SARS, which has affected many areas of China and has lasted for a substantial period of time in the first half of 2003. The Directors of the Group still firmly believe that Jian Smart Passes will be the convenience cards widely and frequently held and used by residents of several Chinese cities today. This is based on the fact that convenience card electronic payment has become a consumption trend as the Jian Smart Pass has already laid solid foundation in several Chinese cities and has made breakthrough of development in Wuhan. The Directors also believe that the upcoming all-round development of system application will bring substantial profits to the Group at the same time.

The Group has been prioritizing the application of “One Card Multiple Uses” of Jian ePayment system to quickly reinforces its presence on China’s market. In June 2003, the Group promoted its “One Card Multiple Uses” Jian ePayment retail sub-system to many and various businesses in Wuhan according its clearly defined market strategy. We hope to make Wuhan a model city of applying “One Card Multiple Uses” of the Jian ePayment system and continue to extend the use of this system in Beijing and other cities in the second half of the year.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In accordance with the requirements of the GEM Listing Rules, Jian ePayment Systems Limited sets out the comparison between the Group’s business objectives as contained in the Prospectus dated 27 November, 2001 (“Prospectus”) and its actual business progress for the period from 1 January 2003 to 30 June 2003 (“the Period”).

Business Objectives as set out in the Prospectus

Actual Business Progress during the Period

Research and Development

Commence the development of parking facilities sub-system at parking facilities other than roadside car parking spaces, such as private, multi-storey parking facilities.

Successfully completed the testing and pilot operation of the private parking facilities sub-system in June 2002. The marketing department has already commenced organizing the promotion of this system and this sub-system is expected to be put into market in near future. The project of developing multi-storey parking management system has already put on research and development agenda.

Commence the development of integrating the Jian ePayment System established in various cities including Wuhan, Guangzhou, Haikou, Qingdao, etc. in the PRC so that a Jian Smart Pass is operable throughout the PRC.

The Group has embarked on research and development in the integration of the Jian ePayment smart card system as the pilot operation of the commercial system in Beijing was under way in the first half of 2003. The technical work of integration will be nearer the finalisation stage when the scale of commercial systems in Wuhan and Beijing are expanded.

Explore new commercial application sub-systems.

The development of the multiple purposes commercial application system entered the stage of designing solutions in the first half of 2003. All-round integration and upgrade of the software system has also been inaugurated.

Application status

	Number of cities with which the Group has agreements to develop commercial applications (Accumulated figures)		Number of cities where commercial applications are in operation (Accumulated figures)		Number of cities where the development of commercial applications are in progress (Accumulated figures)		Number of operating smart card readers (Accumulated figures)	
	Business Objective	Actual Business	Business Objective	Actual Business	Business Objective	Actual Business	Business Objective	Actual Business
	(not less than)	Progress	(not less than)	Progress	(not less than)	Progress	(not less than)	Progress
Roadside car parking	13	11	12	10	1	1	15,000	15,399 (Note1)
Retail	7	2	7	2	-	-	80	1,134 (Note2)
Public transportation	2	-	2	-	-	-	800	- (Note3)
Highway tolls	1	-	1	-	-	-	10,000	- (Note4)

(Note 1) The Group has entered into ten contracts on roadside car parking system applications. As the municipal governments of two cities need more time to finalise the implementation of their respective roadside car parking applications, they are expected to commence operation in only the second half of 2003.

(Note 2) As the customers have slowed down their expansion plans, the implementation of the retail application system in various cities was slower than expected. As the Company had entered into agreements with a number of retail customers in Wuhan and Beijing during the period, the growth of retail application is expected to pick up in the second half of 2003. The Group focused on promoting Jian ePayment Systems to those cities which have better foundation for the systems, and had been seeking new breakthrough in the merchant customers in those cities, however, due to the effect of SARS, the progress was delayed.

(Note 3) As the customers required more time to finalise the detailed terms of agreement and the specification of the public transportation application system, the implementation of the application was slower than planned.

(Note 4) In 2002, the Group had installed a toll collection system at the Yangtze River Toll Bridge II in Wuhan and had commenced trial operation, which was subsequently terminated due to the scrapping of toll collection at bridges within the urban area by the Wuhan Municipal Government. The Group's promotion of its toll bridge collection system was originally concentrated on urban toll bridge operators in large- to medium-size cities in the PRC. However, as these cities recently scrapped the policy of toll collection at bridges in urban area, the Group has focused its promotion efforts on inter-city toll bridge operators starting from 2003. This resulted in the delay in implementation of the plan originally conceived by the Group in respect of the toll bridge collection system.

