



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

ANNUAL REPORT

2003/2004

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

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

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

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

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

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

Contents

Highlights of the Year	2
Corporate Information	3
Corporate Structure	4
Transaction Performance for the year	5
Chairman's Statement	6-7
Management Discussion and Analysis	8-11
Comparison of Business Objectives with Actual Business Progress	12-14
Directors and Senior Management	15
Directors' Report	16-27
Auditors' Report	28
Consolidated Income Statement	29
Consolidated Balance Sheet	30
Balance Sheet	31
Consolidated Cash Flow Statement	32
Consolidated Statement of Changes in Equity	33
Notes to the Financial Statements	34-69
Financial Summary	70



Highlights of the Year

- Turnover for the year ended 31 March 2004 amounted to approximately HK\$11.2 million (2003: HK\$6.7 million), representing an increase of approximately 67% over the last financial year.
- As at 31 March 2004, the Group had net current assets of approximately HK\$4.5 million (2003: HK\$16.0 million), including cash and bank balances of approximately HK\$7.7 million (2003: HK\$11.4 million).
- As at 31 March 2004, the Group had total assets of approximately HK\$42.5 million (2003: HK\$48.0 million).
- Net loss for the year ended 31 March 2004 reduced to approximately HK\$10.7 million (2003: HK\$12.7 million (restated)). The improvement was mainly due to effective cost control and expanding sources of revenue.
- Basic loss per share for the year ended 31 March 2004 amounted to approximately HK1.66 cents (2003: HK2.01 cents (restated)).
- The board of directors does not recommend payment of any dividend for the year ended 31 March 2004 (2003: Nil).



Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Lau Sik Suen (*Chairman*)

Liu Rui Sheng

Non-Executive Director:

Zhang Wen Bing

Independent Non-Executive Directors:

Meng Li Hui

Wan Xie Qiu

COMPANY SECRETARY

Wu Ka Ho *AHKSA, FCCA*

COMPLIANCE OFFICER

Lau Sik Suen

QUALIFIED ACCOUNTANT

Wu Ka Ho *AHKSA, FCCA*

AUDIT COMMITTEE

Meng Li Hui (*Chairman*)

Wan Xie Qiu

Wu Ka Ho

AUTHORISED REPRESENTATIVES

Lau Sik Suen

Wu Ka Ho

AUDITORS

PKF

Certified Public Accountants

WEBSITE

www.uth.com.hk

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1701-1702 and 1715-1716,

Technology Park

18 On Lai Street, Shatin

New Territories

Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square,

Hutchins Drive, P.O. Box 2681 GT,

George Town, Grand Cayman,

British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited

Butterfield House

Fort Street, 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

Rooms 1901-5, 19/F, Hopewell Centre,

183, Queen's Road East, Wan Chai,

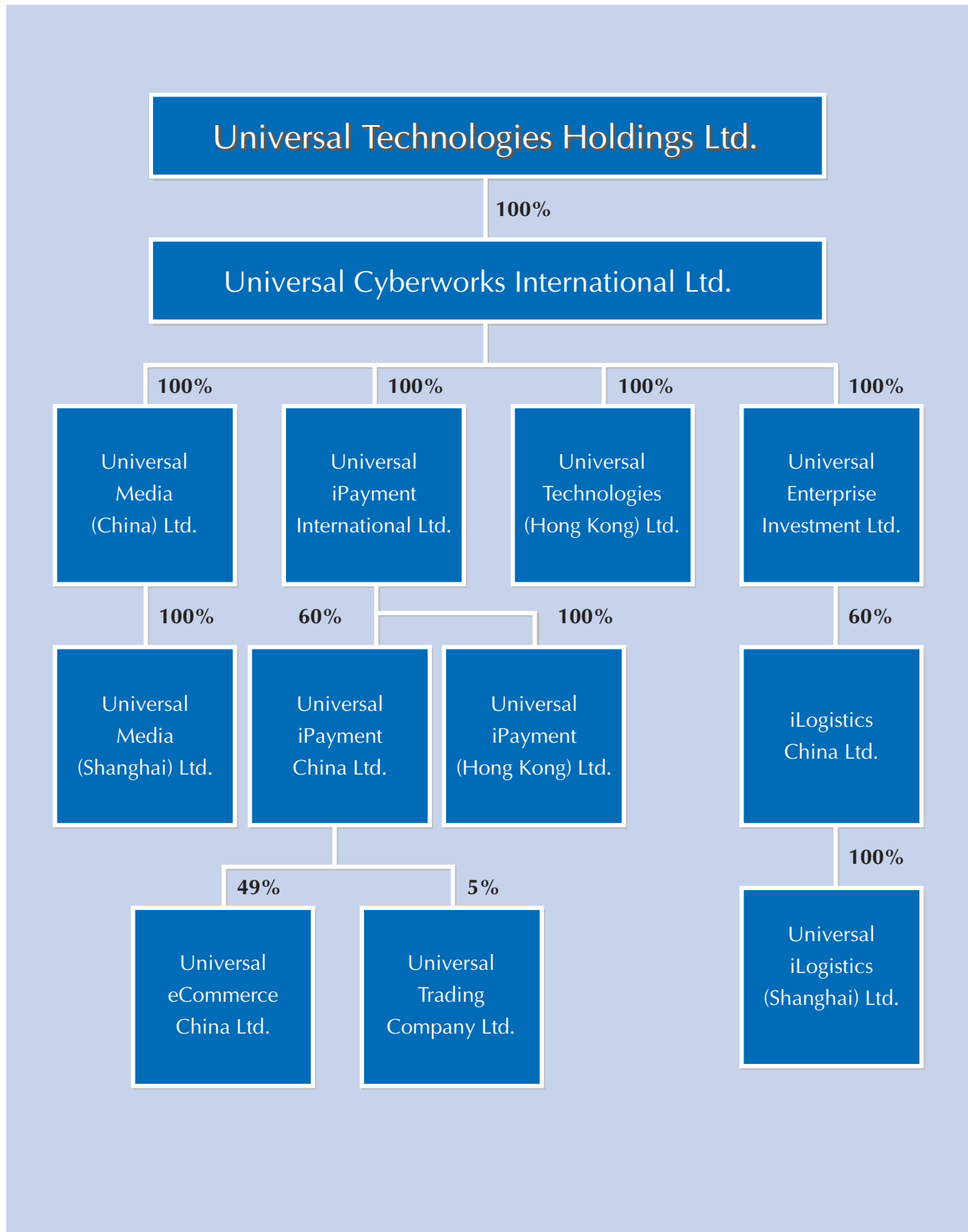
Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank

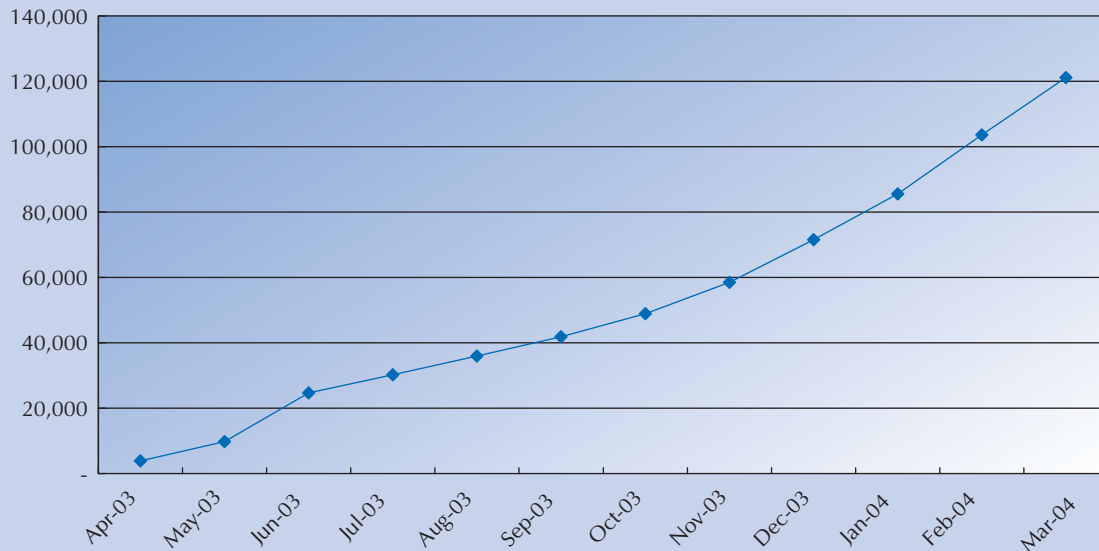


Corporate Structure



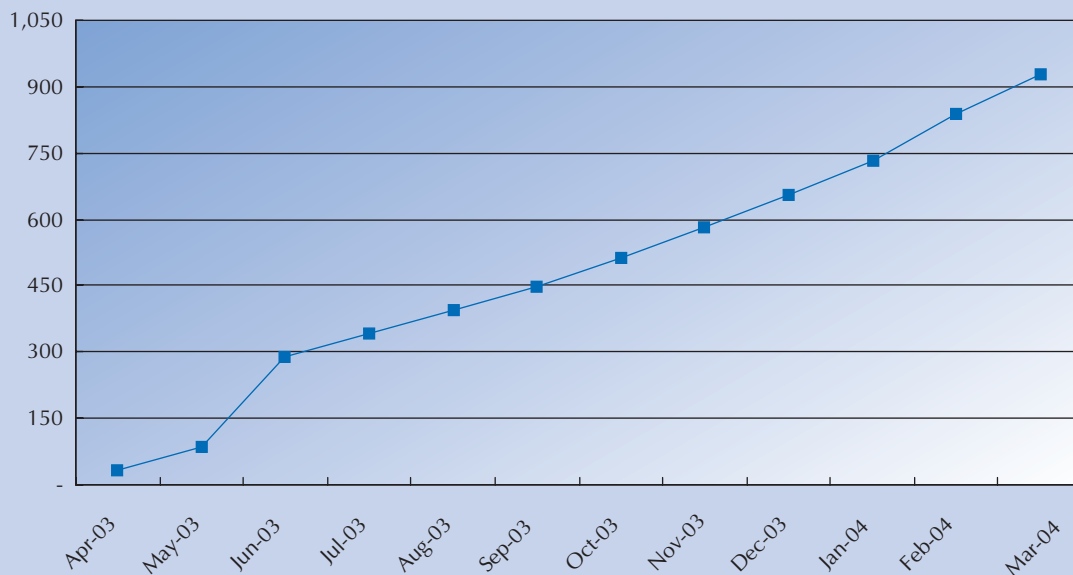
Transaction Performance for the year

2003/2004 Transaction amount conducted via IPS (cumulative) - in RMB'000



Note: Cumulative transaction amount conducted via IPS from Mar 2001 to Mar 2003 is approximately RMB28,339,000.

