



**Jian ePayment Systems Limited**

**華普智通系統有限公司**

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



**FIRST QUARTERLY REPORT 2004**

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

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

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**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-Listed issuers.**

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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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Turnover for the three months ended 31 March 2004 was approximately RMB323,000, representing a decrease of approximately 80% as compared to that for the corresponding period in 2003.
- Loss attributable to shareholders amounted to approximately RMB4,588,000 for the three months ended 31 March 2004.
- Basic losses per share amounted to RMB0.01 for the three months ended 31 March 2004.

## RESULTS

The Board of Directors (the "Board") of Jian ePayment Systems Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2004 and the comparative figures for the corresponding period in 2003.

		<b>For the three months ended 31 March</b>	
		<b>2004</b>	<b>2003</b>
	<i>Notes</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Turnover and revenue	3	323	1,613
Cost of sales		(38)	(664)
Gross profit		285	949
Distribution expenses		(363)	(553)
Research and development costs		(452)	(634)
General and administration expenses		(3,900)	(3,912)
Loss from operations		(4,430)	(4,150)
Subsidy income		–	1,416
Interest income		2	4
Interest expense		(160)	(391)
Loss before taxation		(4,588)	(3,121)
Taxation	4	–	–
Loss after taxation but before minority interests		(4,588)	(3,121)
Minority interests		–	–
Loss attributable to shareholders		<u>(4,588)</u>	<u>(3,121)</u>
Losses per share – basic	5	<u>RMB(0.01)</u>	<u>RMB(0.008)</u>
– diluted		<u>N/A</u>	<u>N/A</u>

## **1. GROUP'S OPERATION AND BASIS OF CONSOLIDATION**

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

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

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

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

## **2. PRINCIPAL ACCOUNTING POLICIES**

The unaudited quarterly financial statements have been prepared on a basis consistent with the accounting policies adopted by the Group in preparation of its financial statements for the year ended 31 December 2003.

The financial statements are prepared on historical cost convention and in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong ("HK GAAP"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

### 3. TURNOVER AND REVENUE

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

Turnover consisted of:

	<b>For the three months ended 31 March</b>	
	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of hardware and software	28	1,309
Provision of systems integration services	–	–
Transaction levies	295	304
	<hr/>	<hr/>
	323	1,613
	<hr/> <hr/>	<hr/> <hr/>

### 4. TAXATION

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

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided for as the Group has no assessable profit arising in or derived from those jurisdictions during the three months ended 31 March 2004 (2003: Nil).

The Group's subsidiary, Zhengzhou Jian-O'Yuan ITS Systems Co., Ltd. ("Jian-O'Yuan"), was incorporated in the PRC as a privately owned limited liability company on 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 year 2001 as an enterprise with foreign investment. No EIT provision was made for Jian-O'Yuan as it has no assessable profit during the three months ended 31 March 2004.

No EIT provision for the two subsidiaries incorporated in the PRC, namely Beijing Jian ePayment Science and Technology Co., Ltd. and Wuhan Jian ePayment Science and Technology Co., Ltd. and Jian ePayment (China) International Holdings Limited, incorporated in the British Virgin Islands, as there had been no assessable profit during the three months ended 31 March 2004.

There was no significant unprovided deferred taxation for the three months ended 31 March 2004 (2003: Nil).

## 5. LOSSES PER SHARE

The calculation of basic losses per share for the three months ended 31 March 2004 is based on the loss attributable to shareholders of approximately RMB4,588,000 (2003: loss attributable to shareholder RMB3,121,000) and the weighted average number of 400,000,000 shares (2003: 400,000,000 shares) deemed to be in issue during the period.

No diluted earnings per share for the three months ended 31 March 2004 and 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.

## 6. DIVIDEND

The directors do not recommend the payment of any dividend for the period from 1 January 2004 to 31 March 2004 (2003: Nil).

## 7. RESERVES

	Share premium	Capital reserve	General reserve	Enterprise expansion fund	Cumulative translation adjustment	(Accumulated losses)/ Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Consolidated (unaudited)							
Balances, as at 1 January 2004	1,476	6,304	2,870	1,435	(9)	(7,189)	4,887
Foreign exchange adjustment	-	-	-	-	3	-	3
Loss attributed to shareholders	-	-	-	-	-	(4,588)	(4,588)
Balances, as at 31 March 2004	<u>1,476</u>	<u>6,304</u>	<u>2,870</u>	<u>1,435</u>	<u>(6)</u>	<u>(11,777)</u>	<u>302</u>
Balances, as at 1 January 2003	1,476	6,304	2,870	1,435	(8)	43,939	56,016
Foreign exchange adjustment	-	-	-	-	1	-	1
Loss attributed to shareholders	-	-	-	-	-	(3,121)	(3,121)
Balances, as at 31 March 2003	<u>1,476</u>	<u>6,304</u>	<u>2,870</u>	<u>1,435</u>	<u>(7)</u>	<u>40,818</u>	<u>52,896</u>

## **FINANCIAL REVIEW**

The Group's turnover for the three months ended 31 March 2004 amounted to approximately RMB323,000 and its loss attributable to shareholders was approximately RMB4,588,000.

The main streams of revenue for this quarter are derived from transaction levies of Jian ePayment System amounted to approximately RMB295,000 and sales of hardware and software amounted to approximately RMB28,000.

The main missions of the Group for the year are to establish a complete "One Card Multiple Use" system in Wuhan and to strive for a significant growth in the transaction volume and the amount of transaction levies as well as to promote the "One Card Multiple Use" system in Beijing, which follows the Wuhan model. There was no addition to the number of city clients during this quarter regarding installation of electronic payment systems in which it was the main source of revenue in the past years.