Marketing

- Continue to promote the Jian ePayment System to municipal governments and merchants. The Group promoted Jian ePayment roadside parking system to Lianyungang, Siping and other cities notwithstanding the tremendous impact of SARS epidemic situation in mainland China.
- Continue to place printed advertisements and participate in trade shows, seminars and exhibitions to arouse public interest in the Jian ePayment System. The system aroused the interest of parking meter sellers of the United States and other attended cities at the “International Parking Conference and Exhibition” organized by “International Parking Association” in Long Beach city of California, U.S.A from May 18 to 21, 2003.
- Expand the marketing team and establish service centres in PRC cities to serve customers and promote the Jian ePayment System. The outbreak of SARS in mainland China retarded the work of establishing promotion teams and service centres in large cities.

Card Circulation

- A total of not less than 600,000 Jian Smart Passes in circulation. Jian Smart Passes in circulation reached 440,000, which fell short of the target because the number of cities applying the Jian ePayment system was lower than expected; and market promotion targeted at public transportation projects encountered setbacks.

Human Resources

- Number of full-time staff expected to increase to 180. Number of full-time staff reached 162.

LIQUIDITY AND FINANCIAL RESOURCES

Save for the listing proceeds, the Group generally finances its operations with internally generated cashflow. The Group issued a HK\$10,000,000 convertible note in November 2002 for the purpose of establishing subsidiaries and operation centres in Beijing and Wuhan, and acquiring the remaining 1% equity interest of Zhengzhou Jian O’Yuan ITS Systems Co. Ltd (“Jian O’ Yuan”). The balance of the proceeds of the convertible note will be used as working capital.

The Group also has outstanding short-term interest bearing borrowings of HK\$5,000,000 for the purpose of working capital.

The Group currently has cash and cash equivalents of RMB6,565,000, while the current ratio has changed from 1.75 times for 2002 to 1.69 times for the period end and the gearing ratio, defined as the ratio of total debt to total assets, has changed from 39% for 2002 to 37% for the period end.

SIGNIFICANT INVESTMENTS

Save for the Company's investments in its subsidiaries, the Group did not have any significant investment.

Other than those disclosed in the section headed "capital commitments", the Company did not have any plan for material investments and acquisition of material capital assets as at 30 June 2003.

EMPLOYEE INFORMATION

At 30 June 2003, the Company employed 162 employees (2002: 134). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include medical insurance and pensions fund. Staff cost was approximately RMB5,275,000 for the six months ended 30 June 2003 as compared with that of approximately RMB4,082,000 for the corresponding period of the preceding financial year.

USE OF PROCEEDS

For the six months ended 30 June, 2003, the net proceeds from the issue of new shares of the Company were applied pursuant to the proposed use as stated in the Prospectus as follows:

	Amount utilised for the six months ended 30 June 2003			
	Planned Use		Actual Use	
	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>
Research and development of contactless smart card technological know-how and commercial applications	1,500	1,592	725	769
Research and development of automated Jian Rechargers and related peripheral equipment	–	–	–	–
Marketing	1,000	1,061	901	956
Additional working capital	692	734	692	734
Total	<u>3,192</u>	<u>3,387</u>	<u>2,318</u>	<u>2,459</u>

On 18 November 2002, the Company entered into a subscription agreement to issue a Convertible Note (the "First Convertible Note") for HK\$10 million with an option for the subscriber to subscribe, within 6 months, for another Convertible Note for HK\$10 million (the "Second Convertible Note") from the date of subscription agreement. The Second Convertible Note was not subscribed up to 18 May 2003 and was then lapsed. The First Convertible Note of HK\$10 million was subscribed and the net proceeds HK\$9,500,000 from the issue of First Convertible Note of the Company were applied pursuant to the proposed use as stated in the Circular dated 16 December 2002 as follows:

	Planned Use		Actual amount utilised up to the six months ended 30 June 2003	
	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>
Establishment of new subsidiaries and establishment of operation centres in Wuhan and Beijing PRC	6,600	7,003	6,600	7,003
Acquisition of the remaining 1% interest in Jian O'Yuan	500	531	509	540
General working capital	2,400	2,546	2,391	2,537
	<u>9,500</u>	<u>10,080</u>	<u>9,500</u>	<u>10,080</u>

CONTINGENT LIABILITIES

As at 30 June 2003, the Group did not have any contingent liabilities.