2003/2004 Number of transactions at IPS (cumulative) – in thousands



Note: Cumulative number of transactions at IPS from Mar 2001 to Mar 2003 is approximately 248,000.



Chairman's Statement

On behalf of the board of Directors (the "Board"), I am pleased to present the annual report of the Company and its subsidiaries (together, the "Group") for the year ended 31 March 2004.

REVIEW

The financial year 2003/2004 was definitely a year of challenges and opportunities to the Group. Similar to many industries, certain business segments of the Group during the first half of the financial year was adversely affected by the poor local economic conditions and adverse sentiments, emanating from the onset of Severe Acute Respiratory Syndrome ("SARS"). Together with the keen competition encountered, the Board firmly and promptly decided to centralize its resources and efforts in the area of which the Group has competitive advantages by reallocation of resources between logistics enterprise solution business and payment business arm.

Despite of the outbreak of SARS, the Group's core – the payment business arm which consisted of the provision of services via our in-house developed IPS, expanded aggressively and even broke the records in terms of the transaction amount and number of transaction orders during the year under review. Cumulative transaction amount and cumulative number of transaction orders achieved record-high of approximately Rmb120,000,000 and 900,000 orders respectively, representing 8 times and 7 times over the average of respective amounts and numbers during the past two financial years. Obviously, SARS may have negative impact over the traditional business activities but there's absolutely a lesser impact over the growth of eCommerce world, especially for the payment mode via online trading platforms just like our IPS. As of today, there are over 600 active merchants using IPS (2003: 300 merchants) which further confirmed the merit for the reallocation of resources towards the payment business arm.

At the same time, the Group adopted persistent, effective cost saving policies by strictly controlling the expenses incurred in marketing and promotional activities and rationalize the human resources cost during current financial year. Combining the above mixed effects, the Group was still able to cut its loss from operation to HK\$12.2 million (2003: HK\$20.2 million) or approximately 39% decrease under the harsh conditions in current financial year.

During the financial year under review, the Group completed the acquisition of 49% interest in Universal eCommerce China Limited ("UECL") in August 2003 and the acquisition of 4.2% interest in Universal iPayment International Limited ("UUIL") in March 2004, as particularly described in the announcements of the Group dated 22 July 2003 and 24 February 2004 respectively. UUIL is principally engaged in investment holding and holds 60% interests in Universal iPayment China Limited ("iPayment China"), a company incorporated in the PRC and engaged in the provision of online payment enterprise solutions and iPayment China holds 49% interests in UECL, a company incorporated in the PRC and engaged in the operation of IPS (together "iPayment Subgroup"). Upon the completion of the above acquisitions, UUIL became the wholly owned subsidiary of the Group and the Group's effective interest in UECL increased to approximately 29.4%. The Board believes that after the above acquisitions, given its bigger control over the management, operating and financial decisions over the iPayment Subgroup, the Board will expect to have the following benefits:

- Increasing the flexibility to attract potential investors to the iPayment Subgroup;
- Strengthening the Group's leader role as one of the few online payment solution providers in the PRC; and
- Facilitating the development of attached eCommerce services in the future.



Chairman's Statement

The Board believe that, as stated in the prospectus dated 19 October 2001, being an online payment solution provider, the Group will be in an advantageous position to provide other e-commerce services in the future via our IPS.

Meanwhile, the Board anticipates that the business opportunity in Shanghai in the coming decade is indefinite especially after Shanghai has been selected as the host city for the "2010 World Expo" in December 2002. The Directors are confident that the Group could further expand its operations of payment business by relocation of its headquarters to its own property at Shanghai, upon the necessary and required large-scaled renovation work. This renovated property will allow the Group to expand its payment business, enhance the Group's image and reputation from users, merchants and banks using our IPS. As a result, co-operation with property developers might be considered and selecting the most cost effective method to complete the renovation is definitely the key objective of the Group. The value of this renovated property will probably increase, as anticipated by the Board and it will be held by the Group for long-term investment purpose. However, negotiations with property developers and feasibility study over the usage plan were still in preliminary stage and there's no solid and concrete plan drawn up to present and the Board will announce any Group's engaged plan in appropriate time in the future.

OUTLOOK

According to the statistical report prepared by China Internet Network Information Center ("CINIC"), up to year 2003, there's over 28 million internet users who had purchased online during the last year and 12 million of which had conducted online payment. The Board is confident that the Group can definitely share a slice of cake from the rapid growth of e-commerce sector in the PRC.

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

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere thanks to our shareholders, investors and clients for their continuing support and confidence at our Group.

Lau Sik Suen
Chairman

Hong Kong, 24 June 2004



Management Discussion and Analysis

BUSINESS OVERVIEW

The Group is principally engaged in the provision of enterprise solutions, system integration and the related consultancy services. The Board believes that the Group will continue to capture the opportunities arising from the booming commercial market and the general acceptance towards internet transactions in the PRC.

FINANCIAL OVERVIEW

During the current financial year, the Group recorded a turnover of approximately HK\$11 million, representing an increase of approximately 67% as compared to the previous financial year. The increase in turnover was mainly attributable to the expanding sources of revenue from IPS after the acquisition of interest in UECL by the Group and the continuous growth of system integration business, which are partially offset by the effects of disappointing result of logistics enterprise solution business and the decreasing project income of payment enterprise solution business.

The net loss attributable to shareholders amounted to approximately HK\$11 million for the year ended 31 March 2004 (2003: HK\$13 million (restated)). The decrease was primarily due to the Group's effective cost controls.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2004, the Group had net current assets of approximately HK\$4.5 million. Current assets comprised inventories of approximately HK\$158,000, debtors of approximately HK\$66,000, deposits, prepayments and other receivables of approximately HK\$1,970,000 and cash and bank balances of approximately HK\$7,672,000. Current liabilities comprised deposits received, accruals and other payables of approximately HK\$3,006,000, amounts due to related companies of approximately HK\$830,000, amount due to an associate of approximately HK\$878,000 and amount due to a director of approximately HK\$627,000.

The Group's primary source of financing is from the initial placing proceeds of the listing in October 2001 and the placing proceeds in May 2002. The Group did not have any interest-bearing debt nor borrowing as at and for the year ended 31 March 2004.

The gearing ratio of the Group was zero as at 31 March 2004 (2003: Nil). The calculation is based on the Group's interest bearing debt or borrowing over the total equity interest as at 31 March 2004.

The Board considers that the Group has sufficient cash to cope with its recent expansion and development. However, for a more massive scale of expansion and development, debt financing maybe required. In the long run, the Directors believe that the Group will continue to fund its foreseeable expenditures through cash flow from operations and, if necessary, additional equity financing or bank borrowing.



Management Discussion and Analysis

PAYMENT

The payment business remains the focus of the Group. During current financial year, the Group made every effort to support the development of IPS. The sharp increase of transaction amount and number of transaction orders processed were definitely an encouraging result. Also, the number of merchants using IPS was doubled during the year. All such promising results demonstrated the recognition of IPS by its merchants and customers during the year. The Board is confident that the payment business will continue to grow indefinitely with the growth of internet population and the development of e-commerce and online payment in the PRC.

In order to build up IPS's brand and reputation, the Group participated in various exhibitions. Also, the Board sets the mission to promote the features of our IPS – Speed, Ease and Safety. On top of the continuous advancement of the Internet Electronically Funds Transfer System (“IEFT”), an advanced and empowered version of IPS with more powerful database storage and extensive network coverage, the Group also emphasizes the continuous improvement of safety for conducting online payment via our IPS. By co-operation with Trust Asia and Bank of China, Verisign 128 bit SSL security system which enhances the integrity of data transfer via IPS and Visa 3D identity authentication system which protects the cardholders had been launched respectively during the current financial year. The Board is optimistic that IPS's brand and reputation will be well known and generally accepted by existing and potential users, merchants and banks using IPS, given to our optimization of the above features.

In order to improve the operating result, the Board already adopted a strategy to expand its sources of revenue and at the same time, cut and lower the cost from the payment business. As one of the leader in the online payment industry in the PRC, the Group will continue to explore potential and new merchants to use IPS by offering competitive service fees packages. During the year, there's lots of new merchants using our IPS including Shanghai library, Lycos Asia and CTM Macau etc and there's some targeted merchants served, for instance, the Group had co-operated with an affiliate of Anhui Province local examination authority to collect payment of examination fees in current year. At the same time, the Group had negotiated with certain banks in the PRC in order to lower their bank charges at the settlement process of IPS.

