

**Jian ePayment Systems Limited**

**華普智通系統有限公司**

*(incorporated in the Cayman Islands with limited liability)*



**ANNUAL REPORT 2003**



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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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.

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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 GEM of the Stock Exchange (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.



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## Financial Summary

### CONSOLIDATED PROFIT AND LOSS ACCOUNTS

(Amounts expressed in thousands of Renminbi)

	Years ended 31 December			
	2000	2001	2002	2003
Turnover	23,818	40,008	60,688	<b>3,407</b>
Operating (loss)/profit	13,716	15,294	23,957	<b>(51,555)</b>
Subsidy income	–	5,161	1,620	<b>1,416</b>
Interest income	22	106	112	<b>116</b>
Interest expenses	–	(444)	(1,308)	<b>(1,105)</b>
(Loss)/profit before taxation	13,738	20,117	24,381	<b>(51,128)</b>
Taxation	–	–	–	–
(Loss)/profit after taxation				
but before minority interests	13,738	20,117	24,381	<b>(51,128)</b>
Minority interests	(56)	(215)	(45)	–
(Loss)/profit attributable to shareholders	13,682	19,902	24,336	<b>(51,128)</b>

### CONSOLIDATED BALANCE SHEETS

(Amounts expressed in thousands of Renminbi)

	As at 31 December			
	2000	2001	2002	2003
Fixed assets	780	891	57,466	<b>38,906</b>
Goodwill	1,986	1,777	1,568	–
Net current (liabilities)/assets	3,078	50,520	28,801	<b>(12,811)</b>
Minority interests	(72)	(287)	–	–
Total assets less current liabilities	5,772	52,901	87,835	<b>26,095</b>
Representing:				
Non-current liabilities	–	–	10,611	–
Share capital	–	21,208	21,208	<b>21,208</b>
Reserves	5,772	31,693	56,016	<b>4,887</b>
Shareholders' equity	5,772	52,901	87,835	<b>26,095</b>



## Chairman's Statement



To Become

A Leading Nationwide

**ELECTRONIC**

**Payment System Operator**

**in the PRC**

ePayment

## Chairman's Statement



Jian ePayment System in 永和豆浆

I would like to announce the audited operating results for the year ended of 31 December 2003 (this year) on behalf of Jian ePayment Systems Limited (the Company) and its subsidiaries (altogether referred to as "the Group").

### Business Review

This year is the second year of operations since the Group's initial public offering. Due to the development progress of the business of "One Card Multiple Uses" electronic payment systems of the Group during the year 2003 was slower than expected while the sales on systems integration and sales of hardware and software have continued to decrease, the Group recorded losses for the year ended at 31 December 2003. Its turnover amounted to RMB3,407,000, decreased by 94% from the preceding year; losses attributable to shareholders totaled RMB51,128,000, as compared with a profit of RMB24,336,000 in 2002, and basic loss per share amounted to RMB 0.13 per share as compared with basic earnings per share of RMB0.06 per share in 2002.

The roadside parking toll sub-system developed by the Group in the year of 2003 was put into operation in nine large and medium-sized cities, of which "One Pass Multiple Uses" was put into use in Beijing and

Wuhan. This laid a solid foundation for the Group to grow towards the largest electronic payment system operator in China and to continue to bring in revenue from sales of hardware, software, system integration and transaction levies."

On 22 March 2004, the Company entered into the Agreement with Wuhan Transportation Group in relation to the Subscription. Pursuant to the Agreement, Jian ePayment (China) International Holdings Limited, a wholly owned subsidiary of the Company, will subscribe 70% of the enlarged registered capital in Wuhan Traffic IC Card Management at a consideration of RMB28.2 million payable in cash.

In the past few years, the Group had been focusing on the roadside car parking fee collection system in various cities, including Wuhan, in the PRC. Currently, the Group has issued about 470,000 of Jian Smart Passes of which about 120,000 was issued in Wuhan. About 1,100 sets of Jian Smart pass readers had been installed in Wuhan for retail commercial use in businesses such as catering, pharmaceutical store, supermarket, convenient stores, restaurants etc. The Directors regard the investment in Wuhan Traffic IC Card Management an excellent opportunity to enable the Group to capture the business opportunities arising from the entrance of the electronic payment system of public transportation market in Wuhan, and consolidate the Group's position as the leading large scale electronic payment system operations in Wuhan. The investment also lay the groundwork to enable the Group to capture the enormous potential for the expansion of the Jian ePayment system into large scale multipurpose electronic payment system to be accepted and widely used in the PRC.

## Chairman's Statement

The Group made another announcement on 17 December 2003 that the Group had entered a non-legally binding letter of intent with an independent third party, Octopus Cards Limited, to jointly establish a joint venture mainly engaged in the provision of electronic payment system in China (excluding Hong Kong) by using contactless smart card technology. The Directors are of the opinion that the establishment of the joint venture company with an affiliate of Octopus Cards Limited will enable the Group to improve its current operation through the provision of technological support and management experience from Octopus Cards Limited, especially in the areas of public transportation and commercial electronic payment system. This will strengthen the expansion of the Jian ePayment system into a large scale electronic payment system to be accepted and widely used in China. The establishment of the joint venture company engaging in the business of provision of electronic payment system using contactless smart card technology in the PRC is in line with the existing business engaged by the Group and would not constitute any change in the use of proceeds and business objectives as stated in the prospectus of the Company dated 27 November 2001.

For the year of 2003, as the business progress and projects of parking project companies (the clients of the Group) in each city were affected and delayed to varying extent by the slow pace of government planning and were affected by serious epidemic situation of SARS in China, the Group's business basically stagnated, a fact that directly affected the Group's business income. For the year of 2003, there was no sales revenue of hardware and software of parking system and system integration amounted while in the past years this revenue was the Group's

major business revenue. Meanwhile, the Group has focused the establishment of a complete "One Pass Multiple Uses" system in Wuhan area and to promote intensely this system in Beijing with great efforts in 2003 in order to substantially raise the number of transactions. However, the progress was slower than expected due to the incidents mentioned in the beginning of this paragraph.

## Business Development

The Group has been committed to the development of Jian Smart Passes system into a large electronic payment system prevailing in China. The Company put efforts in the construction of "One Pass Multiple Uses" in Wuhan in 2003 by putting substantial human and material resources in it. Up till now, the Group has installed over 1,100 smart card readers for retail commercial use in businesses such as catering, pharmacies, supermarkets, convenient stores and restaurants in Wuhan.

The Group has promoted the use of commercial reader system in Beijing by copying the business model adopted in Wuhan by increasing the city of applying One Pass Multiple Uses to two and 28 Jian ePayment commercial readers have been installed in 9 supermarkets.

The application and promotion of Jian ePayment automatic vending machines are expected to attract more customers. This equipment will be mainly promoted in Wuhan, Beijing and other cities where Jian Smart Passes are circulated as residents of these cities are more able to accept new things and hence the promotion there will be easier. The specific method of promotion will be company-wide sales and

## Chairman's Statement

lease of card-readers, installation of system equipment in high-end office buildings, hotels, parks and communities with the promotion support from other terminal consumption of Jian Smart Passes.

The SARS epidemic seriously affected the issue system of Jian Smart Passes and retarded the speed of issue of Jian Smart Passes to some extent. The number of Jian Smart Passes in circulation for this year has reached 500,000.

### Research and Development

The Group consistently invest heavily in the research and development of commercial application of "One Pass Multiple Uses" of Jian Smart Passes system.

The Jian park toll sub-system and campus comprehensive application system successfully developed in this year have been put into operation, substantially supplementing the commercial application domain promoted by the Group in Wuhan. As the Group has come into the stage of stable business development, the research and development centre concentrated on integrating and improving the products in order to meet the demand of users of various level and make full use of the comprehensive data management system resources constructed by the Group in Wuhan and Beijing.

In order to boost the promotion of Jian ePayment system, the Group enhanced after-sales service significantly in 2003 while focusing the research and development on key products. This action is believed to be able to provide better service to card users and businesses in partnership, to enlarge the scale of the system and to lay a good foundation for increasing the number of cards in circulation.

### Prospect

The Group has been consistently committed to the development of smart card electronic payment system market in China, making the number of cities using Jian Smart Passes increase steadily. In the meantime, the application domain of each city continuously expands, a comprehensive development matrix is formed through increasing the number of cities vertically while expanding the commercial applications horizontally so as to achieve a great change in the number of final users and the quantity of final consumption. In the year to come, The Group will reinforce its cooperation with banks and enterprises to jointly develop limitless market. The directors of the Group firmly believe that Jian Smart Passes will become convenient cards widely owned and used by the residents of a number of cities.

### Acknowledgement and apology

The Group's performance for this year proved worse than expected due to various reasons. I would like to take this occasion to give apologies to each shareholders and investors and present thanks to the management and staff members of the Group for their consistent efforts on behalf of the Board of Directors. I would also like to thank each shareholders, investors, business partners, clients and vendors for their support and encouragement given to the Group in the previous year; I would also like to thank sponsors, lawyers, auditors, consultants and relevant enterprises for their help and support.