During this quarter, the Group still suffered losses which was mainly attributed to the decrease in sales revenue compared with the corresponding period of last year, while there was no significant decrease in the respective costs and expenses.

## **BUSINESS DEVELOPMENT**

The Group has been committed to establish Jian ePayment System as a major electronic payment system widely used throughout China. In 2004, the Company will continue to focus on the development of "One Card Multiple Uses" system in Wuhan and the promotion of the system in Beijing.

In Wuhan, the Group has installed approximately 1,100 sets of Jian Smart Pass Readers for retail and commercial use in restaurants, drug stores, supermarkets, convenient stores and Chinese restaurants.

The Group has started to promote Jian Smart Pass Readers for commercial use in Beijing by copying the business model in Wuhan and 28 sets of such readers have been installed in 9 supermarkets making the number of cities using the "One Card Multiple Uses" system increase to two cities.

As at the end of this quarter, the circulation number of Jian Smart Pass has reached 520,000.

On 22 March 2004, the Company entered into an agreement with Wuhan Transportation Group, pursuant to which, Jian ePayment (China) International Holdings Limited, a wholly owned subsidiary of the Company, would subscribe for 70% interest in the enlarged registered capital of Wuhan Traffic IC Card Management at a consideration of RMB28,200,000 payable in cash.

The Directors are of the opinion that the investment in Wuhan Traffic IC Card Management will increase the circulation number of Jian Smart Pass to over 1 million in Wuhan, providing the Group with excellent business opportunities to develop electronic payment system in Wuhan's public transport market. The investment, together with the existing "One Card Multiple Uses" system, may enable the Group to substantially expand its "One Card Multiple Uses" and "Application in Multiple Cities" business and further consolidate the Group's leading position amongst the major electronic payment systems in Wuhan and the peripheral area.

Moreover, the Group announced on 17 December 2003 that it had entered into a non-legally binding letter of intent with Octopus Cards Limited, an independent third party, for the establishment of a joint venture company. Negotiation on cooperation between the two parties is in progress. The Directors are of the opinion that cooperating with Octopus Cards Limited may improve the operation and management of the Group by sharing the management experience and technological expertise of Octopus Cards Limited.

## **RESEARCH AND DEVELOPMENT**

The Group made sustained efforts in the research and development of commercial applications of "One Card Multiple Uses" 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 existing 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 the first quarter of 2004 while focusing the research and development on key products and actively seeking development opportunities for the system integration business. 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.

## **SALES AND MARKETING**

The Group continued to promote Jian ePayment roadside parking system and other commercial fee collection systems among governments and merchant customers in various cities of China. Marketing activities were conducted in a number of cities throughout the country.



In the quarter, the Group continued to promote “One Card Multiple Uses” system in Wuhan and explore marketing channels and methods for adopting the “Wuhan model” in cities such as Beijing.

The group also sought opportunities to promote “One Card Multiple Uses” system in cities where Jian Smart Pass has been in use.

## **OUTLOOK**

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. 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.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the three months ended 31 March 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed shares.

## **DISCLOSURE OF DIRECTORS’ INTERESTS**

As at 31 March 2004, the interests of the Directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section

352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 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 March 2004.

*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 as at 31 March 2004.

## Aggregate long positions in underlying shares

### Unlisted physically settled equity derivatives

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

Name of Director	Date of grant	Vesting period and percentage of vested options (Note)	Exercise price per share	Outstanding number of share under option as at 31 March 2004
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
				<hr/> <hr/> <b>4,100,000</b>

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

None of the above options were exercised, cancelled or lapsed during the year ended 31 March 2004.

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

## Aggregate short positions in underlying shares

### Unlisted physically settled equity derivatives

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

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

Save as disclosed herein, none of the directors and chief executives or their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, the Company has no notice of any interest to be recorded under Section 29 of the SDI Ordinance as at 31 March 2004.

Other than the share option scheme as described below, 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 or any other body corporate and neither the Directors or the chief executive of the Company, nor any of their respective spouses or children under the age of 18, had any right to subscribe for equity or debt securities of the Company, or had exercised any such right during the period.

### **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 consultants, suppliers or customers of the Group who, in the sole discretion of the Company's board of directors (the "Board"), have contributed to the Group. The overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Share Option Scheme and other share option schemes must not, in aggregate, exceed 30% of the issued share capital of the Company 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 grant date and (iii) the nominal value of the shares on the grant date.

Details of the share options outstanding as at 31 March 2004 which have been granted under the scheme are as follows:

	Options held at 1 January 2004	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options held at 31 March 2004	Exercise Price	Grant Date	Exercisable from	Exercisable until	Closing price of the Company's share before date of grant
Directors	4,600,000	-	-	500,000	4,100,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Employees	13,900,000	-	-	900,000	13,000,000	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>34,700,000</u>			<u>1,400,000</u>	<u>33,300,000</u>					

None of the above options were exercised or redeemed during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the following substantial shareholder and person (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

### Aggregate long positions in shares

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

### Aggregate short position in underlying shares

#### Unlisted physically settled equity derivatives

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

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

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

### **COMPETING INTEREST**

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

### **BOARD PRACTICE AND PROCEDURES**

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures during the year.

### **AUDIT COMMITTEE**

An Audit Committee was established with written terms of reference in compliance with the requirements as set out in Rule 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive directors, Mr Zhang Xiao Jing and Ms Tung Fong. The Group's unaudited consolidated results for the three months, half year, nine months and audited consolidated results for the year ended 31 March 2004 have been reviewed by the audit committee.

By order of the Board  
**Mr. Chin Ying Hoi**  
*Chairman*

Beijing, 14 May 2004