In order to lead the development of online payment in and across the PRC, the Group continues to explore the new market segments and seek co-operative opportunities with other market practitioners in the PRC and overseas. The “small to medium business” program which specifically served payment transactions between IPS users and small to medium sized merchants started during the year. In March 2004, the Group co-operated with Network for Electronic Transfers (S) Pte Limited (“NETS”), an online payment platform operator in Singapore. By this co-operation, the Group and NETS will enable the PRC cardholders to conduct online payment to the merchants in Singapore or countries in South East Asia or the foreign cardholders to conduct online payment to the merchants in the PRC via IPS and NETS's payment platform.

SYSTEM INTEGRATION

The system integration business grew steadily during the year and this business arm had already generated operating profit during current financial year. The Group's system integration business in Hong Kong had renewed the warranty agreement with IBM for the project provided. Joint sales and marketing activities and the consolidation of cost and administrative functions with the payment business will definitely contribute further to the Group's result in the future.



Management Discussion and Analysis

OTHER BUSINESSES

The logistics enterprise solution business is facing a very keen competition. As a result, the Board focuses its resources and efforts in payment business but the Group will put appropriate level of resources for logistics enterprise solution business in the future in appropriate time and under appropriate conditions.

PROSPECTS

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

- The number of internet users in the PRC purchasing online will keep growing with the development of e-commerce. When the online payment method makes online trading more compelling, the popularity of online payment services will keep increasing as a result of ease, speed and safety, just like services provided by IPS;
- The service of IPS to overseas will be expanded progressively by establishment of representative offices in the overseas. With our dedicated sales team and high quality technical support services, the Group will be able to lead the development of online payment across the PRC;
- The membership database in the IPS will be built up. The Group will be able to provide instant and efficient service and technical support to its clients with such database and other value-added services including e-money and membership bonus scheme via our desired virtual shopping mall at IPS;
- The business arm in the provision of system integration and related technical support services will further contribute to the Group's performance; and
- Growing business opportunity in Shanghai is expected after Shanghai has been selected as the host city for the "2010 World Expo". As a result, the Group's establishment and development of headquarters in Shanghai will be advantageous to the Group for further expansion of its enterprise solutions business arms in the PRC.

As the sentiment of the local economy recovers, the Board is confident that the financial performance of the Group will improve in the coming years with the hard work and dedication of our staff and the commitment and vision of the Board.

EMPLOYEES

As at 31 March 2004, the total number of employees of the Group was 56 (2003: 74 staff), representing approximately a 24% decrease as compared with that as at 31 March 2003. The dedication and contribution of the Group's staff during the year ended 31 March 2004 are greatly appreciated and recognised.

Employees (including directors) are remunerated according to their performance and working experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible employee by reference to the Group's performance as well as individual's performance. In addition, the Group also provides social security benefits such as mandatory provident fund scheme and central pension scheme to its staff.



Management Discussion and Analysis

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity of the Group's assets can meet the repayments of the Group's liabilities and commitments.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The Group completed the purchases of 49% equity interest of Universal eCommerce China Limited in August 2003 and 4.2% interest in Universal iPayment International Limited in March 2004, as particularly described in the announcements of the Company dated 22 July 2003 and 24 February 2004 respectively. Save as above, the Group made no significant investment nor any material acquisition/disposal during the year ended 31 March 2004.

CHARGES ON GROUP'S ASSETS

None of the Group's assets was pledged as at 31 March 2004.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group had no detailed future plans for material investment or capital assets as at 31 March 2004.

EXCHANGE RISK

The Group's payment enterprise solution services are mainly transacted in Renminbi and significant portions of the Group's net assets are denominated in Renminbi. Since the fluctuation of exchange rate between the Hong Kong dollars – the reporting currency and Renminbi was stable during the year ended 31 March 2004, the exposure of the Group's risk from exchange rate fluctuation was minimal. Currently, the market does not anticipate any material devaluation pressure on Renminbi in the near future and therefore the Board believes the Group has no significant currency exposure.

The Board will closely monitor the exposure of exchange risk and will engage in appropriate hedging activities, if required.

CONTINGENT LIABILITIES

The Directors consider that the Group had no contingent liabilities as at 31 March 2004.



Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 19 October 2001	Actual business progress/change in business objects (if any)
Research & Product Development	
1. Complete development of utility payment enable modules	Still under development
2. Complete development of modules for online customer checking function	Still under development
3. Complete development of modules for payment services for m-commerce	Postponed as the Board considers that the market for m-commerce has not yet matured enough
4. Complete development of modules for e-cert services	Still under development
5. Complete development of modules for order management system of iwareZ packages	Postponed as the Group targets at using the strategic alliances' products instead of using its own product – iwareZ in order to avoid huge research and development costs
6. Commence development of modules for logistics management system of iwareZ packages	Postponed as the Group targets at using the strategic alliances' products instead of using its own product – iwareZ in order to avoid huge research and development costs
7. Complete development of modules for issuing e-cash and e-cheque	Still under development
8. Complete development of modules for transportation management system of iwareZ packages	Postponed as the Group targets at using the strategic alliances' products instead of using its own product – iwareZ in order to avoid huge research and development costs

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 19 October 2001	Actual business progress/change in business objects (if any)
Services	
1. Enable clients using the Group's online payment enterprise solutions to offer additional value-added services such as buyer checking function	Still under development
2. Enable clients using the Group's online payment enterprise solutions to facilitate paying utility bills online	Still under development
3. Enable clients using the Group's online payment enterprise solutions to provide e-cash and e-cheque related services, and to act as certificate authority	Still under development
4. Continue the provision of enterprise solutions	The Group continued to engage in the provision of enterprise solutions
5. Continue to provide support services to clients using the Group's online payment enterprise solutions to ensure satisfactory online payment process of its users	The Group continued to engage in the provision of enterprise solutions
Marketing	
1. Expand client base by way of direct marketing	The Directors recognised the positive effect of direct marketing and will continue to carry on
2. Promote the Group's overall image by attending industry exhibition and conference and placing advertisement in the media	Our personnel attended various exhibitions and seminars in the PRC and Hong Kong in order to promote the Group's overall image. The Group had placed advertisement in the media



Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 19 October 2001

Actual business progress/change in business objects (if any)

Resources deployment

- | | | |
|----|--|---|
| 1. | Establish offices in Chongqing and Xian | Pending as the Directors consider that it is more cost effective to consolidate resources in Shanghai headquarter first |
| 2. | Recruit about 8 staff members for Chongqing office including 1 for management, 2 for administration, 2 for technical and 3 for marketing and about 8 staff members for Xian office including 1 for management, 2 for administration, 2 for technical and 3 for marketing | Pending as the Directors consider that it is more cost effective to consolidate resources in Shanghai headquarter first |
| 3. | Recruit additional technical staff to cater for expansion of the business | Additional technical staff are hired |

Use of proceeds

- | | | |
|----|--|--|
| 1. | Up to approximately HK\$9.5 million for further development of the IPS to enhance its functionality and capacity | Approximately HK\$9.5 million has been fully utilised for the development of the IPS |
| 2. | Up to approximately HK\$0.6 million for research and development of online payment, logistics and other e-commerce related technologies and applications | Approximately HK\$0.6 million has been fully utilised for research and development of online payment, logistics and other e-commerce related technologies and applications |
| 3. | Up to approximately HK\$5.6 million for marketing and brand building activities of the Group | Approximately HK\$5.6 million has been fully utilised for marketing and brand building activities such as television broadcasting, technical seminars, forums and industry exhibitions |
| 4. | Up to approximately HK\$4.0 million for expanding its operations in the PRC by establishing 5 new branch offices | Pending as the Directors consider that it is more cost effective to consolidate resources in Shanghai headquarter first |
| 5. | Up to approximately HK\$4.1 million for general working capital of the Group | Approximately HK\$4.1 million has been fully utilised for general working capital of the Group |

Unused proceeds are mainly kept at short-term bank deposits and the Directors believe that the net proceeds will be sufficient for future business objectives as stated in the prospectus dated 19 October 2001.



Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Lau Sik Suen, aged 33, is one of the founders and an executive director of the Group. Mr. Lau is responsible for the overall business development of the Group. Before founding the Group, Mr. Lau worked for a conglomerate company in Hong Kong and was responsible for business development in the PRC. Mr. Lau has substantial experience and knowledge of the Internet industry and of investment in technology companies in the PRC. He holds a Bachelor of Social Science degree from the Chinese University of Hong Kong. Mr. Lau is the nephew of Mr. Liu Rui Sheng, an executive director of the Company.

Mr. Liu Rui Sheng, aged 59, is an executive director of the Group. Mr. Liu is mainly responsible for the overall strategic planning of the Group. Mr. Liu is a businessman in the PRC, with years of solid experiences gained from e-commerce related companies in the PRC. Mr. Liu is the owner of 51% equity interest of Universal eCommerce China Limited, a company owned as to approximately 29.4% (effective interest) by the Group and 55% equity interest of Universal Trading Company Limited, a company owned as to approximately 3% (effective interest) by the Group. Mr. Liu is the uncle of Mr. Lau Sik Suen, an executive director of the Company. Mr. Liu joined the Group in March 2004.