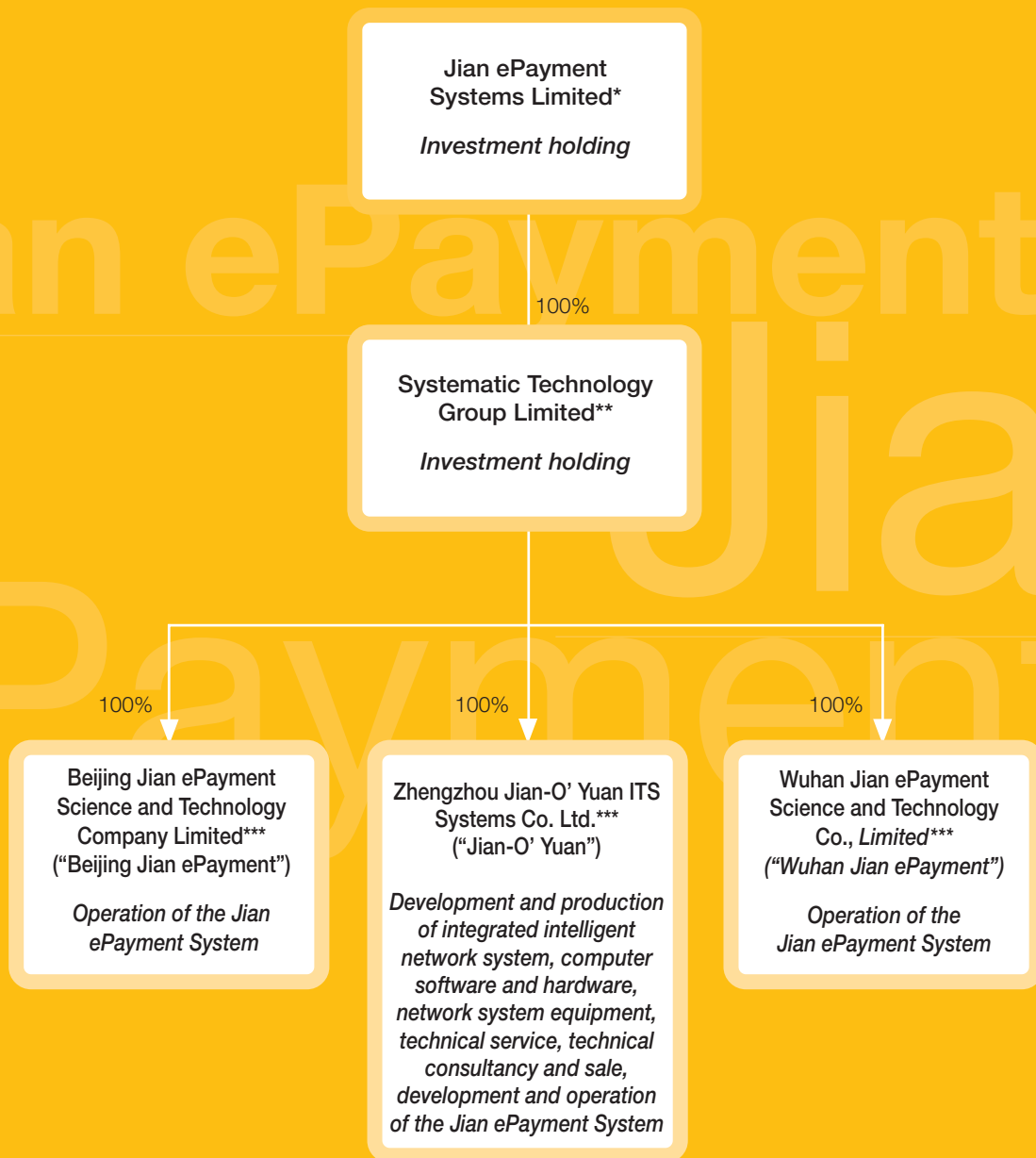
*Chairman*

**Chin Ying Hoi**

Hong Kong, 29 April 2004



## Corporate Structure



\* incorporated in the Cayman Islands

\*\* incorporated in the British Virgin Islands

\*\*\* established in the PRC

## Management Discussion & Analysis

### Geographical Coverage of Jian ePayment System



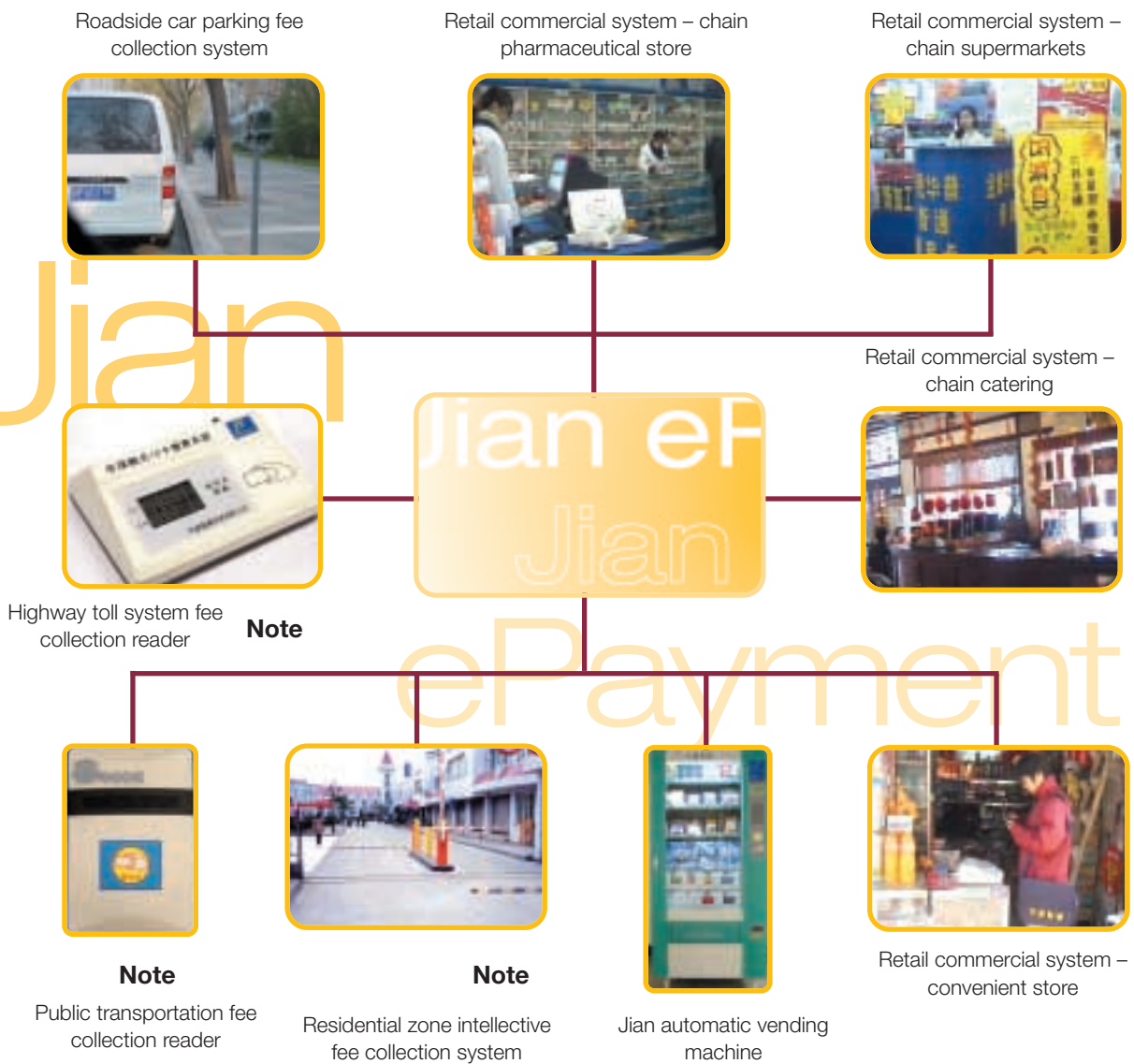
▲ City of "One Pass Multiple Uses": Wuhan, Beijing

● Cities Operating Jian ePayment Systems: Wuhan, Beijing, Haikou, Nanning, Guangzhou, Nanchang, Yichang, Zhengzhou, Weihai, Harbin



## Management Discussion & Analysis

### Coverage of Jian ePayment System's commercial applications



**Note:** Research and development of commercial applications are completed, but not yet launched to the market. Other commercial applications are launched in the PRC market.

## Management Discussion & Analysis

### Financial Highlights

	<b>2003</b>	2002	
	<b>RMB'000</b>	RMB'000	Change
Turnover	<b>3,407</b>	60,688	-94%
Operating expenses, net	<b>(52,881)</b>	(21,693)	144%
(Loss)/profit attributable to shareholders	<b>(51,128)</b>	24,336	N/A
Basic (loss)/earnings per share (RMB)	<b>(0.13)</b>	0.06	N/A

### Financial Review

For the year under review, the Group recorded a total revenue of approximately RMB3,407,000, representing an decrease of approximately 94% over that of the previous year. Loss attributable to shareholders for the Year was approximately RMB51,128,000 while basic loss per share was RMB0.13.

### Turnover by Product

	<b>2003</b>	2002	
	<b>RMB'000</b>	RMB'000	Change
Sales of hardware and software	<b>1,300</b>	36,968	-96%
Provision of systems integration services	-	22,154	N/A
Transaction levies	<b>2,107</b>	1,566	35%
Total	<b>3,407</b>	60,688	

The progress of "One Pass Multiple Uses" electronic payment system business was slower than expected in 2003. Revenues from systems integration and hardware sales continue to slip. With the increased popularity of Jian Smart Passes and the promotional campaign conducted in Wuhan and Beijing for the "One Pass Multiple Uses" system, the related transaction volume and transaction levies increased by 35% to approximately RMB2,107,000.

### Loss attributable to Shareholders

Loss attributable to shareholders for the Year was approximately RMB51,128,000.



## Management Discussion & Analysis

### Financial Condition

	<b>As at 31 December 2003 RMB'000</b>	As at 31 December 2002 RMB'000	Change
Cash and cash equivalents	<b>11,721</b>	13,272	-12%
Total assets	<b>61,154</b>	126,192	-52%
Shareholders' funds	<b>26,095</b>	77,224	-66%
Short-term loans	-	9,306	N/A
Long-term liabilities	-	10,611	N/A
Current ratio (Times)	<b>0.63</b>	1.75	-64%

### Total assets

The Group's total assets in the Year decreased by 52% to RMB61,154,000 mainly comprising fixed assets of RMB38,906,000 and current assets (including cash) of RMB22,248,000.

### 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 of 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 was used as working capital.

As at 31 December 2002, the Group also had outstanding short-term loans, comprising a bank loan of RMB4,000,000 and a borrowing of HK\$5,000,000 from an independent third party for the purpose of working capital. The bank loan was a secured loan from a commercial bank in Zhengzhou bearing interest of 6.435% per annum, while the borrowing from an independent third party was unsecured and bore an interest of 10%. The bank loan was repaid on 30 May 2003 and the relevant security was released. The borrowing was repaid on 20 August 2003.

The Group currently has cash and cash equivalents of RMB11,721,000, while the current ratio has changed from 1.75 times for 2002 to 0.63 times for the Year and the gearing ratio, defined as the ratio of total debt to total assets, has changed from 39% for 2002 to 57% for the Year.

As at 31 December 2003, the Group has no material commitments other than those disclosed in note 25 to the accounts.

## Management Discussion & Analysis

### Charges on Assets

As at 31 December 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 of Hong Kong dollar, US dollar and Renminbi were relatively stable during the Year, the Group was not exposed to material foreign exchange risk.

### Human Resources

	<b>As at 31 December 2003</b>	As at 31 December 2002
	<b>Total number of staff</b>	Total number of staff
Management	<b>26</b>	34
Sales and Marketing	<b>21</b>	77
Purchasing and Supplies	<b>4</b>	4
Production	<b>6</b>	109
Research and Development	<b>18</b>	28
Finance and Administration	<b>18</b>	41
	<hr/>	<hr/>
Total	<b>93</b>	293
	<hr/> <hr/>	<hr/> <hr/>

*Note:* The substantial decrease of staff was mainly attributable to the drop in number of production and backup staff resulting from a lower production scale.

As at 31 December 2003, the Group had 93 (2002: 293) full-time employees, representing an decrease of 200 employees or 68%. With the headcount decrease, salaries and wages for the staff also decreased by 15% to RMB8,503,000 (2002: RMB10,049,000).

The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The Group also provides statutory Mandatory Provident Fund benefits for its employees in Hong Kong and the Statutory Retirement Scheme for its employees in China.

The Group recognises the importance of staff training. Apart from on-the-job training, during the Year, the Group regularly provided internal and external training for its staff to enhance their technical or product knowledge.



## Management Discussion & Analysis

### **Contingent liability**

As at 31 December 2003, the Group had no material contingent liabilities.

### **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 "Subsequent events" of the auditors' report, the Company did not have any plan for material investments and acquisition of material capital assets as at 31 December 2003.

## Comparison of Business Objectives with Actual Business Progress

In accordance with the requirements of GEM Listing Rules, Jian ePayment Systems Limited hereby sets out a summary of the comparison between the Group's business objectives as contained in the IPO prospectus dated 27 November 2001 (the "Prospectus") and its actual business progress for the period from 1 July 2003 to 31 December 2003 (the "Period"). The summary of the comparison between the Group's business objectives and its actual business progress for the period from 1 January 2003 to 30 June 2003 was disclosed in the Group's Interim Results Announcement dated 11 August 2003.

### 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.

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 completed the integration of the Jian ePayment smart card system, making the Jian Smart Passes operable in a number of application system.

Explore new commercial application sub-systems.

Except for the business sub-systems in Wuhan and Beijing, the electronic payment business in Wuhan has extended to restaurants, drug stores, supermarkets, convenient stores and Chinese restaurants.

## Comparison of Business Objectives with Actual Business Progress

Applications status from 27 November 2001 to 31 December 2003

	Number of cities with which the Group has agreements to develop commercial applications (Accumulated figures not less than)		Number of cities where commercial applications are in operation (Accumulated figures not less than)		Number of cities where the development of commercial applications are in progress (Accumulated figures not less than)		Number of operating smart card readers (Accumulated figures not less than)		Note
	Actual Business Objectives	Actual Business Progress	Actual Business Objectives	Actual Business Progress	Actual Business Objectives	Actual Business Progress	Actual Business Objectives	Actual Business Progress	
Roadside car parking	17	9	15	9	2	2	19,000	15,399	1
Retail terminals	7	2	7	2	-	2	160	1,134	2
Public transportation	3	0	2	0	1	0	800	0	3
Highway tolls	3	0	1	0	2	0	20,000	0	4
Wireless communication	-	1	-	1	-	1	-	-	5
Electronic settlement technology	-	2	-	2	-	2	-	-	6

*Note 1* The plan was not realized due to change in competition situation in the market.

*Note 2* The promotion of "One Pass Multiple Uses" system has resulted in the rise in sales revenues of application system and card readers.

*Note 3* The plan for public transportation system was not realized due to alteration in mode of promotion.

*Note 4* Most toll highway operation companies require the Company to integrate Jian Smart Pass with their Passes. As it is a difficult job and the plan is hindered because the integration work has not yet completed in 2003.

*Note 5* As a result of technological improvement, wireless communication equipment was installed on the roadside parking system in Beijing. Electronic transmission can therefore be used to replace manual collection in conducting backstage data collection. The cost was lowered while efficiency was raised.

*Note 6* It is a set objective of the Group to advance from "one pass one use" to "one pass multiple uses". Therefore, the Group established operation centres in Wuhan and Beijing to support the "One Pass Multiple Uses" Scheme. Such centres utilize the electronic settlement technology developed by the Group and are supported by the "One Pass multiple uses" electronic payment platform.