CHARGES ON ASSETS

As at 30 June 2003, the Group did not have any charge on its assets.

EXCHANGE RATE EXPOSURE

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, US dollar or Renminbi. As the exchange rates among Hong Kong dollar, US dollar and Renminbi were relatively stable during the period, the Group was not exposed to material foreign exchange risk.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DISCLOSURE OF DIRECTORS' INTERESTS

As at 30 June 2003, the interest of the Directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Aggregate long positions in shares and underlying shares

Director	Name of company	Class of shares	Number of shares hold			Aggregate percentage of long Position
			Personal interests	Family interests	Corporate interests	
Mr. Chin Ying Hoi	The Company	ordinary	2,000,000 underlying shares representing 0.5% of the shares then in issue (Note1)	-	286,800,000 shares representing 71.7% of the shares then issued (Note 2)	72.2% (Note 3)
Mr. Chin Ying Hoi	Union Perfect International Limited	ordinary	84 shares of US\$1.00 each representing 80% of the shares then in issue	-	-	

Note 1: These are the underlying shares of the Company in respect of which an option was granted to Mr. Chin Ying Hoi (details of which are set out below.) The percentage was calculated on the basis of 400,000,000 shares in issue as at 30 June 2003.

Note 2: These shares were held through Union Perfect International Limited, which is beneficially owned as to 80% by Mr. Chin Ying Hoi and as to 20% by Ms. Ya Zhen Quan, who is Mr. Chin Ying Hoi's mother.

Note 3: Based on 400,000,000 shares in issue on 30 June 2003.

Aggregate long positions in underlying shares

Unlisted physically settled equity derivatives

Pursuant to the Company's Share Option Scheme adopted by the Company on 19 November 2001, the following directors of the Company have personal interests in options to subscribe for ordinary shares in the Company of HK\$0.05 each which have been granted to them for a consideration of HK\$1 as follows:

Name of Director	Date of grant	Vesting Period and percentage of vested options (Note)	Exercise price per share	Outstanding number of share under option as at 30 June 2003
Mr Chin Ying Hoi	31 May 2002	50%	HK\$2.35	2,000,000
Mr. Liu De Fu	31 May 2002	50%	HK\$2.35	700,000
Mr. Guo Yan Hong	31 May 2002	50%	HK\$2.35	400,000
Mr Li Sui Yang	31 May 2002	50%	HK\$2.35	1,000,000
Ms Wang Yan	31 May 2002	50%	HK\$2.35	500,000
				<hr/> <hr/> 4,600,000

Note: All options are exercisable to the extent of an additional 25 per cent at the beginning of every full year after the offer of the grant and they are exercisable in full until the forth year after the offer of the grant. All options have a duration of 5 years from the date on which the offer of grant was made.

None of the above options were exercised, cancelled or lapsed during the six months ended 30 June 2003.

Save as disclosed herein, at no time during the period was the Company, its subsidiaries or holding company a party to any arrangements to enable any of the Company's directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company.

Aggregate short positions in underlying shares

Unlisted physically settled equity derivatives

Name of Director	Name of Company	Number of shares in short position
Mr. Chin Ying Hoi	The Company	39,000,000 shares representing 9.75% of shares then issued. (Note)

Note: These shares in short position were represented by 35,000,000 options granted by the Company, with details shown in the section of "Share Option Granted" below and 4,000,000 shares which are convertible at an initial conversion price of HK\$2.50 per share under a HK\$10,000,000 convertible note issued by the Company.

Save as disclosed herein, none of the directors and chief executives or their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following substantial shareholder and person (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Aggregate long positions in shares

Name of Shareholder	Number of shares held	Percentage of shareholding
Union Perfect International Limited	286,800,000	71.7%

Aggregate short position in underlying shares

Unlisted physically settled equity derivatives

Name of shareholder	Name of Company	Number of shares in short position
Union Perfect International Limited	The Company	39,000,000 shares representing 9.75% of shares then issued. (Note)

Note: These shares in short position were represented by 35,000,000 options granted by the Company, with details shown in the section of "Share option granted" below and 4,000,000 shares which are convertible at an initial conversion price of HK\$2.50 per share under a HK\$10,000,000 convertible note issued by the Company.