Non-executive Director

Mr. Zhang Wen Bing, aged 50, is a non-executive director of the Group. Mr. Zhang is a businessman in the PRC. He holds a Master of Business Administration degree from a reputable university in the PRC and has years of solid experiences gained from electronic and e-commerce related companies in the PRC and the United States.

Independent non-executive Directors

Mr. Meng Li Hui, aged 42, is currently a General Manager of a company jointly established by several professors of Fudan University in Shanghai, the PRC. The principal activity of that company is the provision of consultancy services on ecological environmental protection to both private companies and local government authorities in various cities in the PRC. Mr. Meng holds a Bachelor of Arts degree from Shanghai Fudan University.

Mr. Wan Xie Qiu, aged 49, is currently a Professor and Dean of School of Finance in Suzhou University. Mr. Wan also acts as a committee member of the Economics Committee of Jiangsu Province, the Financial Committee of Jiangsu Province and the Taxation Committee of Jiangsu Province.

QUALIFIED ACCOUNTANT

Mr. Wu Ka Ho, aged 38, is the Qualified Accountant, the Company Secretary and one of the members of the audit committee and authorised representative of the Group. He is responsible for the Group's financial management and corporate affairs. Mr. Wu joined the Group in May 2004. Mr. Wu possess over 10 years of auditing, finance and accounting experience. Mr. Wu is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants.



Directors' Report

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was investment holding and those of the subsidiaries are set out in note 16 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 March 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on page 29 to 69.

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2004.

FINANCIAL SUMMARY

The summary of the consolidated results of the Group for each of the five years ended 31 March 2004 and the assets and liabilities of the Group as at 31 March 2000, 2001, 2002, 2003 and 2004 are set out on page 70.

FIXED ASSETS

The Group purchased fixed assets amounted to approximately HK\$1,161,000 during the year. Details of movements in fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year and the reason thereof are set out in note 25 to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 33 and note 27 to the financial statements respectively.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.



Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company who held office during the year and up to the date of this report were:–

Executive directors:

Mr. Lau Yeung Sang	<i>(resigned on 22 April 2003)</i>
Mr. Man Wing Pong	<i>(resigned on 6 June 2003)</i>
Mr. Lau Sik Suen	
Madam Wu Wai Lai	<i>(appointed on 19 May 2003 and resigned on 8 March 2004)</i>
Mr. Liu Rui Sheng	<i>(appointed on 8 March 2004)</i>

Non-executive director:

Mr. Zhang Wen Bing	<i>(appointed on 6 June 2003)</i>
--------------------	-----------------------------------

Independent non-executive directors:

Mr. Lee Yee Bun	<i>(resigned on 4 April 2003)</i>
Mr. Wan Xie Qiu	
Mr. Meng Li Hui	<i>(appointed on 4 April 2003)</i>

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. Wan Xie Qiu and Mr. Meng Li Hui for the time being shall retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Lau Sik Suen has entered into a service contract with the Company for an initial term of two years commencing from 18 October 2001 and will continue thereafter on an annual basis until terminated by not less than three months' notice in writing served by either party on the other.

Madam Wu Wai Lai has entered into a service contract with the Company for an initial term of two years commencing from 19 May 2003 and she resigned with effect from 8 March 2004.

Mr. Liu Rui Sheng has entered into a service contract with the Company for an initial term of two years commencing from 8 March 2004 and will continue thereafter on an annual basis until terminated by not less than two months' notice in writing served by either party on the other.

The non-executive director was appointed for an initial term of two years commencing from 6 June 2003 and will continue thereafter on an annual basis until terminated by not less than two months' notice in writing served by either party on the other.

The remaining independent non-executive directors were appointed for an initial term of twelve months which is renewable for another twelve months after the expiry of the initial term of appointment. The tenures of office of Mr. Wan Xie Qiu and Mr. Meng Li Hui have been extended for one year in December 2003 and April 2004 respectively.



Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Continued)

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

CONNECTED TRANSACTIONS

The details of connected transactions under the GEM Listing Rules during the year are set out in note 32 to the financial statements.

SHARE OPTIONS

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

(A) Share Option Scheme

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

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

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



Directors' Report

SHARE OPTIONS (Continued)

(A) Share Option Scheme (Continued)

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

Grantees	Date of grant	Vesting period	Exercise period	Exercise price	Number of share options				
					Outstanding as at 1 April 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 March 2004
Initial management shareholder and employees	7 February 2002	Fully vested on 7 February 2002	7 February 2002 to 6 February 2012	HK\$1.300	1,250,000	–	–	(400,000)	850,000
Initial management shareholder and employees	7 February 2002	Fully vested on 7 August 2002	7 August 2002 to 6 February 2012	HK\$1.300	3,000,000	–	–	(3,000,000)	–
Senior management of the Group	9 April 2002	9 April to 9 October 2002 (inclusive)	Maximum 50%: 9 April 2002 to 8 April 2012 Remaining 50%: 9 October 2002 to 8 April 2012	HK\$1.400	3,000,000 (Note 3)	–	–	–	3,000,000
Senior management and staff of the Group	9 April 2002	Fully vested on 9 April 2002	9 April 2002 to 8 April 2012	HK\$1.400	3,970,000	–	–	(2,520,000)	1,450,000
Senior management and staff of the Group	22 November 2002	Fully vested on 22 November 2002	22 November 2002 to 21 November 2012	HK\$0.090	3,800,000	–	(1,400,000) (Note 2)	–	2,400,000
Executive director	23 December 2002	Fully vested on 23 December 2002	23 December 2002 to 22 December 2012	HK\$0.108	3,500,000 (Note 4)	–	–	–	3,500,000



Directors' Report

SHARE OPTIONS (Continued)

(A) Share Option Scheme (Continued)

Grantees	Date of grant	Vesting period	Exercise period	Exercise price	Number of share options				
					Outstanding as at 1 April 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 March 2004
Senior management of the Group	23 December 2002	Fully vested on 23 December 2002	23 December 2002 to 22 December 2012	HK\$0.108	2,000,000 (Note 3)	-	-	-	2,000,000
Senior management of the Group	23 December 2002	Fully vested on 23 December 2002	23 December 2002 to 22 December 2012	HK\$0.108	2,000,000	-	-	-	2,000,000
Senior management and staff of the Group	23 December 2002	1 July 2003 to 1 January 2004 (inclusive)	Maximum 50%: 1 July 2003 to 22 December 2012 Remaining 50%: 1 January 2004 to 22 December 2012	HK\$0.108	11,070,000	-	-	(2,530,000)	8,540,000
Executive director	10 April 2003	10 October 2003 to 10 April 2004 (inclusive)	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK\$0.165	-	2,000,000 (Notes 1 and 4)	-	-	2,000,000
Senior management of the Group	10 April 2003	10 October 2003 to 10 April 2004 (inclusive)	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK\$0.165	-	7,000,000 (Notes 1 and 5)	-	-	7,000,000
					33,590,000	9,000,000	(1,400,000)	(8,450,000)	32,740,000



SHARE OPTIONS *(Continued)***(B) Pre-IPO Share Option Schemes**

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

(i) Pre-IPO Share Option Scheme A

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

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

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

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

The grantees of this scheme exercised all options and 15,600,000 shares of the Company were issued before 1 April 2003 and there was no share option outstanding as at 31 March 2004.

(ii) Pre-IPO Share Option Scheme B

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

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

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

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



Directors' Report

SHARE OPTIONS (Continued)

(B) Pre-IPO Share Option Schemes (Continued)

(ii) Pre-IPO Share Option Scheme B (Continued)

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

Grantees	Date of grant	Vesting period	Exercise period	Exercise price	Number of share options			
					Outstanding as at 1 April 2003	Exercised during the year	Lapsed during the year	Outstanding as at 31 March 2004
Executive director	17 October 2001	Fully vested on 26 April 2002	26 April 2002 to 25 April 2012	HK\$0.084	7,840,000 (Note 4)	-	-	7,840,000
Senior management/ consultants of the Group	17 and 18 October 2001	Fully vested on 26 April 2002	26 April 2002 to 25 April 2012	HK\$0.084	8,300,000	(1,150,000) (Note 2)	(6,600,000)	550,000
					<u>16,140,000</u>	<u>(1,150,000)</u>	<u>(6,600,000)</u>	<u>8,390,000</u>

Notes:-

- (1) The closing price of the shares immediately before the date on which the options were granted was HK\$0.165.
- (2) The weighted average closing price of the shares immediately before the exercise date of the share options was HK\$0.16.
- (3) The share options were granted to Mr. Man Wing Pong, a former executive director of the Company. Upon his resignation as an executive director on 6 June 2003, he remained as senior management of the Group.
- (4) The share options were granted to Mr. Lau Sik Suen, an executive director of the Company.
- (5) The share options were granted to (i) Mr. Lau Yeung Sang, a substantial shareholder and also a consultant of the Group, for 6,000,000 shares and (ii) Mr. Man Wing Pong for 1,000,000 shares. Mr. Lau Yeung Sang was also a former executive director of the Company and upon his resignation as an executive director on 22 April 2003, he remained as senior management of the Group.
- (6) The Company received a consideration of HK\$1.00 from each of the grantees of the share option schemes.
- (7) The directors consider it is inappropriate to value the share options as the generally accepted methodology to calculate the value of options such as the Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected share price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, such generally accepted methodology such as the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the Company's share options.

As at 31 March 2004, the number of shares in respect of which options had been granted under the share option schemes was 41,130,000, representing approximately 6.16% of the issued share capital of the Company.



Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2004, the interests or short positions of the directors and chief executives or their associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO") which (i) are required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:-

Name of directors	Interests in ordinary shares			Total	Total	Aggregate	% of the
	Personal	Family	Corporate	interests in	interests in		
	interests	interests	interests	ordinary	underlying	interests	Company's
				shares	shares		issued share
					(Note 1)		capital
<i>Executive directors:</i>							
Mr. Lau Sik Suen	14,470,000	-	-	14,470,000	13,340,000	27,810,000	4.16%
Mr. Liu Rui Sheng	-	-	-	-	-	-	-
<i>Non-executive director:</i>							
Mr. Zhang Wen Bing (Note 2)	-	-	130,000,000	130,000,000	-	130,000,000	19.46%
<i>Independent non-executive directors:</i>							
Mr. Wan Xie Qiu	-	-	-	-	-	-	-
Mr. Meng Li Hui	-	-	-	-	-	-	-
Name of directors	Interests in equity of associated corporation			Total	Total	Aggregate	% of
	Personal	Family	Corporate	interests in	underlying		
	interests	interests	interests	equity of	interests in	interests	aggregate
				associated	equity of	over	interests
				corporation	associated	equity of	associated
	Rmb	Rmb	Rmb	Rmb	Rmb	Rmb	corporation
Mr. Liu Rui Sheng (Note 3)	510,000	-	-	510,000	-	510,000	51%



Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Notes:–

1. The interests of Mr. Lau Sik Suen in underlying shares of the Company represent the interests in share options granted to Mr. Lau Sik Suen under the share option schemes of the Company.

Details of the interests in the share options of the Company are separately disclosed in the section headed "Share options" above.

2. The corporate interests of Mr. Zhang Wen Bing in the ordinary shares of the Company are held by East Concord International Limited ("East Concord"). The entire issued share capital of East Concord is wholly and beneficially owned by Mr. Zhang Wen Bing. Mr. Zhang Wen Bing is therefore deemed to be interested in these shares.
3. The interests of Mr. Liu Rui Sheng in equity of associated corporation represent his interests in Universal eCommerce China Limited, an associate of the Group.
4. There was no debt securities nor debentures issued by the Group at any time during the year ended 31 March 2004.

Save as disclosed above, as at 31 March 2004, none of the directors or chief executives or their associates of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules.

The Directors confirmed that as at and for the year ended 31 March 2004,

- (i) the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings according to Rule 5.46 of the GEM Listing Rules; and
- (ii) all the directors complied with the required standard of dealings and the Company's code of conduct regarding directors' securities transactions.



Directors' Report

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

As at 31 March 2004, the following persons (other than the directors or chief executives or their associates of the Company) had interests or short positions in the shares, underlying shares and debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO as follows:—

Name of shareholders	Total interests in ordinary shares	Total interests in underlying shares (Note 1)	Aggregate interests	% of the Company's issued share capital
World One Investments Limited (Note 2)	209,570,000	—	209,570,000	31.36%
Mr. Lau Yeung Sang (Note 3)	214,370,000	6,000,000	220,370,000	32.98%
Madam Wu Wai Lai (Note 3)	214,370,000	6,000,000	220,370,000	32.98%
East Concord (Note 4)	130,000,000	—	130,000,000	19.46%
Mr. Lau Kui Long (Note 5)	59,990,000	—	59,990,000	8.98%

Notes:—

- (1) The interests of Mr. Lau Yeung Sang and Madam Wu Wai Lai in underlying shares of the Company represent the interests in share options granted to Mr. Lau Yeung Sang, the husband of Madam Wu Wai Lai under a share option scheme of the Company. Madam Wu Wai Lai is therefore deemed to be interested in these underlying shares. Details of the interests in the share options of the Company are separately disclosed in the section headed "Share option" above.
- (2) World One Investments Limited ("World One") is wholly and beneficially owned by Mr. Lau Yeung Sang.
- (3) Total interests of Mr. Lau Yeung Sang in issued ordinary shares of the Company of 214,370,000 shares include 4,800,000 shares directly held by Madam Wu Wai Lai and 209,570,000 shares held by World One. Mr. Lau Yeung Sang is deemed to be interested in these ordinary shares held by Madam Wu Wai Lai and World One. Total interests of Madam Wu Wai Lai in issued ordinary shares of the Company of 214,370,000 shares include 4,800,000 shares directly held by herself and 209,570,000 shares beneficially owned by Mr. Lau Yeung Sang. Madam Wu Wai Lai is deemed to be interested in these ordinary shares beneficially owned by Mr. Lau Yeung Sang.
- (4) East Concord is wholly and beneficially owned by Mr. Zhang Wen Bing.
- (5) Total interests of Mr. Lau Kui Long in issued ordinary shares of the Company of 59,990,000 shares include 29,990,000 shares directly held by himself and 30,000,000 shares held by Great Wall (China) Limited ("Great Wall"), of which Mr. Lau Kui Long holds 40% of the share capital of Great Wall. Mr. Lau Kui Long is deemed to be interested in these ordinary shares held by Great Wall.

Save as disclosed above, as at 31 March 2004, there was no person (other than a director or chief executive or their associates of the Company) who had any interests or short positions in the shares, underlying shares and debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO.



Directors' Report

MANAGEMENT SHAREHOLDERS' INTERESTS

Save as disclosed under the sections headed "Directors' and chief executives' interests or short positions in shares, underlying shares and debentures" and "Substantial shareholders' interests or short positions in shares, underlying shares and debentures" above, as at 31 March 2004, no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and was able, as a practical matter, to direct or influence the management of the Company.

COMPETING INTERESTS

During the year, none of the directors, the substantial shareholders or the management shareholders (as defined in the GEM Listing Rules) had any interests in any business which competed with or might compete with the business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 74% of the total sales for the year and sales to the largest customer included therein amounted to approximately 52%. Purchases from the Group's five largest suppliers accounted for approximately 99% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 96%.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders, who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for the pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SPONSORS' INTERESTS

Pursuant to the sponsorship agreement dated 4 May 2001 entered with the Company, DBS Asia Capital Limited ("DBS Asia") received fees for acting as the Company's continuing sponsor for the period from 26 October 2001 to 31 March 2004. This agreement was expired on 31 March 2004 without any renewal.

As at 31 March 2004, neither DBS Asia nor any of its directors, employees or associates had any interests in the shares of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.



Directors' Report

AUDIT COMMITTEE

The Company has established an audit committee on 12 October 2001 with written terms of reference in compliance with Rules 5.29 to 5.32 of the GEM Listing Rules. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control systems.

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

Up to the date of approval of these financial statements, the audit committee has held four meetings and has reviewed the quarterly results of the Group and the annual accounts for the year ended 31 March 2004 prior to recommending such accounts to the Board of Directors for approval.

COMPLIANCE

In the opinion of the directors, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the financial year ended 31 March 2004.

AUDITORS

A resolution to re-appoint the retiring auditors, Messrs. PKF, is to be proposed at the forthcoming general meeting.

On behalf of the Board

Lau Sik Suen

Chairman

Hong Kong, 24 June 2004



Auditors' Report

PKF

26/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

梁學濂會計師事務所

香港
銅鑼灣
威非路18號
萬國寶通中心26樓

AUDITORS' REPORT TO THE SHAREHOLDERS OF UNIVERSAL TECHNOLOGIES HOLDINGS LIMITED (Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 69 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 financial statements which give a true and fair view. In preparing financial statements 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 statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PKF

Certified Public Accountants

Hong Kong, 24 June 2004



Consolidated Income Statement

For the year ended 31 March 2004

		2004	(Restated) 2003
	Note	HK\$'000	HK\$'000
Turnover			
Continuing operation		11,243	5,718
Discontinued operation	3	—	1,005
		<u>11,243</u>	<u>6,723</u>
Other revenue	4	241	905
		<u>11,484</u>	<u>7,628</u>
Cost of computer hardware and software/services rendered		(9,607)	(3,874)
Staff costs		(3,961)	(6,317)
Depreciation		(2,446)	(1,170)
Minimum operating lease rentals		(1,478)	(624)
Bad debts written off		(13)	(89)
Provision for bad debts		(315)	(292)
Other operating expenses		(5,900)	(15,500)
		<u>(12,236)</u>	<u>(20,151)</u>
Loss from operations			
Continuing operation		(12,236)	(20,151)
Discontinued operation	3	—	(87)
		<u>(12,236)</u>	<u>(20,238)</u>
Share of results of an associate		(404)	—
Goodwill written off		—	(458)
Profit on disposal of interests in subsidiaries		—	1,231
		<u>(12,640)</u>	<u>(19,465)</u>
Loss from ordinary activities before taxation	5	(12,640)	(19,465)
Taxation	7	281	1,129
		<u>(12,359)</u>	<u>(18,336)</u>
Loss for the year		(12,359)	(18,336)
Minority interests		1,665	5,651
		<u>(10,694)</u>	<u>(12,685)</u>
Loss attributable to shareholders	9	(10,694)	(12,685)
Dividend	10	—	—
Loss per share – Basic (<i>in cents</i>)	11	(1.66)	(2.01)