## Comparison of Business Objectives with Actual Business Progress

### Marketing

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Continue to promote the Jian ePayment System to municipal governments and merchants.</li> </ul>   | <p>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.</p>   |
| <ul style="list-style-type: none"> <li>• Continue to place printed advertisements and participate in trade shows, seminars and exhibitions to arouse public interest in the Jian ePayment System.</li> </ul> | <p>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.</p> |
| <ul style="list-style-type: none"> <li>• Expand the marketing team and establish service centres in PRC cities to serve customers and promote the Jian ePayment System.</li> </ul>                           | <p>The outbreak of SARS in mainland China retarded the work of establishing promotion teams and service centres in large cities.</p>  |
| <ul style="list-style-type: none"> <li>• Explore new commercial application sub-systems.</li> </ul>  | <p>Explore “One Pass Multiple Uses” commercial application system</p>   |

### Card Circulation

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• A total of not less than 800,000 Jian Smart Passes in circulation. (Or increasing not less than 200,000 Passes)</li> </ul> | <p>Jian Smart Passes in circulation reached 500,000 in nine cities including Wuhan and Harbin.</p> |
|---|--|

### Human Resources

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Number of full-time staff expected to increase to 260.</li> </ul> | <p>Number of full-time staff reached 93.</p> |
|--|--|



## Comparison of Business Objectives with Actual Business Progress

### Use of proceeds from the listing of shares

From 1 January 2003 to 31 December 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:

	<b>Amount utilised From 1 January 2003 to 31 December 2003</b>			
	<b>Planned Use</b>		<b>Actual Use</b>	
	HK\$'000	RMB'000	HK\$'000	RMB'000
Research and development of contactless smart card technological know-how and commercial applications	1,500	1,592	1,500	1,592
Research and development of automated Jian Rechargers and related peripheral equipment	–	–	–	–
Marketing	1,000	1,061	1,000	1,061
Additional working capital	692	734	692	734
Total	<u>3,192</u>	<u>3,387</u>	<u>3,192</u>	<u>3,387</u>

## Comparison of Business Objectives with Actual Business Progress

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 lapsed since it was not subscribed as at 18 May 2003. 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 year ended 31 December 2003	
	HK\$'000	RMB'000	HK\$'000	RMB'000
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	500	531
General working capital	2,400	2,546	2,400	2,546
Total	<u>9,500</u>	<u>10,080</u>	<u>9,500</u>	<u>10,080</u>

## Corporate Information

### Executive Directors

Mr. Chin Ying Hoi (Chairman)  
Mr. Guo Yan Hong  
Mr. Liu De Fu  
Mr. Li Sui Yang

### Independent non-executive Directors

Mr. Zhang Xiao Jing  
Ms. Tung Fong

### Registered office

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### Head office and principal place of business

17th Floor  
Huapu International Plaza  
19 Chaoyangmen Wai Dajie  
Beijing  
The PRC

### Hong Kong liaison office

Unit 1214, 12th Floor  
China Merchants Tower  
Shun Tak Centre  
No. 168-200 Connaught Road Central  
Central  
Hong Kong

### Compliance Officer

Mr. Li Sui Yang

### Qualified Accountant and Company Secretary

Mr. Chow Ming Sang

### Authorised Representatives

Mr. Chin Ying Hoi  
Mr. Liu De Fu

### Members of The Audit Committee

Mr. Zhang Xiao Jing  
Ms. Tung Fong

### Principal share registrar

Bank of Butterfield International (Cayman) Ltd  
Butterfield House  
P. O. Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### Hong Kong branch share registrar and transfer office

Hong Kong Registrars Limited  
Shop 1901-1905  
19th Floor, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

## Corporate Information

### Principal bankers

Bank of China Zhengzhou City East Road Branch  
No. 1096 Hang Hai East Road  
Zhengzhou  
Henan Province  
The PRC

The Hong Kong and Shanghai Banking Corporation  
1 Queen's Road Central  
Hong Kong

### Sponsor

Oriental Patron Asia Limited  
27th Floor, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

### Legal advisers to the Company

*As to Hong Kong law*

Richards Butler  
20th Floor, Alexandra House  
16-20 Chater Road  
Hong Kong

*As to PRC law*

Commerce and Finance Law Offices  
714, Huapu International Plaza  
19 Chaoyangmen Wai Dajie  
Beijing  
The PRC

### Auditors

PricewaterhouseCoopers  
Certified Public Accountants  
22nd Floor, Prince's Building  
Central  
Hong Kong



## Profile of Directors and Senior Management

### Directors

#### Executive Directors

**Mr. Chin Ying Hoi (翦英海)**, aged 42, is the chairman, the general manager and the founder of the Group. Mr. Chin is responsible for the overall strategic planning of the Group. He is a researcher of 現代化進程研究中心 (Research Centre of the Development and Modernization of the PRC) at Peking University. He has over 14 years' experience in strategic planning. He is a member of Chinese People's Political Consultative Conference. He is also an executive member of Beijing Federation of Industry and Commerce and a member of All-China Overseas Federation.

**Mr. Guo Yan Hong (郭彥洪)**, aged 53, is the vice-chairman and a deputy general manager of the Group. Mr. Guo joined the Group in July 1993 and is responsible for the business development of the Group. He graduated from faculty of mechanical manufacturing, Tsinghua University in 1977. Mr Guo has worked at Shanxi Mechanical College. He has over 20 years' experience in the area of mechanical engineering in electronics industry in the PRC.

**Mr. Liu De Fu (劉德富)**, aged 72, is a deputy general manager of the Group. Mr. Liu joined the Group in August 1994 and is responsible for the finance management of the Group. He graduated from China Central Financial and Monetary Institute in 1982. He is a Senior Economist and a member of Chinese Monetary Society. He has over 10 years' experience in the field of banking and corporate finance in the PRC.

**Mr. Li Sui Yang (李隨洋)**, aged 47, is a deputy general manager of the Group. Mr. Li joined the Group in October 1996 and is responsible for overall market development of the Group. He holds a master's degree of economic administration from North-west China University. He was a lecturer at Xian Statistics College. He has over ten years' experience in market development in retail, real estate and electronics industry in the PRC.

#### Independent non-executive Directors

**Mr. Zhang Xiao Jing (張曉京)**, aged 49, holds a bachelor's degree of engineering from Beijing Science and Technology University. He is the managing director of Beijing CNT Manhattan Building Co. Ltd.. He was appointed as independent non-executive director on 26th October, 2001.

**Ms. Tung Fong (董芳)**, aged 57, holds a bachelor's degree of international trade from Beijing Foreign Trade Institute. She is the chairman of Grand Rise Investment Ltd. She was appointed as independent non-executive director on 26 October 2001.

#### Audit Committee

The audit committee have two members, namely, Zhang Xiao Jing and Tung Fong, both being independent non-executive Directors.

## Profile of Directors and Senior Management

### Senior management

**Mr. Liu Yu Fei (劉宇飛)**, aged 40, is the chief executive officer of the Company. He joined the Group in May 2003. He oversees the overall operation of the Group. He holds a Master Degree in computer application from Defense Technology University and is a licensed investment advisor approved by the Securities and Futures Commission in Hong Kong. He was educated in business administration discipline in George Washington University in the U.S. and received training in corporate finance by the Chartered Association of Certified Accountants. Before joining the Group, he worked in international audit firms and investment banks for many years and had held a senior post in a mega enterprise group under the State plan. He has 11 years of experience in overall corporate operation and management.

**Mr. Chen Wei Min (陳為民)**, aged 47, is a deputy general manager of the Group. Mr. Chen joined the Group in September 2001 and is responsible for overall Research and Development of the Group. He holds a bachelor's degree from XiDian University XiAn China, obtained honor as a professor grade worker. He was vice president of 27th institute of Communication & Industry of China and General Manager of ZhongZhi transport electronics group, He has over twenty years' experience in Chinese electronics area.

**Mr. Wang Bing Li (王秉利)**, aged 39, is a deputy general manager of the Group. Mr. Wang joined the Group in January 2002 and is responsible for equity and financial management of the Group. He graduated from Beijing Business Institute. He has over twenty years' experience in managing equity and financial area of Chinese enterprise.

**Mr. Li Yan Nan (李燕南)**, aged 41, joined the Group in April 1999. He is the chief engineer of the Group and responsible for the development and design of smart card application. He holds a bachelor's degree in laser technology from Nanjing Technology Institute. He has over ten years' experience in electronics engineering industry in the PRC.

**Ms. Peng Han Ying (彭漢英)**, aged 38, joined the Group in February 1998 and is responsible for the financial planning and control of the Group. She holds a bachelor's degree in economics from Hubei Economic Management University. She has over 10 years' experience in finance in airline and real estate industry in the PRC.

**Mr. Chen Yong Sheng (陳永生)**, aged 41, is the production manager of the Group. Mr. Chen joined the Group in March 1999 and oversees the manufacturing of the Group's products. He studied wireless communication at Beijing Radio & Television University. He has over 20 years' experience in the designing, developing and production of electronic instruments.

**Mr. Chow Ming Sang (周明笙)**, aged 31, is the financial controller, qualified accountant and company secretary of the Group. He joined the Group in December 2003 and holds a bachelor's degree from Hong Kong University Science and Technology, and is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.

## Report of the Directors

(Amounts expressed in Renminbi Yuan unless otherwise stated)

The directors submit their report together with the audited accounts of Jian ePayment Systems Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2003.

### Principal activities and geographical analysis of operations

The Company is an investment holding company. Its subsidiaries are 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.

An analysis of the Group's turnover by product category for the year ended 31 December 2003 is as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Sales of hardware and software	<b>1,300</b>	36,968
Provision of systems integration services	–	22,154
Transaction levies	<b>2,107</b>	1,566
	<b>3,407</b>	60,688

For the year ended 31 December 2003, substantially all the turnover and trading results of the Group were attributable to the sales of hardware and software and transaction levies in the People's Republic of China (the "PRC").

### Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 39.

The directors do not recommend the payment of a dividend.

### Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 22 to the accounts.

### Fixed assets

Details of the movements in fixed assets of the Group are set out in Note 12 to the accounts.

## Report of the Directors

### Share capital

Details of the movements in share capital of the Company are set out in Note 21 to the accounts.

### Distributable reserves

As at 31 December 2003, the Company's reserves of approximately RMB4,887,000 (2002: RMB20,595,000) were available for distribution to its shareholders.

### Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands.

### Financial summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 3.

### Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### Convertible notes

The Company issued a convertible note of HK\$10,000,000 (equivalent to RMB10,611,000) to an independent third party (the "Subscriber") on 30 November 2002. The convertible note is convertible into 4,000,000 shares of the Company at an initial conversion price of HK\$2.50 per share (subject to adjustment). The Subscriber also has an option to subscribe for a second convertible note of HK\$10,000,000 with an initial conversion price of HK\$3.00 per share within 6 months after 18 November 2002, the date of subscription agreement. No Subscriber has exercised its option to subscribe for the second convertible note as at 31 December 2003.

The maturity date for each convertible note is the second anniversary date of its issue. The conversion rights could be exercised after a period of 12 months from the respective dates of issue of the convertible notes and each conversion shall be in the integral multiples of HK\$2,000,000.

The interest of the convertible note is at a rate per annum equal to one per cent over the prime lending rate for Hong Kong Dollars as quoted by The Hongkong and Shanghai Banking Corporation Limited to its customers on the last business day of the relevant interest period on the principle amount of the note outstanding.



## Report of the Directors

### Share Options

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 ("Scheme Limited").

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 31 December 2003 which have been granted under the scheme are as follows:

	Options held at 1 January 2003	Options granted during year	Options lapsed during year	Options exercised during year	Options held at 31 December 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	-	300,000	-	13,900,000	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>300,000</u>		<u>34,700,000</u>					

## Report of the Directors

None of the above options were exercised or repurchased during the year. Same options were lapsed due to the leave of office of two employees.

The directors consider that it is not appropriate to state the value of all the share options that were granted during the year end 31 December 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.

### Directors

The directors during the year were:

#### **Executive Directors:**

Mr. Chin Ying Hoi (Chairman)

Mr. Guo Yan Hong (Vice-Chairman)

Mr. Liu De Fu

Mr. Li Sui Yang

Ms. Wang Yan (resigned on 25 November 2003)

#### **Independent Non-executive Directors:**

Mr. Zhang Xiao Jing

Ms. Tung Fong

In accordance with the Company's Articles of Association, one-third of directors will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## Report of the Directors

### Directors' service contracts

Save for Ms. Wang Yan who proposed for retirement upon the expiry of the director service contract on 24 November 2003, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### Directors' interests in contracts

Save for the related party transactions set out in Note 26 to the accounts, no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 22 to 23.

### 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

## Report of the Directors

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 31 December 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 31 December 2003.

## Report of the Directors

### 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:

<b>Name of Director</b>	<b>Date of grant</b>	<b>Vesting period and percentage of vested options (Note)</b>	<b>Exercise price per share</b>	<b>Outstanding number of share under option as at 31 December 2003</b>
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 (Note 2)	31 May 2002	50%	HK\$2.35	500,000
				4,600,000

Note 1: 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 fourth 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.

Note 2: The share options of Ms. Wang Yan could be exercised within three months after 25 November 2003, otherwise they will be lapsed after three months.

None of the above options were exercised, cancelled or lapsed during the year ended 31 December 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.