Save as disclosed herein, no other person (other than a director or chief executive of the Company) and substantial shareholder has an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 19 November 2001 (the "Share Option Scheme"), the Company may grant options to the participants of the Share Option Scheme to subscribe for shares of the Company. The participants include any employees of the Group (including directors) and certain consultants, suppliers or customers of the Group who, in the sole discretion of the board of directors (the "Board"), have contributed to the Group. The overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Share Option Scheme and other share option schemes

must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. Options granted under the Share Option Scheme may be exercised at any time during a period which shall be notified by the Board and expiring on the date following ten years after the date on which the option is granted. The subscription price will be determined by the Board and will not be less than the highest of (i) the closing price of the shares quoted on the GEM on the date of grant, (ii) the average closing price of the shares quoted on the GEM for the five business days immediately preceding the date of grant and (iii) the nominal value of the shares on the date of grant.

SHARE OPTION GRANTED

Pursuant to the share option scheme of the Company adopted on 19 November 2001 (the "Share Option Scheme"), the Company may grant options to the participants of the Share Option Scheme to subscribe for shares of the Company. The participants include any employees (including directors) and certain consultants, suppliers or customers of the Group who, in the sole discretion of the board of directors or a duly authorised committee thereof (the "Board"), have contributed to the Group. The overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Share Option Scheme and other share option schemes must not, in aggregate, exceed 30% of the shares in issue from time to time. Any option granted under the Share Option Scheme may be exercised at any time during a period which shall not be more than ten years after the date on which the option is granted.

The subscription price will be determined by the Board and will not be less than the highest of (i) the closing price of the shares quoted on the Growth Enterprise Market ("GEM") on the grant date, (ii) the average closing price of the shares quoted on the GEM for the five business days immediately preceding the grant date and (iii) the nominal value of the shares on the date of grant.

Details of the share options outstanding as at 30 June 2003 which have been granted under the scheme are as follows:

	Options held at 1 January 2003	Options granted during period	Options exercised during period	Options held at 30 June 2003	Exercise Price	Grant Date	Exercisable from	Exercisable until	Closing price of the Company's share before date of grant
Directors	4,600,000	-	-	4,600,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Employees	14,200,000	-	-	14,200,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Consultants, suppliers or customers	13,200,000	-	-	13,200,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Consultants, suppliers or customers	3,000,000	-	-	3,000,000	HK\$2.03	16 Aug 2002	16 Aug 2002	16 Aug 2007	HK\$2.025
	<u>35,000,000</u>			<u>35,000,000</u>					

None of the above options were exercised, lapsed or cancelled during the six months ended 30 June 2003.

The directors consider that it is not appropriate to state the value of all the share options that were granted for the six months ended 30 June 2003 under the new share options scheme given that the variable which are critical for the calculation of the value of such share options cannot be determined. The variables which are critical for the determination of the value of such share options included, the subscription price for the shares upon the exercise of the subscription rights attaching to the share options which may be adjusted under certain circumstances and whether or not such share options will be exercised by the grantees. In view of the length of the option period and the possibility that the subscription price and the number of shares that may be subscribed thereunder may be adjusted prior to the exercise of the subscription rights attaching to such share options, the Directors are of the view that the value of the share options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical basis and speculative assumptions. Accordingly, the Directors believe that any calculation of the value of the options will not be meaningful and may be misleading to shareholders in the circumstances.

COMPETING INTEREST

None of the directors or management shareholders (as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules")) of the Company have any interest in any business which competes with or may compete with the business of the Group or any other conflicts of interests with the Group.

SPONSOR'S INTEREST

Oriental Patron Asia Limited ("Oriental Patron"), its directors, employee or associates (as referred in note 3 of rule 6.35 of the GEM Listing Rules) are interested in 13,200,000 shares of the Company and outstanding options of 3,000,000 underlying shares of nominal value of HK\$0.05 granted on 16 August 2002 at consideration and at an exercise price of HK\$2.03 per share as at 30 June 2003.

Pursuant to an agreement dated 26 November 2001 entered into between the Company and Oriental Patron, Oriental Patron is entitled to receive a fee in respect of the appointment by the Company as sponsor of the Company as required under the GEM Listing Rules for the period from 10 December 2001 to 31 December 2003.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 June 2003, the Company complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures.

AUDIT COMMITTEE

An Audit Committee was established with written terms of reference in compliance with the requirements as set out in Rule 5.23 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive directors, Mr Zhang Xiao Jing and Ms Tung Fong. The Group's unaudited consolidated results for the six months and three months ended 30 June 2003 have been reviewed by the audit committee.

By order of the Board

Mr Chin Ying Hoi

Chairman

Beijing, 11 August 2003