Consolidated Balance Sheet

As at 31 March 2004

	Note	2004 HK\$'000	(Restated) 2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	27,991	29,823
Goodwill	14	2,311	–
Interest in an associate	15	430	–
Investment securities	17	472	–
Deferred tax asset	8	1,418	1,137
		<u>32,622</u>	<u>30,960</u>
CURRENT ASSETS			
Inventories		158	59
Debtors	19	66	627
Deposits, prepayments and other receivables		1,970	3,871
Amounts due from related companies	20	–	1,055
Cash and bank balances	21	7,672	11,416
		<u>9,866</u>	<u>17,028</u>
DEDUCT:			
CURRENT LIABILITIES			
Deposits received, accruals and other payables		3,006	926
Amounts due to related companies	22	830	87
Amount due to an associate	23	878	–
Amount due to a director	24	627	–
		<u>5,341</u>	<u>1,013</u>
NET CURRENT ASSETS		<u>4,525</u>	<u>16,015</u>
		<u>37,147</u>	<u>46,975</u>
REPRESENTING:–			
SHARE CAPITAL	25	6,682	6,419
RESERVES		20,106	28,465
SHAREHOLDERS' FUNDS		26,788	34,884
MINORITY INTERESTS		10,359	12,091
		<u>37,147</u>	<u>46,975</u>

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 24 JUNE 2004

LAU SIK SUEN
DIRECTOR

LIU RUI SHENG
DIRECTOR



Balance Sheet

As at 31 March 2004

	Note	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	<u>42,424</u>	<u>39,729</u>
CURRENT ASSETS			
Prepayments		187	327
Amount due from a director	18	102	–
Cash and bank balances		<u>358</u>	<u>3,418</u>
		<u>647</u>	<u>3,745</u>
DEDUCT:			
CURRENT LIABILITIES			
Accruals		<u>166</u>	<u>305</u>
NET CURRENT ASSETS			
		<u>481</u>	<u>3,440</u>
		<u>42,905</u>	<u>43,169</u>
REPRESENTING:–			
SHARE CAPITAL	25	6,682	6,419
RESERVES	27	<u>36,223</u>	<u>36,750</u>
SHAREHOLDERS' FUNDS		<u>42,905</u>	<u>43,169</u>

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 24 JUNE 2004

LAU SIK SUEN
DIRECTOR

LIU RUI SHENG
DIRECTOR



Consolidated Cash Flow Statement

For the year ended 31 March 2004

	Note	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(12,640)	(19,465)
Adjustments for:–			
Interest income		(8)	(89)
Impairment loss of fixed assets		289	–
Depreciation		2,446	1,170
Loss on disposal of fixed assets		99	151
Share of results of an associate		404	–
Bad debts written off		13	89
Provision for bad debts		315	292
Goodwill written off		–	458
Profit on disposal of interests in subsidiaries		–	(1,231)
Operating loss before working capital changes		(9,082)	(18,625)
Increase in inventories		(99)	(59)
Decrease/(increase) in debtors		561	(1,017)
Decrease/(increase) in deposits, prepayments and other receivables		1,573	(1,800)
Decrease in amounts due from related companies		1,055	8,008
Increase/(decrease) in deposits received, accruals and other payables		2,080	(153)
Increase/(decrease) in amounts due to related companies		743	(991)
Increase in amount due to an associate		878	–
Effect of foreign exchange rate changes		3	10
Cash used in operations		(2,288)	(14,627)
Interest received		8	89
NET CASH USED IN OPERATING ACTIVITIES		(2,280)	(14,538)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire fixed assets		(1,161)	(29,564)
Sale proceeds on disposal of fixed assets		159	115
Payments to acquire investment securities		(472)	–
Payments to acquire interest in an associate		(834)	–
Decrease in unpledged time deposits		–	24,058
Decrease in pledged deposit		–	5,660
Net cash outflow from disposal of interests in subsidiaries	28	–	(631)
Increase in interests in subsidiaries		–	(1,872)
NET CASH USED IN INVESTING ACTIVITIES		(2,308)	(2,234)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from placing of shares		–	15,003
Proceeds from exercise of share options		222	272
Share issue expenses		(5)	(322)
Increase/(decrease) in amount due to a director		627	(700)
NET CASH FROM FINANCING ACTIVITIES		844	14,253
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,744)	(2,519)
CASH AND CASH EQUIVALENTS AT 1 APRIL		11,416	13,935
CASH AND CASH EQUIVALENTS AT 31 MARCH		7,672	11,416
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		7,672	11,416



Consolidated Statement of Changes in Equity

For the year ended 31 March 2004

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1.4.2002 as previously reported	6,083	20,477	1,093	10,754	50	(5,856)	32,601
Adjustment on adoption of SSAP 12 (revised) – Note 2(a)	–	–	–	–	–	5	5
At 1.4.2002 as restated	6,083	20,477	1,093	10,754	50	(5,851)	32,606
Issue of shares	336	–	–	–	–	–	336
Premium arising on placing of shares	–	14,836	–	–	–	–	14,836
Share issue expenses	–	(322)	–	–	–	–	(322)
Premium arising on exercise of share options	–	103	–	–	–	–	103
Exchange differences arising on translation of financial statements of subsidiaries established in the PRC	–	–	–	–	10	–	10
Loss for the year	–	–	–	–	–	(12,685)	(12,685)
At 31.3.2003	<u>6,419</u>	<u>35,094</u>	<u>1,093</u>	<u>10,754</u>	<u>60</u>	<u>(18,536)</u>	<u>34,884</u>
At 1.4.2003 as previously reported	6,419	35,094	1,093	10,754	60	(19,200)	34,220
Adjustment on adoption of SSAP 12 (revised) – Note 2(a)	–	–	–	–	–	664	664
At 1.4.2003 as restated	6,419	35,094	1,093	10,754	60	(18,536)	34,884
Exercise of share options – Note 25(a)	25	–	–	–	–	–	25
Premium arising on issuing of share options – Note 25(a)	–	197	–	–	–	–	197
Issue of shares – Note 25(b)	238	–	–	–	–	–	238
Premium arising on issuing of shares – Note 25(b)	–	2,140	–	–	–	–	2,140
Share issue expenses	–	(5)	–	–	–	–	(5)
Exchange differences arising on translation of financial statements of subsidiaries established in the PRC	–	–	–	–	3	–	3
Loss for the year	–	–	–	–	–	(10,694)	(10,694)
At 31.3.2004	<u>6,682</u>	<u>37,426</u>	<u>1,093</u>	<u>10,754</u>	<u>63</u>	<u>(29,230)</u>	<u>26,788</u>



Notes to the Financial Statements

For the year ended 31 March 2004

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 27 March 2001 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands.

Pursuant to the reorganisation to rationalise the structure of the Company and its subsidiaries in the preparation for the listing of the Company's shares on The Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in October 2001 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group. The shares of the Company were listed on GEM on 26 October 2001.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:–

(a) Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA") and are prepared under the historical cost convention.

In the current year, the Group adopted SSAP 12 (revised) "Income taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

In previous years, deferred taxation was calculated under the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

In the current year, the Group has adopted SSAP 12 (revised). The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The change in accounting policy has been accounted for retrospectively. Comparative amounts for 2003 have been restated accordingly. This has resulted in a decrease in the Group's loss for the year ended 31 March 2003 and 31 March 2004 of HK\$1,129,000 and HK\$281,000 respectively. Opening balances of accumulated losses brought forward as at 1 April 2002 and 1 April 2003 have been decreased by HK\$5,000 and HK\$664,000 respectively.



Notes to the Financial Statements

For the year ended 31 March 2004

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(b) **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intra-group transactions and balances have been eliminated on consolidation.

(c) **Discontinuing operation**

Discontinuing operation is a component of an enterprise that the enterprise, pursuant to a single plan, is disposing of substantially in its entirety, or disposing of piecemeal, or terminating through abandonment, and that represents a separate major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes.

(d) **Goodwill and negative goodwill**

Goodwill represents the excess of the purchase consideration over the attributable share of the fair value of separable net assets of a subsidiary at the date of acquisition.

Negative goodwill represents the excess of the fair value of separable net assets of a subsidiary at the date of acquisition over the purchase consideration.

The Group recognises goodwill arising on acquisition of a subsidiary as an asset which is amortised on a straight-line basis over its estimated useful life of not more than 20 years. Negative goodwill which relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable or amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement. On disposal, any attributable amount of purchased goodwill not previously amortised in the income statement and balance of negative goodwill not previously taken to the income statement is included in the calculation of the profit and loss on disposal.

(e) **Recognition of revenue**

Revenue from the provision of enterprise solutions services is recognised on a straight-line basis over the period in which the work is performed.



Notes to the Financial Statements

For the year ended 31 March 2004

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(e) **Recognition of revenue** (Continued)

The Group prepares project timetables for all contracts signed with its customers. Revenue from the provision of enterprise solutions services is recognised over the period of service set out in the project timetable. Project timetables are reviewed regularly. The effect of changes in the project timetable on the amount of revenue recognised is accounted for in the period in which the change is made.

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

Management fee income, service fee income and commission income are recognised upon rendering of services.

Rental income is recognised on a straight-line basis over the periods of respective leases.

Interest income is recognised on an accrual basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised at the time when the shareholders' right to receive payment has been established.

(f) **Research and development costs**

Research and development costs comprise all costs which are directly attributable to research and development activities or which can be allocated on a reasonable basis to such activities. As no research and development costs satisfy the criteria for the recognition of such costs as an asset during the year, such costs are therefore recognised as an expense in the period in which they are incurred.

(g) **Fixed assets and depreciation**

Fixed assets are stated at cost less aggregate depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the asset.

Notes to the Financial Statements

For the year ended 31 March 2004

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(g) **Fixed assets and depreciation** (Continued)

Depreciation is calculated to write off the cost of fixed assets less any estimated residual value, on a straight-line basis over their estimated useful lives as follows:-

Land and buildings	-	40 years
Leasehold improvement	-	Shorter of 5 years and the unexpired terms of the leases
Office, computer and other equipment	-	5 years
Furniture and fixtures	-	5 years
Motor vehicles	-	5 years

Gain or loss arising from the retirement or disposal of a fixed asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and is recognised in the income statement on the date of retirement or disposal.