## Report of the Directors

### 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. <i>(Note)</i>

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 31 December 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%



## Report of the Directors

### 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. <i>(Note)</i>

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.

### Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### Major customers and suppliers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	69%
– five largest suppliers combined	83%
Sales	
– the largest customer	38%
– five largest customers combined	91%

## Report of the Directors

As at 31 December 2003, a director of the Company had interests in the following customers of the Group:

Director	Name of customers	Interests held
Mr. Chin Ying Hoi	海口華普立得泊車管理有限公司 Haikou Huapu Lide Parking Management Co. Ltd. ("Haikou Project Company")	49%
Mr. Chin Ying Hoi	廣州電子泊車管理有限公司 Guangzhou Electronic Parking Management Co. Ltd. ("Guangzhou Project Company")	49%
Mr. Chin Ying Hoi	威海天創電子智能系統有限公司 Weihai TianChuang Electronic System Co., Ltd. ("Weihai Project Company")	20%
Mr. Chin Ying Hoi	南寧華普正方泊車建設管理有限公司 Nanning Huapu Zhengfang Parking Construction and Management Co., Ltd. ("Nanning Project Company")	30%
Mr. Chin Ying Hoi	宜昌武華電子泊車管理有限公司 Yichang Wuhua Electronic Parking Management Co., Ltd. ("Yichang Project Company")	20%
Mr. Chin Ying Hoi	鄭州道康電子泊車管理有限公司 Zhengzhou Daokang Electronic Parking Management Co. Ltd. ("Zhengzhou Project Company")	20%
Mr. Chin Ying Hoi	華普超市(武漢)有限公司 Huapu Supermarket (Wuhan) Co., Ltd. ("Wuhan Huapu Supermarket")	64%

Other than those disclosed above, none of the directors, their associates, or any shareholders, which to the knowledge of the director owns more than 5% of the Company's share capital, had a beneficial interest in the Company's five largest customers and five largest suppliers.

## Report of the Directors

### Connected transactions

Certain related party transactions entered by the Group during the year ended 31 December 2003, which constitute connected transactions under the Rules Governing the Listing of Securities on the GEM ("Listing Rules"), are disclosed in Note 26 to the accounts are as follows:

**(1) Revenue from sales of hardware and software, provision of systems integration services and transaction levies from connected parties**

	<b>2003</b>
	<b>RMB'000</b>
– Haikou Huapu Lide Parking Management Co., Ltd.	<b>123</b>
– Guangzhou Electronic Parking Management Co., Ltd.	<b>247</b>
– Weihai TianChuang Electronics System Co., Ltd.	<b>19</b>
– Nanning Huapu Zhengfang Parking Construction and Management Co., Ltd.	<b>106</b>
– Zhengzhou Daokang Electronic Parking Management Co., Ltd.	<b>20</b>
– Yichang Wuhua Electronic Parking Management Co., Ltd.	<b>15</b>
– Huapu Supermarket (Wuhan) Co., Ltd.	<b>55</b>
	<hr/>
	<b>585</b>
	<hr/> <hr/>

**(2) Operating leases rentals paid/payable to connected parties:**

	<b>2003</b>
	<b>RMB'000</b>
– Beijing Huapu International Plaza Co., Ltd.	<b>937</b>
– Mr. Chin Ying Hoi	<b>382</b>
	<hr/>
	<b>1,319</b>
	<hr/> <hr/>

## Report of the Directors

### (3) Guarantee provided by a related company

A short-term bank borrowing of RMB4,000,000 borrowed by a subsidiary of the Group was repaid before 31 December 2003 and the guarantee from the related company was released.

### (4) Free office premises provided by a subsidiary to the Company

During the year ended 31 December 2003, Systematic provided free office premises to the Company.

The directors of the Company are of the opinion that the above transactions with related parties were conducted under normal commercial terms in the usual course of business.

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that the above transactions (during the period where they constituted connected transactions under the GEM Listing Rules, where applicable):

- (a) have been entered into by the Group in the ordinary and usual course of its business;
- (b) have been entered into on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to independent their parties; and
- (c) on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

## Corporate Governance

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

## 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 31 December 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.

## Report of the Directors

### Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Zhang Xiao Jing and Ms. Tong Fung. Four meetings were held during the current financial year.

### Directors' interest in competing business

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.

Pursuant to an agreement dated 28 October 2002 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 placing agent for the Convertible notes.

### Auditors

The accounts have been audited by PricewaterhouseCoopers who will retire at the Company's annual general meeting and do not offer themselves for re-appointment. Arthur Anderson & Co were auditors of the Company for the financial year ended 31 December 2001.

On behalf of the Board

**Chin Ying Hoi**

*Chairman*

Beijing, 29 April 2004

## Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor, Prince's Building  
Central, Hong Kong

AUDITORS' REPORT TO

**JIAN ePAYMENT SYSTEMS LIMITED**

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 39 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.



## Auditors' Report

### **Fundamental uncertainties relating to the going concern basis and the carrying amount of fixed assets.**

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts concerning the adoption of the going concern basis in preparing the accounts and the carrying amount of fixed assets. As more fully explained in note 1 to the accounts, the accounts have been prepared on a going concern basis, the validity of which depends upon the successful outcome of negotiations to establish a joint venture, the ability of the Group to raise new funds and to attain profitable and cash flow positive operations. The accounts do not include any adjustments, such as to reclassify non-current assets to current assets and reduce the value of assets to their recoverable amounts which may be necessary should the Group be unsuccessful in any of the above. The recoverability of the carrying amount of the Group's fixed assets of RMB38,906,000 at 31 December 2003 depends upon the joint venture, being successfully established and attaining profitable and cash flow positive operations. The accounts do not include any adjustment to the carrying amount of fixed assets that might be necessary should such conditions not be achieved. We consider that appropriate disclosures have been made but the fundamental uncertainties mentioned above are so extreme that we have given the following qualified opinion.

### **Qualified opinion: Disclaimer on view given by accounts**

Due to the significance of the fundamental uncertainties relating to the going concern basis of accounts preparation and the carrying amount of fixed assets, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of the affairs of the Company and the Group as at 31 December 2003 or the Group's loss and cash flows for the year then ended. In all other respects, in our opinion the accounts have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 29 April 2004

For the year ended 31 December 2003

## Consolidated Profit and Loss Account

	Note	<b>2003 RMB'000</b>	2002 RMB'000
Turnover	3	<b>3,407</b>	60,688
Cost of sales		<b>(665)</b>	(13,418)
Gross profit		<b>2,742</b>	47,270
Other revenue	3	<b>1,436</b>	1,741
Distribution costs		<b>(1,669)</b>	(4,718)
Administrative expenses		<b>(52,648)</b>	(18,716)
Operating (loss)/profit	4	<b>(50,139)</b>	25,577
Finance costs, net	5	<b>(989)</b>	(1,196)
(Loss)/profit before taxation		<b>(51,128)</b>	24,381
Taxation	6	-	-
(Loss)/profit after taxation		<b>(51,128)</b>	24,381
Minority interests		-	(45)
(Loss)/profit attributable to shareholders	7	<b>(51,128)</b>	24,336
Dividend	8	-	-
Basic (loss)/earnings per share	9	<b>(RMB0.13)</b>	RMB0.06
Diluted (loss)/earnings per share	9	<b>N/A</b>	N/A

As at 31 December 2003

## Consolidated Balance Sheet

	Note	2003 RMB'000	2002 RMB'000
Non-current assets			
Goodwill	11	–	1,568
Fixed assets	12	<b>38,906</b>	57,466
		<b>38,906</b>	59,034
Current assets			
Inventories	14	<b>5</b>	4,521
Trade and other receivables	15	<b>4,593</b>	47,298
Due from related companies	26	<b>391</b>	45
Other current assets	16	<b>238</b>	2,022
Cash and bank balances		<b>17,021</b>	13,272
		<b>22,248</b>	67,158
Current liabilities			
Trade and other payables	17	<b>22,224</b>	27,831
Due to a related company	26	–	14
Due to the ultimate holding company	26	<b>818</b>	906
Deposits from customers		<b>1,406</b>	300
Short-term borrowings	18	–	9,306
Convertible notes	19	<b>10,611</b>	–
		<b>35,059</b>	38,357
Net current (liabilities)/assets		<b>(12,811)</b>	28,801
Total assets less current liabilities		<b>26,095</b>	87,835
Financed by:			
Share capital	21	<b>21,208</b>	21,208
Other reserves	22	<b>12,076</b>	12,077
(Accumulated losses)/retained earnings	22	<b>(7,189)</b>	43,939
Shareholders' funds		<b>26,095</b>	77,224
Minority interests		–	–
Non-current liabilities			
Convertible notes	19	–	10,611
		<b>26,095</b>	87,835

**Chin Ying Hoi**  
Director

**Li Sui Yang**  
Director

As at 31 December 2003

## Balance Sheet

	Note	2003 RMB'000	2002 RMB'000
Non-current assets			
Investments in subsidiaries	13	39,707	58,473
Current assets			
Trade and other receivables	15	318	1,075
Current liabilities			
Trade and other payables	17	3,319	1,828
Short-term borrowings	18	–	5,306
Convertible notes	19	10,611	–
		13,930	7,134
Net current liabilities		(13,612)	(6,059)
Total assets less current liabilities		26,095	52,414
Financed by:			
Share capital	21	21,208	21,208
Other reserves	22	25,472	25,472
Accumulated losses	22	(20,585)	(4,877)
		26,095	41,803
Non-current liabilities			
Convertible notes	19	–	10,611
		26,095	52,414

**Chin Ying Hoi**  
Director

**Li Sui Yang**  
Director

## Consolidated Statement of Changes in Equity

	Note	2003 RMB'000	2002 RMB'000
Total equity as at 1 January		<b>77,224</b>	52,901
Net loss not recognised in the profit and loss account			
Exchange differences arising on translation of the accounts of foreign subsidiaries	22	<b>(1)</b>	(13)
		<b>77,223</b>	52,888
(Loss)/profit attributable to shareholders	22	<b>(51,128)</b>	24,336
Total equity as at 31 December		<b>26,095</b>	77,224

For the year ended 31 December 2003

## Consolidated Cash Flow Statement

	Note	<b>2003</b> <b>RMB'000</b>	2002 RMB'000
Net cash inflow generated from operations	24(a)	<b>15,794</b>	36,669
Interest paid		<b>(1,105)</b>	(777)
Net cash inflow from operating activities		<b>14,689</b>	35,892
Investing activities			
Purchases of fixed assets		<b>(1,661)</b>	(56,998)
Decrease in pledged bank deposits		–	2,980
Increase in time deposits with original maturity of more than 3 months		<b>(5,300)</b>	–
Acquisition of a subsidiary	26(f)	–	(547)
Interest received		<b>116</b>	112
Net cash outflow from investing activities		<b>(6,845)</b>	(54,453)
Net cash inflow/(outflow) before financing activities		<b>7,844</b>	(18,561)
Financing activities	24(c)		
Issue of convertible notes		–	10,611
Convertible notes issuance costs		–	(531)
Capital injection from minority interests		–	215
Proceeds from short-term borrowings		–	9,306
Repayment of short-term borrowings		<b>(9,306)</b>	(10,850)
(Decrease)/increase in due to the ultimate holding company		<b>(88)</b>	766
Net cash (outflow)/inflow from financing activities		<b>(9,394)</b>	9,517
Decrease in cash and bank balance		<b>(1,550)</b>	(9,044)
Cash and bank balance at 1 January		<b>13,272</b>	22,329
Effect of foreign exchange difference		<b>(1)</b>	(13)
Cash and bank balance at 31 December	24(b)	<b>11,721</b>	13,272



## Notes to the Accounts

### 1. BASIS FOR PREPARATION

- (a) The Group incurred a significant loss of RMB 51,128,000 for the year ended 31 December 2003, and as at 31 December 2003 had net current liabilities of RMB12,811,000 including convertible notes payable of RMB10,611,000 which will be due for payment in November 2004. In addition, the Group entered into an agreement in March 2004 to acquire 70% equity interest in a company at a consideration of RMB28,200,000 which will be due for settlement by June 2004 (Note 28).

Notwithstanding the above situation, the directors have prepared the accounts on a going concern basis for the following reasons:

- (i) The Company has signed a letter of intent with Octopus Cards Limited ("Octopus") in December 2003 to set up a joint venture. The negotiation of the joint venture terms with Octopus is under progress as at the date of this report;
  - (ii) Upon the signing of the joint venture agreement, the directors expect significant new funds be raised in the near future; and
  - (iii) The directors are confident that the electronic payment business of the Group in the public transportation and retails store industries in the PRC, which will be undertaken by the joint venture, will provide significant contributions to the Group's profitability and cash flows and as a result will improve the operating results and cash flow position of the Group in the future.
- (b) The fixed assets balance of RMB38,906,000 as stated in the consolidated balance sheet represents the carrying value of the fixed assets of the Group which can be used in the joint venture with Octopus. The directors believe that the joint venture will be able to sustain a profitable operation. Accordingly, no further impairment provision is required for such assets.