(h) **Subsidiaries**

A subsidiary is an enterprise over which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Interests in subsidiaries are stated in the Company's balance sheet at cost less any identified impairment loss. Income from subsidiaries is recognised in the Company's financial statements when the Company's right to receive dividends is established.

(i) **Associates**

An associate is one, not being a subsidiary or a joint venture, in which the company is in a position to exercise significant influence, including participation in financial and operating policy decisions.

Interest in an associate is stated in the Company's balance sheet at cost less any identified impairment loss. Income from an associate is recognised in the Company's financial statements on the basis of dividends declared by the associate.

Interest in an associate is stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting, as reduced by any identified impairment loss. The results of the associate is included in the consolidated income statement to the extent of post-acquisition results attributable to the Group.



Notes to the Financial Statements

For the year ended 31 March 2004

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(j) **Equity joint venture companies established in the PRC**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity. The joint venture agreement stipulates the composition of the equity joint venture parties' capital contributions, the duration of the joint venture, and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the joint venture parties in proportion to their respective capital contributions.

An equity joint venture is treated as a subsidiary if, under the joint venture agreement, the Group holds more than 50% of the joint venture company's registered capital and the Group can control the composition of the board of directors and exercise unilateral control over the equity joint venture.

(k) **Investment securities**

Investment security is stated at cost less any identified impairment loss.

The carrying amount of the investment is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such security would be reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement.

Income from investment security is recognised to the extent of dividend recognised as set out in accounting policy note 1(e) above.

(l) **Minority interest**

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.

(m) **Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:–

- fixed assets;
- investments in subsidiaries and an associate; and
- goodwill

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.



Notes to the Financial Statements

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where there are assets that do not generate cash flows largely independent of those from other assets, recoverable amounts are determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment loss is limited to the carrying amount of the asset that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised, except where the assets are carried at revalued amounts, in which case the reversal of impairment loss is treated as a revaluation movement.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis. Net realisable value represents the estimated selling price less direct selling costs.

(o) Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the periods of the respective leases.

(p) Employee benefits

Salaries, annual bonuses, annual leave entitlements and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Obligations for contributions to retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the People's Republic of China (the "PRC") central pension scheme, are recognised as an expense in the income statement as incurred.



Notes to the Financial Statements

For the year ended 31 March 2004

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(p) **Employee benefits** (Continued)

When the Company grants employees options to acquire its shares, the option exercise price will be determined by the directors at the date of grant and no employee benefit cost or obligation is recognised at that time. When the options are exercised, the equity is increased by the amount of proceeds received.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(r) **Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market exchange rates ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the income statement.

The consolidated financial statements are prepared by using the net investment method such that the balance sheet of the Company's PRC subsidiary is translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date while the income statement is translated into Hong Kong dollars at the average exchange rate for the year. Any exchange differences arising on such translation are dealt with as movements in the exchange reserve.



Notes to the Financial Statements

For the year ended 31 March 2004

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(s) **Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(t) **Related parties**

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



Notes to the Financial Statements

For the year ended 31 March 2004

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(u) **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in provision of products or services (business segment), or in provision of products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(v) **Cash equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3. **DISCONTINUED OPERATION**

On 25 March 2003, Universal Cyberworks International Limited, a wholly-owned subsidiary of the Company, disposed of its entire 60% direct interest in Universal mPayment International Limited and 60% indirect interest in Universal mPayment (China) Limited (collectively known as "mPayment Group") at a consideration of US\$450,000.



Notes to the Financial Statements

For the year ended 31 March 2004

3. DISCONTINUED OPERATION (Continued)

The results of the mPayment Group for the period ended 25 March 2003, which had been included in the consolidated financial statements, were as follows:–

	2004 HK\$'000	2003 HK\$'000
Turnover	–	1,005
Other revenue	–	14
	–	1,019
Cost of computer hardware and software/services rendered	–	(70)
Staff costs	–	(452)
Depreciation	–	(60)
Minimum operating lease rentals	–	(11)
Other operating expenses	–	(513)
Loss from ordinary activities before taxation	–	(87)
Taxation	–	–
Loss for the year	–	(87)
Minority interests	–	35
Loss attributable to shareholders	–	(52)

The carrying amounts of the assets and liabilities of mPayment Group at respective dates were as follows:–

	At 31.3.2004 HK\$'000	At 25.3.2003 HK\$'000
Total assets	–	3,832
Total liabilities	–	(33)
Net assets	–	3,799



Notes to the Financial Statements

For the year ended 31 March 2004

3. DISCONTINUED OPERATION (Continued)

The net cash flows attributable to the mPayment Group for the year were as follows:-

	2004 HK\$'000	2003 HK\$'000
Operating activities	-	(490)
Investing activities	-	(655)
Net cash outflow	<u>-</u>	<u>(1,145)</u>

The gain arising from the discontinuance of the mobile payment enterprise solutions of HK\$1,231,000, which was included in "Profit on disposal of interests in subsidiaries" on the face of the consolidated income statement, represented the difference between the consideration and the Group's attributable share of the net assets of mPayment Group at 25 March 2003. No tax charge or credit arose from the transaction.

4. TURNOVER AND REVENUE

The Group is principally engaged in investment holding, provision of online payment, mobile payment and logistics enterprise solutions and related services and system integration and related technical support services. Turnover for the year represents revenue recognised from the provision of enterprise solutions services, system integration and the related consultancy services, net of business tax and net invoiced value of goods sold. An analysis of the Group's turnover and other revenue is set out below:-

	2004 HK\$'000	2003 HK\$'000
Enterprise solutions	123	4,759
System integration and related technical support services	<u>11,120</u>	<u>1,964</u>
Turnover	11,243	6,723
Management fee income received from a related company	-	52
Commission income, net of business tax, received from a related company	-	538
Rental income	176	-
Interest on bank deposits	8	89
Others	<u>57</u>	<u>226</u>
Total revenue	<u>11,484</u>	<u>7,628</u>



Notes to the Financial Statements

For the year ended 31 March 2004

5. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

	2004 HK\$'000	2003 HK\$'000
Loss from ordinary activities before taxation is arrived at after charging:-		
Auditors' remuneration	238	295
Cost of computer hardware and software used/sold	9,607	3,619
Staff costs (including directors' remuneration – Note 6)		
– Salaries and other benefits	3,617	5,642
– Pension scheme contributions	344	675
Depreciation	2,446	1,170
Impairment loss of fixed assets	289	–
Sale proceeds of fixed assets	(159)	(115)
Less: carrying amounts of fixed assets	258	266
Loss on disposal of fixed assets	99	151
Bad debts written off	13	89
Provision for bad debts	315	292
Minimum operating lease rentals		
– Land and buildings	1,274	503
– Servers	204	105
	<u>204</u>	<u>105</u>

Note: Included in staff costs are research and development costs estimated by the directors amounting to approximately HK\$Nil for the year ended 31 March 2004 (2003: HK\$285,000).



Notes to the Financial Statements

For the year ended 31 March 2004

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
(a) Directors		
Executive directors		
Fees	–	–
Other emoluments		
– Basic salaries, allowances and benefits in kind	482	698
– Pension scheme contributions	14	31
Non-contractual compensation for loss of office paid by the Company	<u>300</u>	<u>–</u>
	796	729
Independent non-executive directors		
Fees	34	311
Others emoluments		
– Pension scheme contributions	<u>2</u>	<u>–</u>
	<u>832</u>	<u>1,040</u>

Five executive directors received individual emoluments of approximately HK\$340,000, HK\$361,000, HK\$36,000, HK\$58,000 and HK\$1,000 respectively for the year ended 31 March 2004 (2003: Three executive directors received individual emoluments of approximately HK\$293,000, HK\$215,000 and HK\$221,000 respectively).

The number of directors whose remuneration fell within the following band were:–

	2004	2003
Emoluments		
Nil to HK\$1,000,000	<u>5</u>	<u>3</u>

During the year, 9,000,000 share options were granted to executive directors in respect of their services to the Group, further details of which are set out under the section headed "Share options" in the directors' report.

No directors waived any emoluments during the year.



Notes to the Financial Statements

For the year ended 31 March 2004

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, two are directors of the Company and the details of their remuneration has already been disclosed above.

The emoluments and designated band of the remaining three non-director, highest paid employees were as follows:-

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	515	644
Pension scheme contributions	26	24
	<u>541</u>	<u>668</u>

The emoluments of the three non-director, highest paid employees fell within the band of nil to HK\$1,000,000.

During the year, no share option was granted to the above three non-director, highest paid employees in respect of their services to the Group.

During the year, no emoluments were paid by the Group to the five highest paid employees, including the directors of the Company, as an inducement to join, or upon joining the Group.

7. TAXATION

(a) No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the year. The Company's subsidiaries operating in the PRC did not generate any profits assessable to Mainland China enterprise income tax during the year.