## Notes to the Accounts

### 2. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted SSAP35 "Government grants and disclosure of government assistance" and revised SSAP12 "Income Taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

The adoption of the above SSAPs had no material effect on amounts reported in prior year.

The principal accounting policies adopted in the preparation of these accounts are set out below:

#### (a) Group accounting

##### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

## Notes to the Accounts

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (a) Group accounting (continued)

##### (i) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

##### (ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss items are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

#### (b) Intangibles

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 10 years. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation period and the amortisation method are reviewed annually at each financial year end.

## Notes to the Accounts

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (b) Intangibles (continued)

##### (ii) *Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

During the year ended 31 December 2003, no development costs were capitalised as they did not meet the criteria for capitalisation.

##### (iii) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

#### (c) Fixed assets

Fixed assets comprising leasehold improvements, machinery, office equipment, furniture and fixtures and are stated at cost less accumulated depreciation and accumulated impairment losses.

## Notes to the Accounts

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (c) Fixed assets (continued)

##### (i) Depreciation

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses, after taking into account of the estimated residual values of each asset over its estimated useful life on a straight-line basis. The principal residual value and annual depreciation rates are as follows:

	Residual value	Annual depreciation rate
Leasehold improvements	–	20%
Machinery	3%-5%	14%-19%
Office equipment	3%-5%	14%-19%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

##### (ii) Systems under development

Systems under development comprise hardware and software pending installation and are stated at cost. The balance includes cost of equipment and software and other direct costs as well as interest charges used to finance the projects under the development stage.

Systems under development is not depreciated until such time as the assets are completed and put into operational use.

##### (iii) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included under fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

## Notes to the Accounts

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (d) Government grants

A government grant is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received. Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchases of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the fixed assets.

#### (e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (f) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.



## Notes to the Accounts

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

#### (i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (j) Employee benefits

##### (i) Pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. The Group's subsidiaries incorporated in Mainland China make contributions to a state-sponsored defined contribution scheme for the Group's local staff on a monthly basis pursuant to laws and regulations in The People's Republic of China (the "PRC") to a government agency.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

##### (ii) Equity compensation benefits

Share options are granted to directors and to employees. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, the discount is recognised in the profit and loss account as a compensation cost and recognised in the balance sheet as an increase to equity. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

## Notes to the Accounts

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

#### (l) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## Notes to the Accounts

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (m) Revenue recognition

##### (i) *Sales of hardware, software and systems integration*

Revenue from sales of hardware, software and systems integration is recognised when delivery and acceptance have occurred, the fee is fixed and determinable, persuasive evidence of an arrangement exists, collection of the receivable is probable and no significant post-delivery obligations remain.

##### (ii) *Transaction levies*

Transaction levies are recognised on an accrual basis based on certain percentages of revenue generated from the operations of Jian ePayment System as individually determined between the Company and the customers.

##### (iii) *Interest income*

Interest income from bank deposits is recognised on a time proportion basis on the principal amounts outstanding and at the rates applicable.

#### (n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

## Notes to the Accounts

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (o) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segment be presented as the primary reporting format. The Group operates in one business segment.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets.

In respect of geographical segment reporting, sales are based on the areas in which the customer is located. Total assets and capital expenditure are where the assets are located.

## Notes to the Accounts

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

#### (1) Turnover and other revenue

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. Revenues recognised during the year are as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Turnover		
Sales of hardware and software	<b>1,300</b>	36,968
Provision of systems integration services	–	22,154
Transaction levies	<b>2,107</b>	1,566
	<b>3,407</b>	60,688
Other revenue		
Sales of smart cards	–	121
Subsidy income		
– Value added tax ("VAT") refund (Note (a))	<b>1,416</b>	410
– Financing from government institution (Note (b))	–	1,210
Others	<b>20</b>	–
	<b>1,436</b>	1,741
Total revenues	<b>4,843</b>	62,429

- (a) Zhengzhou Jian-O`Yuan ITS Systems Co., Ltd. ("Jian-O`Yuan") is subject to output VAT on its sales in Mainland China, which is levied at the general rate of 17% on the gross selling price upon sales of goods. Input VAT paid on purchases of raw materials, work in progress and other assets would be used to offset the output VAT payable on sales to determine the net VAT prepayment or VAT payable.

Pursuant to Cai Shui [2000] No.25 issued by the State Tax Bureau on 22 June 2000, software enterprises are entitled to a preferential tax treatment and any actual VAT paid related to the sales of self-developed and produced software exceeding 3% of the revenue from the sales of software will be refunded. For the year ended 31 December 2003, the Group obtained a refund amounted to RMB1,416,000 (2002: RMB410,000) which was recognised as subsidy income in the consolidated profit and loss account.

- (b) The research and development subsidy was granted by a government institution to finance the research and development projects of the Group in 2002. There were no such revenues in 2003.

31 December 2003

(Amounts expressed in Renminbi Yuan unless otherwise stated)

## Notes to the Accounts

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(2) Turnover analysed by categories of customers are as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Sales to related companies (Note 26(b)(i))	<b>585</b>	18,819
Sales to unrelated parties financed by Jian Enterprise Group* (Note 26(g))	<b>1,330</b>	15,213
Sales to independent third parties	<b>1,492</b>	26,656
	<b>3,407</b>	60,688

\* The Jian Enterprise Group represents a group of companies ultimately owned by Mr. Chin Ying Hoi and Ms. Ya Zhen Quan (excluding the Group and its ultimate holding company). Mr. Chin Ying Hoi and Ms. Ya Zhen Quan are the shareholders of the ultimate holding company of the Company (see Note 26(g)).

(3) Segment information

The Group conducts its business within one business segment – the development and operation of Jian ePayment System and manufacturing and distribution of the associated commercial applications in the PRC.

The Group's businesses operate in five main geographical areas:

Southern China  
Northern China  
Central China  
Eastern China  
North-eastern China

## Notes to the Accounts

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

#### (3) Segment information (Continued)

There are minimal sales between the geographical segments.

	Southern China 2003 RMB'000	Northern China 2003 RMB'000	Central China 2003 RMB'000	Eastern China 2003 RMB'000	North- eastern China 2003 RMB'000	Group 2003 RMB'000
Turnover	476	43	2,714	19	155	3,407
Segment results	404	(50)	2,247	1	140	2,742
Unallocated costs						(52,881)
Operating loss						(50,139)
Finance costs, net						(989)
Loss before taxation						(51,128)
Taxation						-
Loss after taxation						(51,128)
Minority interests						-
Loss attributable to shareholders						(51,128)
Segment assets	-	21,607	30,964	-	-	52,571
Unallocated assets						8,583
Total assets						61,154
Segment liabilities	-	175	19,235	-	-	19,410
Unallocated liabilities						15,649
Total liabilities						35,059
Capital expenditure	-	-	1,661	-	-	1,661
Depreciation	-	5,166	4,281	-	-	9,447
Impairment loss of fixed assets	-	7,760	3,014	-	-	10,774
Amortisation of goodwill	-	-	209	-	-	209
Impairment of goodwill	-	-	1,359	-	-	1,359

31 December 2003  
(Amounts expressed in Renminbi Yuan unless otherwise stated)

## Notes to the Accounts

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

#### (3) Segment information (Continued)

	Southern China 2002 RMB'000	Northern China 2002 RMB'000	Central China 2002 RMB'000	Eastern China 2002 RMB'000	North- eastern China 2002 RMB'000	Group 2002 RMB'000
Turnover	6,894	8,991	9,854	10,169	24,780	60,688
Segment results	4,054	8,410	2,838	8,139	23,829	47,270
Unallocated costs						(21,693)
Operating profit						25,577
Finance costs, net						(1,196)
Profit before taxation						24,381
Taxation						-
Profit after taxation						24,381
Minority interests						(45)
Profit attributable to shareholders						24,336
Segment assets	2,571	15,564	48,289	4,161	21,146	91,731
Unallocated assets						34,461
Total assets						126,192
Segment liabilities	-	300	-	-	-	300
Unallocated liabilities						48,668
Total liabilities						48,968
Capital expenditure	-	25,825	31,720	-	-	57,545
Depreciation	-	-	423	-	-	423
Amortisation of goodwill	-	-	209	-	-	209
Other unallocated non-cash expenses	-	-	-	-	-	2,209



## Notes to the Accounts

### 4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging the following:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Depreciation of fixed assets (Note 12)	<b>9,447</b>	423
Impairment of fixed assets (Note 12)	<b>10,774</b>	–
Amortisation of goodwill (Note 11)	<b>209</b>	209
Impairment of goodwill (Note 11)	<b>1,359</b>	–
Provision for doubtful debts	<b>8,394</b>	2,000
Provision for inventories	<b>3,739</b>	–
Staff costs including directors' emoluments (Note 10)		
Salaries and wages	<b>8,503</b>	10,049
Contributions to retirement schemes (Note 20)	<b>473</b>	256
Cost of inventories	<b>665</b>	13,418
Operating lease rental	<b>2,720</b>	961
Auditors' remuneration	<b>1,242</b>	830
Research and development costs	<b>3,345</b>	1,800
	<b>3,345</b>	1,800

### 5. FINANCE COSTS, NET

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Wholly repayable within five years:		
Interest expenses on bank borrowings	<b>149</b>	469
Interest expenses on other borrowings	<b>319</b>	255
Interest expenses on convertible notes	<b>637</b>	53
Issue expenses for convertible notes	<b>–</b>	531
	<b>1,105</b>	1,308
Less: Interest income	<b>(116)</b>	(112)
	<b>989</b>	1,196

31 December 2003

(Amounts expressed in Renminbi Yuan unless otherwise stated)

## Notes to the Accounts

### 6. 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 for the year ended 31 December 2003 (2002: Nil).

The Group's subsidiary, Jian-O'Yuan, was incorporated in the PRC as a privately owned limited liability company on 26 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 Enterprises, as a manufacturing enterprise with foreign investment, Jian-O'Yuan is entitled to full exemption from EIT for two years and a 50% reduction in the next three years. In accordance with the approval document from Zhengzhou State Tax Bureau, Jian-O'Yuan is entitled to the EIT exemption from the first profit making year as an enterprise with foreign investment. In year 2003, as Jian-O'Yuan has no assessable profit, no EIT provision was provided.

No EIT provision was required for the other 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 for the year ended 31 December 2003.

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
(Loss)/profit before taxation	<b>(51,128)</b>	24,381
Calculated at the PRC statutory tax rate of 33%	<b>(16,872)</b>	8,046
Effect of different tax rate	<b>2,533</b>	2,071
Effect of tax preferential period	-	(11,306)
Unrecognised deferred tax assets	<b>14,339</b>	1,189
	<b>-</b>	-

The details of unprovided deferred taxation as at 31 December 2003 were stated in Note 23.

## Notes to the Accounts

### 7. LOSS/(PROFIT) ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of RMB15,708,000 (2002: a loss of RMB4,086,000).

### 8. DIVIDEND

No dividend had been paid or declared by the Company during the year (2002: Nil).

### 9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of RMB51,128,000 (2002: a profit of RMB24,336,000) and on the weighted average of 400,000,000 (2002: 400,000,000) ordinary shares in issue during the year.

No diluted earnings per share for the 2003 is presented 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.

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Fees	<b>120</b>	10
Other emoluments:		
Basic salaries, housing allowances, share options, other allowances and benefits in kind	<b>1,496</b>	1,222
Contributions to pensions schemes for directors	<b>74</b>	67
	<b>1,690</b>	1,299

Directors' fee disclosed above include RMB120,000 (2002: RMB10,000) paid to independent non-executive directors.

During the year ended 31 December 2003, no options were granted to the directors under the Executive Share Option Scheme adopted by the Company on 19 November 2001 (see Note 21(b)).

31 December 2003

(Amounts expressed in Renminbi Yuan unless otherwise stated)

## Notes to the Accounts

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
Executive directors		
RMB0 – RMB1,061,000 (equivalent to HK\$1,000,000)	<b>5</b>	5
Non-executive directors		
RMB0 – RMB1,061,000 (equivalent to HK\$1,000,000)	<b>2</b>	2

The five executive directors received individual emoluments for the year ended 31 December 2003 of approximately RMB663,000 (2002: RMB452,000), RMB234,000 (2002: RMB271,000), RMB350,000 (2002: RMB212,000), RMB115,000 (2002: RMB147,000) and RMB208,000 (2002: RMB140,000) respectively and the two non-executive directors each received emoluments of approximately RMB60,000 (2002: RMB5,000).

Pursuant to service contracts entered between the executive and non-executive directors and the Company dated 19 November 2001, the directors together will be entitled to a fixed salary or fees which will be subject to review by the Board of Directors on a yearly basis and any further performance related bonus shall be determined by the Company having taken into consideration the operating results of the Group.

No directors waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2003 and 2002.

The five individuals whose emoluments were the highest in the Group for the year include three (2002: four) directors whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining two (2002: one) individuals during the year are as follows:

	2003	2002
	RMB'000	RMB'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	<b>721</b>	520
Contributions to pensions schemes	<b>16</b>	13
	<b>737</b>	533

## Notes to the Accounts

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

The emoluments of the five highest individuals fell within the following bands:

Emolument bands:	Number of individuals	
	2003	2002
RMB0– RMB1,061,000 (equivalent to HK\$1,000,000)	5	5

### 11. GOODWILL

	Group RMB'000
Year ended 31 December 2003	
Opening net book amount	1,568
Amortisation charge	(209)
Impairment charge	(1,359)
Closing net book amount	–
At 31 December 2003	
Cost	2,090
Accumulated amortisation and impairment losses	(2,090)
Net book amount	–
At 31 December 2002	
Cost	2,090
Accumulated amortisation and impairment losses	(522)
Net book amount	1,568

Goodwill was recognised upon the acquisition of an additional 18% equity interest in Jian-O'Yuan on 18 April 2000. As Jian-O'Yuan suffered from a significant loss during the year ended 31 December 2003, the directors have made a full impairment provision for the goodwill.

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## Notes to the Accounts

### 12. FIXED ASSETS

	Group				
	Leasehold improvements	Machinery	Office equipment	Systems under development	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2003	92	802	934	56,286	58,114
Transfer	–	56,286	–	(56,286)	–
Additions	–	1,454	207	–	1,661
At 31 December 2003	92	58,542	1,141	–	59,775
Accumulated depreciation and impairment:					
At 1 January 2003	85	332	231	–	648
Charge for the year	7	9,248	192	–	9,447
Impairment charge	–	10,774	–	–	10,774
At 31 December 2003	92	20,354	423	–	20,869
Net book value:					
At 31 December 2003	–	38,188	718	–	38,906
At 31 December 2002	7	470	703	56,286	57,466

Systems under development were purchased for the establishment of a new line of business of the Group and were in final testing as at 31 December 2002. The systems were transferred to machinery in 2003.

### 13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 RMB'000	2002 RMB'000
Investments in subsidiaries at cost (Note (a))	<b>24,208</b>	24,208
Amounts due from subsidiaries (Note (b))	<b>26,568</b>	34,265
Impairment of investments	<b>50,776 (11,069)</b>	58,473 –
	<b>39,707</b>	58,473

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## Notes to the Accounts

### 13. INVESTMENTS IN SUBSIDIARIES (Continued)

#### (a) Investments

The following is a list of subsidiaries at 31 December 2003:

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Principal activities and place of operation	Particulars of registered/ issued capital (Note (1))	Interest held	
					Directly	Indirectly
Systematic Technology Group Limited ("Systematic")	British Virgin Islands, limited liability company	27 June 2000	Investment holding in Hong Kong	5 ordinary shares of USD 1 each	100%	-
Jian-O'Yuan (Note (2))	PRC, limited liability company	26 April 1999	Development and operation of Jian ePayment System and manufacturing and distribution of the associated commercial applications in Mainland China	USD2,950,000	-	100%

31 December 2003

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## Notes to the Accounts

## 13. INVESTMENTS IN SUBSIDIARIES (Continued)

## (a) Investments (Continued)

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Principal activities and place of operation	Issued capital (Note (1))	Interest held	
					Directly	Indirectly
Wuhan Jian ePayment Science and Technology Co., Ltd. (“Wuhan Jian ePayment”) (Note (3))	PRC, limited liability company	20 August 2002	Operation of Jian ePayment System in Mainland China	USD1,500,000	–	100%
Beijing Jian ePayment Science and Technology Co., Ltd. (“Beijing Jian ePayment”) (Note (3))	PRC, limited liability company	22 May 2002	Operation of Jian ePayment System in Mainland China	USD150,000	–	100%

## Note:

- (1) As at 31 December 2003, all issued capital of the subsidiaries of the Company had been paid up except that of Wuhan Jian ePayment. The paid up capital of Wuhan Jian ePayment was USD846,000 as at 31 December 2003.
- (2) Jian-O’Yuan was incorporated in the PRC as a privately owned limited liability company on 26 April 1999. Upon incorporation, 82% equity interests of Jian-O’Yuan were held by Beijing Jian-Tech Co., Ltd. (“Jian-Tech”) and 18% equity interests of Jian-O’Yuan were held by Zhengzhou-O’Yuan Electronic Technology Limited (“Zhengzhou-O’Yuan”), an independent third party. On 18 April 2000, the 18% equity interests of Jian-O’Yuan held by Zhengzhou-O’Yuan were acquired by Beijing Jian Enterprise (Group) Co., Ltd. (“Beijing Jian Enterprise”). Jian-O’Yuan was then converted into a sino-foreign equity joint venture. According to an agreement between Jian-Tech, Beijing Jian Enterprise and Systematic dated 18 July 2000, Systematic acquired 99% of the equity interests of Jian-O’Yuan. The remaining 1% of equity interests was held by Jian-Tech. According to the agreement dated 18 May 2002, the 1% equity interests of Jian-O’Yuan held by Jian-Tech was acquired by Systematic. Since then, Jian-O’Yuan became a wholly owned subsidiary of the Systematic (see Note 26(f)).
- (3) Wuhan Jian ePayment and Beijing Jian ePayment were incorporated in the PRC as privately owned limited liability companies on 20 August 2002 and 22 May 2002, respectively. These two subsidiaries are wholly owned by Systematic.



## Notes to the Accounts

### 13. INVESTMENTS IN SUBSIDIARIES (Continued)

(b) The amounts due from subsidiaries were non-interest bearing and with no fixed repayment terms.

### 14. INVENTORIES

	<b>Group</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Raw materials	<b>959</b>	1,161
Work in progress	<b>976</b>	2,610
Finished goods	<b>1,809</b>	750
	<b>3,744</b>	4,521
Provision for inventories	<b>(3,739)</b>	–
	<b>5</b>	4,521

As at 31 December 2003, no inventories were carried at net realisable value (2002: nil).

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## Notes to the Accounts

### 15 . TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade receivables	(1)	272	38,433	–	–
Prepayments and deposits	(2)	3,645	6,537	–	–
Other receivables	(3)	676	2,328	318	1,075
		<b>4,593</b>	47,298	<b>318</b>	1,075

- (1) The credit term of the trade receivables of the Group ranges from 120 to 180 days. The ageing analysis of the trade receivables was as follows:

	Group	
	2003 RMB'000	2002 RMB'000
0-30 days	37	4,413
31-60 days	26	5,083
61-90 days	31	6,284
91-120 days	30	575
121-180 days	46	236
181-365 days	1,323	23,842
366-730 days	9,173	–
	<b>10,666</b>	40,433
Provision for doubtful accounts	<b>(10,394)</b>	(2,000)
	<b>272</b>	38,433

## Notes to the Accounts

### 15 . TRADE AND OTHER RECEIVABLES (Continued)

(2) Prepayments and deposits

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Prepayment of enterprise income tax ("EIT") (a)	2,621	5,121	–	–
Prepayments to suppliers	1,024	1,416	–	–
	<b>3,645</b>	6,537	–	–

- (a) Before Jian-O'Yuan obtained the confirmation from the local tax bureau for the preferential tax treatment as stated in Note 6, Jian-O'yuan was required to place deposits against the potential EIT liabilities for the years 2000 and 2001. Such deposits for EIT were refunded after Jian-O' Yuan obtained the approval of the preferential tax treatment from the tax bureau in 2001. During the year ended 31 December 2003, Jian-O' Yuan obtained a refund of EIT deposit amounted to RMB2,500,000 (2002: RMB4,000,000).

(3) Other receivables

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Advances to staff	97	794	–	–
Deposits for interests of convertible notes	318	1,061	318	1,061
Others	261	473	–	14
	<b>676</b>	2,328	<b>318</b>	1,075

31 December 2003

(Amounts expressed in Renminbi Yuan unless otherwise stated)

## Notes to the Accounts

### 16. OTHER CURRENT ASSETS

Other current assets at Group level represented the cost of smart cards provided by the Group to customers for the operations of Jian ePayment System as at year end.

### 17. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade payables	(1)	8,354	9,143	–	–
Other accounts payables	(2)	13,870	18,688	3,319	1,828
		<b>22,224</b>	27,831	<b>3,319</b>	1,828

(1) As at 31 December 2003, the ageing analysis of the trade payables were as follows

	Group	
	2003 RMB'000	2002 RMB'000
0-30 days	127	1,488
31-60 days	201	1,574
61-90 days	15	–
91-120 days	461	217
121-180 days	380	476
181-365 days	190	5,388
366-730 days	6,980	–
	<b>8,354</b>	9,143

## Notes to the Accounts

### 17. TRADE AND OTHER PAYABLES (Continued)

(2) Other accounts payable

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
VAT payable	5,831	8,634	-	-
Provision for staff and workers' bonus and welfare fund	817	817	-	-
Payables for purchases of fixed assets	-	4,260	-	-
Accruals for operating expenses	4,519	2,606	2,821	915
Salary and welfare payable	1,089	1,043	11	39
Others	1,614	1,328	487	874
	<b>13,870</b>	<b>18,688</b>	<b>3,319</b>	<b>1,828</b>

### 18. SHORT-TERM BORROWINGS

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Short-term bank borrowings	-	4,000	-	-
Other borrowings	-	5,306	-	5,306
	<b>-</b>	<b>9,306</b>	<b>-</b>	<b>5,306</b>

All short-term borrowings were repaid in 2003.

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## Notes to the Accounts

### 19. CONVERTIBLE NOTES

The Company issued a convertible note of HK\$10,000,000 (equivalent of RMB10,611,000) to an independent third party (the "Subscriber") on 30 November 2002. The convertible note is convertible into 4,000,000 shares of the Company at an initial conversion price of HK\$2.50 per share (subject to adjustment). The Subscriber also has an option to subscribe for a second convertible note of HK\$10,000,000 with an initial conversion price of HK\$3.00 per share within 6 months after 18 November 2002, the date of subscription agreement. No subscriber has exercised its option to subscribe for the second convertible note as at 31 December 2003.

The maturity date for each convertible note is the second anniversary date of its issue. The conversion rights could be exercised after a period of 12 months from the respective dates of issue of the convertible notes and each conversion shall be in the integral multiples of HK\$2,000,000.

The interest of the convertible note is at a rate per annum equal to one per cent over the prime lending rate for Hong Kong Dollars as quoted by The Hongkong and Shanghai Banking Corporation Limited to its customers on the last business day of the relevant interest period on the principle amount of the note outstanding.

### 20. RETIREMENT BENEFIT COSTS

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary. For the year ended 31 December 2003, no contribution was forfeited.

The Group's subsidiaries incorporated in the PRC make contributions to the basic old age insurance for the Group's local staff on a monthly basis pursuant to PRC laws and regulations to a government agency based on 25% to 26% of the standard salary set by the provincial government, of which 19% to 20% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff upon their retirement. The Group accounts for these contributions on an accrual basis.

The details of the pension contributions made by the Group were as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Contributions to retirement schemes	<b>473</b>	256

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## Notes to the Accounts

### 21 SHARE CAPITAL AND SHARE OPTIONS

#### a. Share capital

	Number of shares	Nominal value HK\$	Nominal value RMB
Authorised share capital (HK\$0.05 each)			
As at 31 December 2002 and 2003	1,200,000,000	60,000,000	63,624,000
Issued and fully paid (HK\$0.05 each)			
As at 31 December 2002 and 2003	400,000,000	20,000,000	21,208,000

#### b. 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 (including directors) and certain other persons 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 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 date of grant and (iii) the nominal value of the shares on the date of grant.

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## Notes to the Accounts

### 21 SHARE CAPITAL AND SHARE OPTIONS (Continued)

#### b. Share option scheme (Continued)

The number of share options granted are as follows:

Categories of grantees	Total number of grantees	As at				As at	
		1 January 2003	Granted	Exercised	Cancelled	31 December 2003	Lapsed
Directors	5	4,600,000	–	–	–	–	4,600,000
Employees	21	14,200,000	–	–	–	300,000	13,900,000
Others	13	16,200,000	–	–	–	–	16,200,000
		<b>35,000,000</b>	–	–	–	<b>300,000</b>	<b>34,700,000</b>

The above options comprising 32,000,000 and 3,000,000 underlying shares were granted at consideration on 31 May 2002 and 16 August 2002 respectively.

The exercise price of 32,000,000 share options granted on 31 May 2002 is HK\$2.35 per share. Such options are exercisable to the extent of 25% of the options granted to each grantee every year after the date of grant, and have a duration of 5 years from the date on which the option was granted. The exercise price of 3,000,000 share options granted on 16 August 2002 is HK\$2.03 per share and such options can be exercised since granted.



## Notes to the Accounts

### 21 SHARE CAPITAL AND SHARE OPTIONS (Continued)

#### b. Share option scheme (Continued)

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 at consideration as follows:

<b>Name of director</b>	<b>Date of grant</b>	<b>Exercise price per share</b>	<b>Outstanding number of share under option as at 31 December 2003</b>
Mr. Chin Ying Hoi	31 May 2002	HK\$2.35	<b>2,000,000</b>
Mr. Liu De Fu	31 May 2002	HK\$2.35	<b>700,000</b>
Mr. Guo Yan Hong	31 May 2002	HK\$2.35	<b>400,000</b>
Mr. Li Sui Yang	31 May 2002	HK\$2.35	<b>1,000,000</b>
Ms. Wang Yan	31 May 2002	HK\$2.35	<b>500,000</b>
			<b>4,600,000</b>

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## Notes to the Accounts

### 22. RESERVES

	Group						Total RMB'000
	Share premium RMB'000	Capital reserve RMB'000	General reserve fund RMB'000	Enterprise expansion fund RMB'000	Cumulative exchange difference RMB'000	(Accumulated losses)/ retained earnings RMB'000	
At 1 January 2002	1,476	6,304	1,362	681	5	21,865	31,693
Transfer to general reserve fund	-	-	1,508	-	-	(1,508)	-
Transfer to enterprise expansion fund	-	-	-	754	-	(754)	-
Foreign exchange adjustment	-	-	-	-	(13)	-	(13)
Profit attributable to shareholders	-	-	-	-	-	24,336	24,336
At 31 December 2002	1,476	6,304	2,870	1,435	(8)	43,939	56,016
Foreign exchange adjustment	-	-	-	-	(1)	-	(1)
Loss attributable to shareholders	-	-	-	-	-	(51,128)	(51,128)
At 31 December 2003	1,476	6,304	2,870	1,435	(9)	(7,189)	4,887

	Company			
	Share premium RMB'000	Merger reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2002	1,476	23,996	(791)	24,681
Loss attributable to shareholders	-	-	(4,086)	(4,086)
At 31 December 2002	1,476	23,996	(4,877)	20,595
Loss attributable to shareholders	-	-	(15,708)	(15,708)
At 31 December 2003	1,476	23,996	(20,585)	4,887

## Notes to the Accounts

### 22. RESERVES (Continued)

Jian-O'Yuan, Beijing Jian ePayment and Wuhan Jian ePayment are subsidiaries incorporated in the PRC. These subsidiaries have to follow the laws and regulations of the PRC and its Articles of Association in setting up certain reserve funds. They are required to provide for certain statutory funds, namely, general reserve fund, enterprise expansion fund, staff and workers' bonus and welfare fund which are appropriated from net profit after taxation but before dividend distribution based on their statutory accounts prepared in accordance with the accounting principles and relevant financial regulations applicable to enterprises established in the PRC (the "PRC GAAP"). These funds are created for specific purposes. The appropriation for the general fund reserve is no less than 10% of the net profit after taxation and appropriations to enterprise expansion fund and staff and workers' bonus and welfare fund are at the discretion of the directors of the respective subsidiaries. The general reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authority. The staff and workers' bonus and welfare fund can only be used for special bonus or collective welfare of its employees, and assets acquired through this fund shall not be treated as assets of the Group. Staff and workers' bonus and welfare fund are charged to expenses as incurred and recorded as a liability in the balance sheet under HK GAAP.

When the statutory reserve fund is not sufficient to compensate for any losses of the above subsidiaries from previous years, current year net profit shall be used to make good for the losses before allocations are set aside for the reserve fund, enterprise expansion fund or the statutory staff and worker's bonus and welfare fund.

Merger reserve of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation.

Under the Companies Law of the Cayman Islands, share premium and merger reserve are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and merger reserve if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

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## Notes to the Accounts

### 23. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary difference under the liability method using taxation rates applicable to the companies comprising the Group.

Temporary differences are mainly arising from:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Accumulated losses of some of its subsidiaries	<b>22,149</b>	1,603
Provision for inventory obsolescence	<b>3,739</b>	–
Provision for doubtful accounts	<b>10,394</b>	2,000
Provision for fixed assets	<b>10,774</b>	–
	<b>47,056</b>	3,603

The potential deferred tax assets not provided for the accounts amounted to:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Accumulated losses of some of its subsidiaries	<b>7,309</b>	529
Provision for inventory obsolescence	<b>1,234</b>	–
Provision for doubtful accounts	<b>3,430</b>	660
Provision for fixed assets	<b>3,555</b>	–
	<b>15,528</b>	1,189

At the balance sheet date, there were no material unprovided deferred tax liabilities. Deferred tax assets arising from above temporary differences have not been recognised as it is uncertain that future taxable profit will be available against which the temporary differences can be utilised.

The expiry date of the deferred tax assets not provided as at 31 December 2003 is as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Expire in 3-4 years	<b>529</b>	–
Expire in 4-5 years	<b>6,780</b>	529
No expire date	<b>8,219</b>	660
	<b>15,528</b>	1,189

According to Provisional Regulations on PRC Enterprise Income Tax No. 11, tax losses of the PRC subsidiaries of the Group can be carried forward to offset future assessable profit for a period of 5 years.

## Notes to the Accounts

### 24. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2003 RMB'000	2002 RMB'000
Operating (loss)/profit	(50,139)	25,577
Depreciation	9,447	423
Impairment of fixed assets	10,774	–
Amortisation of goodwill	209	209
Impairment of goodwill	1,359	–
Operating (loss)/profit before working capital changes	(28,350)	26,209
Increase in due from related companies	(346)	(45)
Decrease/(increase) in other current assets	1,784	(1,235)
Decrease in due to a related company	(14)	(1,943)
Increase/(decrease) in deposits from customers	1,106	(1,739)
Decrease in inventories	4,516	8,704
Decrease/(increase) in trade and other receivables	42,705	(8,356)
(Decrease)/increase in trade and other payables	(5,607)	15,074
Net cash inflow generated from operations	<b>15,794</b>	<b>36,669</b>

(b) Analysis of cash and cash equivalents

	2003 RMB'000	2002 RMB'000
Cash on hand	33	312
Cash at banks	16,988	12,960
	<b>17,021</b>	<b>13,272</b>
Less: Time deposits with original maturity of more than 3 months	(5,300)	–
	<b>11,721</b>	<b>13,272</b>

## Notes to the Accounts

## 24. CONSOLIDATED CASH FLOW STATEMENT (Continued)

## (c) Analysis of changes in financing

	Share capital and share premium	Convertible notes	Short-term borrowings	Due to the ultimate holding company	Minority interests
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2002	22,684	-	10,850	140	287
Advance from the ultimate holding company	-	-	-	766	-
Issue of convertible notes	-	10,611	-	-	-
Repayment of short-term borrowings	-	-	(10,850)	-	-
Proceeds from short-term borrowings	-	-	9,306	-	-
Capital injection from minority interests	-	-	-	-	215
Minority interests' share of profit of a subsidiary	-	-	-	-	45
Acquisition of a subsidiary from minority interests	-	-	-	-	(547)
As at 31 December 2002	22,684	10,611	9,306	906	-
Repayment of short-term borrowings	-	-	(9,306)	-	-
Decrease in amount due to the ultimate holding company	-	-	-	(88)	-
As at 31 December 2003	22,684	10,611	-	818	-

## Notes to the Accounts

### 25. COMMITMENTS

(a) Capital commitments for property, plant and equipment

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Contracted but not provided for	-	4,843
Authorised but not contracted for	-	11,040
	<b>-</b>	<b>15,883</b>

(b) Commitments under operating leases

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>Land and buildings</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Not later than one year	<b>1,090</b>	2,354
Later than one year and not later than five years	<b>963</b>	2,302
	<b>2,053</b>	<b>4,656</b>

The Group leases plant and office premises under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

## Notes to the Accounts

### 26. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other or exercise significant influence over the other party in making financial and operating decision. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) **Name and relationship of related parties:**

<b>Name</b>	<b>Relationship with the Company</b>
北京華普產業集團有限公司 Beijing Jian Enterprise (Group) Co. Ltd. ("Beijing Jian Enterprise")	A company ultimately owned by Mr. Chin Ying Hoi and Ms. Ya Zhen Quan, the shareholders of the ultimate holding company
北京華普科技企業有限公司 Beijing Jian-Tech Co. Ltd. ("Jian-Tech")	Subsidiary of Beijing Jian Enterprise
北京華普國際大廈有限公司 Beijing Huapu International Plaza Co. Ltd. ("Beijing Huapu")	Subsidiary of Beijing Jian Enterprise
青島華普商務會館有限公司 Qingdao Huapu Business Union Building Co. Ltd. ("Qingdao Huapu")	A company ultimately owned by Mr. Chin Ying Hoi and Ms. Ya Zhen Quan
海口華普立得泊車管理有限公司 Haikou Huapu Lide Parking Management Co. Ltd. ("Haikou Project Company")	Being 49% owned by Beijing Jian Enterprise
廣州電子泊車管理有限公司 Guangzhou Electronic Parking Management Co. Ltd. ("Guangzhou Project Company")	Being 49% owned by Beijing Jian Enterprise



## Notes to the Accounts

### 26. RELATED PARTY TRANSACTIONS (Continued)

(a) Name and relationship of related parties: (Continued)

Name	Relationship with the Company
威海天創電子智能系統有限公司 Weihai TianChuang Electronic System Co., Ltd. ("Weihai Project Company")	Being 20% owned by Jian-Tech
南寧華普正方泊車建設管理有限公司 Nanning Huapu Zhengfang Parking Construction and Management Co., Ltd. ("Nanning Project Company")	Being 30% owned by Jian-Tech
鄭州道康電子泊車管理有限公司 Zhengzhou Daokang Electronic Parking Management Co., Ltd. ("Zhengzhou Project Company")	Being 20% owned by Jian-Tech
宜昌武華電子泊車管理有限公司 Yichang Wuhua Electronic Parking Management Co., Ltd. ("Yichang Project Company")	Being 20% owned by Beijing Jian Enterprise
華普超市(武漢)有限公司 Huapu Supermarket (Wuhan) Co. Ltd. ("Wuhan Huapu Supermarket")	Being 64% owned by Beijing Jian Enterprise

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(Amounts expressed in Renminbi Yuan unless otherwise stated)

## Notes to the Accounts

### 26. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Significant related party transactions

Save as disclosed elsewhere in this set of accounts, the Group had the following material transactions with related parties, which the directors considered were in the normal course of businesses:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
(i) Sales of hardware and software, provision of systems integration services and transaction levies		
– Haikou Project Company	<b>123</b>	427
– Guangzhou Project Company	<b>247</b>	324
– Weihai Project Company	<b>19</b>	4,773
– Nanning Project Company	<b>106</b>	6,143
– Zhengzhou Project Company	<b>20</b>	3,470
– Yichang Project Company	<b>15</b>	3,682
– Wuhan Huapu Supermarket	<b>55</b>	–
	<b>585</b>	18,819
(ii) Operating leases rentals paid/payable to:		
– Beijing Huapu	<b>937</b>	937
– Qingdao Huapu	<b>–</b>	60
– Mr. Chin Ying Hoi, a director	<b>382</b>	382
	<b>1,319</b>	1,379

## Notes to the Accounts

### 26. RELATED PARTY TRANSACTIONS (Continued)

#### (c) Balances with related companies

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Balances from trading activities:				
Included in trade receivables				
– Guangzhou Project Company	–	49	–	–
– Haikou Project Company	234	465	–	–
– Weihai Project Company	2,473	3,584	–	–
– Nanning Project Company	–	2,058	–	–
– Zhengzhou Project Company	5	4,060	–	–
– Yichang Project Company	4,313	4,308	–	–
– Wuhan Huapu Supermarket	54	–	–	–
	<b>7,079</b>	14,524	–	–
Provision for doubtful accounts	<b>(6,870)</b>	(726)	–	–
	<b>209</b>	13,798	–	–
Included in deposits from customers				
– Guangzhou Project Company	277	–	–	–
– Nanning Project Company	243	–	–	–
	<b>520</b>	–	–	–
Due from related companies				
– Beijing Jian Enterprise	200	–	–	–
– Jian-Tech	191	45	–	–
	<b>391</b>	45	–	–
Due to a related company				
– Beijing Jian Enterprise	–	14	–	–
Due to the ultimate holding company	<b>818</b>	906	–	–

As at 31 December 2003, the amounts due from Guangzhou, Haikou, Weihai, Nanning, Zhengzhou and Yichang project companies and Wuhan Huapu Supermarket were derived from the sales of software and hardware, provision of systems integration services and transaction levies. The balances were non-interest bearing and were repayable on demand.

## Notes to the Accounts

### 26. RELATED PARTY TRANSACTIONS (Continued)

#### (c) Balances with related companies (Continued)

Balances with related companies and the ultimate holding company from other activities were non-interest bearing and repayable on demand.

#### (d) Free office premises provided by a subsidiary to the Company

During the years ended 31 December 2002 and 2003, Systematic provided free offices premises to the Company.

#### (e) 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 and a corporate guarantee provided by Beijing Jian Enterprise. The Group had received an agreement in principle from the relevant bank to the effect that upon listing of the Company's shares on GEM, the mortgage and corporate guarantee provided by Beijing Jian Enterprise will be released and substituted by a corporate guarantee from the Company. As at 31 December 2002, the procedures for the release of the mortgage and corporate guarantee provided by Beijing Jian Enterprise was still in progress. The bank loan has been repaid and accordingly the corporate guarantee has been released during the year ended 31 December 2003.

#### (f) Acquisition of equity interest in a subsidiary from a related party in 2002

According to the agreement dated 18 May 2002 between Systematic and Jian-Tech., Systematic agreed to pay Jian-Tech a cash consideration of approximately RMB547,000 to acquire 1% equity interests of Jian O'Yuan held by Jian-Tech. Jian O'Yuan was then wholly-owned by Systematic.

#### (g) Relationship between the Jian Enterprise Group and certain customers of the Group

The Jian Enterprise Group, which consists of a group of companies ultimately owned by Mr. Chin Ying Hoi and Ms. Ya Zhen Quan, entered into co-operative arrangements with certain customers of the Group whereby the Jian Enterprise Group agreed to finance such customers for the implementation of Jian ePayment System. In return, Jian Enterprise Group can share the revenue from the operations of Jian ePayment Systems with the customers. Such customers are independent third parties and Jian Enterprise Group does not have any equity interests in these customers and does not involve in the operations of Jian ePayment System.

## Notes to the Accounts

### 26. RELATED PARTY TRANSACTIONS (Continued)

#### (g) Relationship between the Jian Enterprise Group and certain customers of the Group (Continued)

The amount of sales made to these customers were as follows:

	Group	
	2003 RMB'000	2002 RMB'000
– 武漢市停車計時收費表管理辦公室 Parking Meter Administration Office of Wuhan Municipal Government (“Wuhan Project Company”)	1,287	826
– 北京市朝陽區建築工程公司 (市政工程公司) Beijing Municipal Chaoyang District Construction Engineering Company (Municipal Engineering Company) (“Beijing Project Company”)	43	8,991
– 青島市停車場管理辦公室 Car Parking Administration Office of Qingdao Municipal Government (“Qingdao Project Company”)	–	5,396
	<b>1,330</b>	<b>15,213</b>

As at 31 December 2003, the balances with the above customers were as follows:

	Group	
	2003 RMB'000	2002 RMB'000
Included in trade receivables		
– Wuhan Project Company	–	2,051
– Qingdao Project Company	167	577
– Beijing Project Company	28	–
	<b>195</b>	<b>2,628</b>
Provision for doubtful accounts	<b>(167)</b>	<b>(131)</b>
	<b>28</b>	<b>2,497</b>
Included in deposits from customers		
– Beijing Project Company	–	300
– Wuhan Project Company	202	–
	<b>202</b>	<b>300</b>

## Notes to the Accounts

### 27. ULTIMATE HOLDING COMPANY

The directors of the Company consider Union Perfect International Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

### 28. POST BALANCE SHEET DATE EVENT

On 22 March 2004, the Company entered into an agreement ("the Agreement") with Wuhan Transportation Group Company Limited ("Wuhan Transportation Group"). Pursuant to the Agreement, Jian ePayment (China) International Holdings Limited, a wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 3 February 2004, will acquire 70% equity interest in Wuhan Traffic IC Card Management Limited, a wholly owned subsidiary of Wuhan Transportation Group, at a consideration of RMB28,200,000 payable in cash in June 2004.

### 29. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 29 April 2004.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the members of Jian ePayment Systems Limited (the "Company") will be held at Room 1214, 12/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 27 May, 2004 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31st December 2003.
2. To re-elect the retiring directors, namely Mr. Liu De Fu and Mr. Guo Yan Hong and to authorize the board of directors to fix all the Directors' remuneration.
3. To appoint auditors of the Company and to authorize the board of directors to fix their remuneration.
4. To consider as special business, and if thought fit, pass, with or without amendments, the following resolution as an ordinary resolution of the Company:

**"THAT:**

- (A) subject to paragraph (C) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with (otherwise than by way of rights issue or pursuant to the exercise of options granted under any of the Company's share option schemes or any scrip dividend scheme or similar arrangements providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company pursuant to the Articles of Association of the Company from time to time) additional shares in the share capital of the Company and to make or grant any offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (B) the approval in paragraph (A) of this resolution shall be in addition to any other authorization given to the directors and shall authorize the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant any offers, agreements and options which would or might require the exercise of such powers either during or after the end of the Relevant Period (as hereinafter defined);
- (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (A) above shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of this resolution, and the said approval shall be limited accordingly; and
- (D) for the purposes of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

## Notice of Annual General Meeting

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting;

“rights issue” means the allotment or issue of shares in the Company or other securities which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding for such purpose any shareholder who is resident in a place where such offer is not permitted under the laws of that place) and, where appropriate, the holders of other equity securities of the Company entitled to such offer, pro rata (apart from fractional entitlements) to their existing holdings of shares or such other equity securities.

5. To consider as special business, and if thought fit, pass, with or without amendments, the following resolution as an ordinary resolution:

**“THAT:**

- (A) subject to paragraph (B) of this resolution, the exercise by the directors of the Company during the Relevant Period (as defined in resolution 4(D) set out in the Notice of this Meeting) of all the powers of the Company to repurchase the issued shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which shares in the capital of the Company may be listed and which is recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the GEM Listing Rules or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved; and
- (B) the aggregate nominal amount of shares of the Company which the Company is authorized to repurchase pursuant to the approval in paragraph (A) of this resolution during the Relevant Period (as defined in resolution 4(D) set out in the Notice of this Meeting) shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of this resolution, and the said approval shall be limited accordingly.”

6. To consider as special business, and if thought fit, pass, with or without amendments, the following resolution as an ordinary resolution:

**“THAT** conditional upon the passing of resolutions Nos. 4 and 5 (as set out in the Notice of this Meeting), the unconditional general mandate granted to the directors of the Company and for the time being in force to exercise all the powers of the Company to allot, issue and deal with shares of the Company pursuant to



## Notice of Annual General Meeting

resolution No. 4 (as set out in the Notice of this Meeting) be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such unconditional general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution No. 5 (as set out in the Notice of this Meeting), provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing this resolution.”

7. As special business, to consider and if thought fit, pass with or without any amendments, the following resolution as an ordinary resolution:

“**THAT** the existing Scheme Mandate Limit in respect of the granting of share options under the share option scheme adopted by the Company on 19th November, 2001 (the “Share Option Scheme”) be renewed provided that the total number of shares of HK\$0.05 each in the capital of the Company (each a “Share”) which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the Share in issue at the date of approval of such renewal of the Scheme Mandate Limit.”

8. As special business, to consider and if thought fit, pass with or without any amendments, the following resolution as special resolution:

- (a) **THAT** the existing articles of association of the Company be and are hereby amended in the manner as follows:

### Article 2

- (i) By inserting the following new definitions in Article 2(1):

“associate”	the meaning attributed to it in the rules of the Designated Stock Exchange.
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“Company’s website”	the website of the Company to which any Member may have access, the address or domain name of which has been notified to the Members at the time the Company seeks the relevant Member’s consent for the purposes of Article 159.”
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- (ii) By deleting the following words from the definition of “clearing house”:

“a recognized clearing house within the meaning of Section 2 of the Securities and Futures (Clearing Houses) Ordinance of Hong Kong or”

## Notice of Annual General Meeting

- (iii) By inserting in Article 2(2)(e) after the words “expressions referring to writing” the words “or printing”; and after the words “photography and other modes of representing words in a visible form” the words “, and including where the representation takes the form of electronic display, provided that the same is available for download onto a user’s computer or for printing through conventional small office equipment or is placed on the Company’s website and, in each case, the Member concerned (where the relevant provision at these Articles requires the delivery at service of any document or notice on him in his capacity as shareholder) has elected for the receipt of the relevant download or notice through electronic means and both the mode of service of the relevant document or notice and the Member’s election comply with all applicable Statutes, rules and regulations”;
- (iv) By replacing the full stop “.” appearing at the end of Article 2(2)(g) with a semi-colon “;”;
- (v) By inserting the following new Article 2(2)(h) immediately after the existing Article 2(2)(g):-
  - “(h) references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.”

### Article 44

By inserting after the words “any other newspapers in accordance with the requirements of any Designated Stock Exchange” the words “or by any means in such manner as may be accepted by the Designated Stock Exchange”.

### Article 51

By inserting after the words “in accordance with the requirements of any Designated Stock Exchange” the words “or by any means in such manner as may be accepted by the Designated Stock Exchange”.

### Article 76

- (i) By re-numbering existing Article 76 as Article 76(1);
- (ii) By inserting the following as new Article 76(2):
  - “(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

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### Article 86 (5)

By deleting the word “special” in the second line in Article 86(5) and replacing the word “ordinary”.

### Article 88

By deleting the words “not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting” in the second last sentence of Article 88 and replacing therewith the following proviso:

“provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”

### Article 103

By deleting the existing Article 103 in its entirety and replacing therewith the following new Article 103 (all changes have been marked-up for easy reference):

103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:
- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
  - (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

## Notice of Annual General Meeting

- (iv) any contract or arrangement in which he is the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
  - (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of the Designated Stock Exchange) and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
  - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.
- (3) Where a company in which a Director together and/or his associate(s) (as defined by the rules, where applicable, of the Designated Stock Exchange) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

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- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.

### Article 115

By inserting after the words "The Secretary shall convene a meeting of the Board of which notice may be given in writing or by telephone" the words "or by any electronic means".

### Article 152

- (i) By inserting the words "Subject to Article 152A", before the words "A printed copy of the Directors' report" and replacing the word "A" with "a".

By deleting the letter "A" at the beginning of Article 152 and replacing it with the following"

"Subject to Article 152A"

- (ii) By adding the following new Articles 152A and 152B immediately after Article 152:

"152A Subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Article 152 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, a summary financial statement derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

152B The requirement to send to a person referred to in Article 152 the documents referred to in that Article or a summary financial report in accordance with Article 152A shall be deemed satisfied where, in

## Notice of Annual General Meeting

accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Article 152 and, if applicable, a summary financial report complying with Article 152A, on the Company's computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company's obligation to send to him a copy of such documents."

### Article 159

By inserting the following new Article 159 in place of the existing Article 159:-

"159. Any Notice or document (including any "corporate communication" within the meaning ascribed thereto under the rules of the Designated Stock Exchange), whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appointed newspapers (as defined in the Law) or in newspapers published daily and circulating generally in the territory of and in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website and giving to the member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.";

### Article 160

(i) By deleting the existing Article 160(b) and inserting the following new Article 160(b) in its place:-

"(b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member; and"

## Notice of Annual General Meeting

(ii) By inserting the following new Article 160(c) immediately after the new Article 160(b):

“(c) if served or delivered in any other manner contemplated by these Articles, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch, transmission or publication; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the fact and time of such service, delivery, despatch, transmission or publication shall be conclusive evidence thereof; and”;

(iii) By inserting the following new Article 160(d) immediately after the new Article 160(c):-

“(d) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.”.

(b) THAT the amended and restated articles of association of the Company, consolidating all of the changes referred to in (a) above and in the form produced to the meeting, be and are hereby adopted with immediate effect in replacement of the existing Articles of Association of the Company.

By Order of the Board of  
Jian ePayment Systems Limited  
Chin Ying Hoi  
Chairman

29 April, 2004

### Notes:

1. Any member entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a Member. In addition, a proxy or proxies representing a Member who is an individual or a member which is a corporation shall be entitled to exercise the same power on behalf of the member he or they represent as such member could exercise.
2. The instrument appointing a proxy and (if require by the board of directors) the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, shall be delivered to the Company's branch share registrar, Hong Kong Registrars Limited, Room 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid.
3. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting concerned and in such event, the instrument appointing a proxy shall be deemed to be revoked.