(b) The tax credit represents the deferred tax and is made up as follows:-

	2004 HK\$'000	2003 HK\$'000
Deferred taxation (Note 8):-		
Current year	278	1,129
Attributable to increase in tax rate	3	-
	<u>281</u>	<u>1,129</u>



Notes to the Financial Statements

For the year ended 31 March 2004

7. TAXATION (Continued)

- (c) The tax charge/(credit) for the year can be reconciled to the loss before taxation per the income statement as follows:-

	Hong Kong		PRC		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(5,626)	(7,343)	(7,014)	(12,122)	(12,640)	(19,465)
Applicable tax rate (%)	17.5	16.0	33	33	N/A	N/A
Tax on loss before taxation, calculated at the applicable tax rate	(985)	(1,175)	(2,315)	(4,000)	(3,300)	(5,175)
Tax effect of non-deductible expenses in determining taxable profit	75	182	1,188	-	1,263	182
Tax effect of non-taxable revenue in determining taxable profit	-	(191)	-	-	-	(191)
Tax effect of capital allowances claimed and prescribed fixed assets written off	-	25	-	-	-	25
Tax effect of unrecognised tax losses	932	1,122	392	1,014	1,324	2,136
Increase in net opening deferred tax assets resulting from an increase in Hong Kong profits tax rate	(3)	-	-	-	(3)	-
Tax effect of differential tax rate in relation to tax exemption and reduction	-	-	553	2,015	553	2,015
Others	-	-	(118)	(121)	(118)	(121)
Tax charge/(credit) for the year	19	(37)	(300)	(1,092)	(281)	(1,129)

Notes to the Financial Statements

For the year ended 31 March 2004

8. DEFERRED TAXATION

(a) The Group

The components of deferred tax asset recognised by the Group and movements thereon during the current and prior year are as follows:-

	Tax losses HK\$'000
At 1 April 2002 as previously reported	–
Adjustment on adoption of SSAP 12 (revised) – Note 30	8
	<hr/>
As restated	8
Credited to income statement	1,129
	<hr/>
At 31 March 2003	<u>1,137</u>
At 1 April 2003 as previously reported	–
Adjustment on adoption of SSAP 12 (revised) – Note 30	1,137
	<hr/>
As restated	1,137
Credited to income statement	278
Adjustment of change in tax rate – credited to income statement	3
	<hr/>
At 31 March 2004	<u>1,418</u>

At the balance sheet date, the Group has unused tax losses of HK\$37,024,000 (2003: HK\$28,818,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$11,449,000 (2003: HK\$9,351,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$25,575,000 (2003: HK\$19,467,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$5,711,000 (2003: HK\$4,928,000) that will expire within five years from the date of incurrence. Other losses can be carried forward indefinitely.

At the balance sheet date, the temporary differences arising in connection with the fixed assets and interest in an associate are insignificant.

(b) The Company

At the balance sheet date, the Company has unused tax losses of HK\$6,827,798 (2003: HK\$4,074,408) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.



Notes to the Financial Statements

For the year ended 31 March 2004

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss attributable to shareholders includes a loss of HK\$2,859,000 (2003: HK\$4,236,000) which has been dealt with in the financial statements of the Company.

10. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation.

11. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the following data:-

	2004 HK\$'000	(Restated) 2003 HK\$'000
Earnings		
Loss for the year used in the calculation of basic loss per share	<u>(10,694)</u>	<u>(12,685)</u>
Number of shares		
Weighted average number of shares in issue for the purpose of calculation of basic loss per share	<u>643,081,332</u>	<u>630,033,753</u>

No diluted loss per share is shown as there were no dilutive potential shares.

12. RETIREMENT BENEFIT COSTS

Before 30 November 2000, the Company's subsidiaries operating in Hong Kong did not operate any pension schemes. Since 1 December 2000, the Group had joined a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all eligible employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with rules of MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's contribution to such scheme for the year ended 31 March 2004 amounted to approximately HK\$83,000 (2003: HK\$82,000).

The Company's subsidiaries in the PRC have participated in a central pension scheme. Contributions are made by the subsidiaries to the scheme based on 25.5% of the applicable payroll costs. The Group has no obligation other than the above-mentioned contributions.

The Group's contribution to the state-sponsored retirement plan for the year ended 31 March 2004 amounted to approximately HK\$261,000 (2003: HK\$593,000).



Notes to the Financial Statements

For the year ended 31 March 2004

13. FIXED ASSETS – THE GROUP

	Leasehold land and building held under long lease HK\$'000	Leasehold land and building held under medium-term lease HK\$'000	Leasehold improvement HK\$'000	Office, computer and other equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:–							
At 1.4.2003	663	20,110	1,405	8,338	79	808	31,403
Additions	–	–	29	74	2	1,056	1,161
Disposals	–	–	–	(102)	–	(242)	(344)
At 31.3.2004	663	20,110	1,434	8,310	81	1,622	32,220
Aggregate depreciation:–							
At 1.4.2003	11	–	519	885	32	133	1,580
Charge for the year	33	537	278	1,385	16	197	2,446
Written back on disposals	–	–	–	(37)	–	(49)	(86)
At 31.3.2004	44	537	797	2,233	48	281	3,940
Impairment:–							
Charge for the year and at 31.3.2004	289	–	–	–	–	–	289
Net book value:–							
At 31.3.2004	330	19,573	637	6,077	33	1,341	27,991
At 31.3.2003	652	20,110	886	7,453	47	675	29,823

- (i) All land and buildings are situated in the PRC.
- (ii) The Company had no fixed assets as at 31 March 2003 and 31 March 2004.



Notes to the Financial Statements

For the year ended 31 March 2004

14. GOODWILL

The Group
HK\$'000

Cost and net book value:-

Additions and at 31 March 2004 **2,311**

On 20 February, 2004, the Company entered into agreements with the four existing minority shareholders of Universal iPayment International Limited ("UII"), an indirectly 95.831% owned subsidiary of the Company, in relation to the acquisition of their interests of 4.169% in UII. Pursuant to the agreements, the Company issued an aggregate of 23,778,858 new shares of HK\$0.01 each at a premium of HK\$0.09 per share, representing closing share price on 20 February 2004, to the four existing minority shareholders in return for 388,000 old shares of UII on 20 March 2004. UII became an indirectly wholly-owned subsidiary of the Company after the acquisition. The goodwill arising from the acquisition represented the excess of the market value of shares issued and 4.169% of the fair value of the net assets of UII on 20 February 2004 and was amortised on a straight-line basis over five years. No amortisation was provided during the year as the effect of such amortisation incurred between 20 March 2004 and 31 March 2004 was insignificant.

15. INTEREST IN AN ASSOCIATE

	The Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets other than goodwill	134	-
Goodwill arising on acquisition – Note 15(b)	296	-
	<u>430</u>	<u>-</u>

(a) The details of the associate as at 31 March 2004 are as follows:-

Name of company	Place of incorporation/ establishment and operation	Attributable equity interest held by the Group	Principal activities
Universal eCommerce China Limited	People's Republic of China	29.4%	Operation of online payment platform



Notes to the Financial Statements

For the year ended 31 March 2004

15. INTEREST IN AN ASSOCIATE (Continued)

- (b) In July 2003, Universal iPayment China Limited ("UIC"), an indirectly 57.499% owned subsidiary of the Company, entered into a purchase agreement with Shanghai Gao Yuan Property (Group) Company Limited ("Gao Yuan") which is one of the joint venture parties of UIC, in relation to the acquisition of the 49% equity interest held by Gao Yuan in Universal eCommerce China Limited ("UECL"). The goodwill of approximately Rmb360,000 (equivalent to approximately HK\$340,000) arising from the acquisition represented the excess of the consideration of Rmb884,000 (equivalent to approximately HK\$834,000) paid by UIC and 49% of the fair value of the net assets of UECL on 30 June 2003 and was amortised on a straight-line basis over five years.

16. INTERESTS IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	8,164	8,164
Amounts due from subsidiaries – Note 16(b)	34,260	31,571
Amount due to a subsidiary – Note 16(b)	–	(6)
	42,424	39,729

- (a) The details of the subsidiaries as at 31 March 2004 are as follows:–

Name of company	Place of incorporation/ establishment and operation	Particulars of issued share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Universal Cyberworks International Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	–	Investment holding
Universal Enterprise Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Investment holding and property holding
iLogistics China Limited	Hong Kong	500,000 ordinary shares of US\$1 each	–	60%	Investment holding



Notes to the Financial Statements

For the year ended 31 March 2004

16. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Universal iLogistics (Shanghai) Ltd. (formerly known as "Universal iLogistics China (Shanghai) Limited")*	People's Republic of China	US\$280,000	–	60%	Dormant
Universal iPayment International Limited	Hong Kong	9,306,740 ordinary shares of HK\$1 each	–	100%	Investment holding and research and development of online payment and logistics enterprise solutions
Universal iPayment China Limited#	People's Republic of China	US\$5,100,000	–	60%	Provision of online payment enterprise solutions and related services
Universal Media (China) Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	–	100%	Investment holding
Universal Media (Shanghai) Limited*	People's Republic of China	US\$880,000	–	100%	Dormant
Universal Technologies (Hong Kong) Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	–	100%	Provision of system integration and related technical support services
Universal iPayment (Hong Kong) Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	–	100%	Provision of online payment enterprise solutions and related services

* The subsidiaries are registered as Wholly Foreign Owned Enterprises under PRC Laws.

The subsidiary is registered as Equity Joint Venture under PRC Laws.

(b) The amounts are interest-free, unsecured and have no fixed terms of repayment.



Notes to the Financial Statements

For the year ended 31 March 2004

17. INVESTMENT SECURITIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares in Hong Kong, at cost	472	–

18. AMOUNT DUE FROM A DIRECTOR – THE COMPANY

Details of the amount due from a director disclosed pursuant to Section 161B of the Companies Ordinance are as follows:–

Name	Balance outstanding		
	At 1.4.2003 HK\$'000	Maximum during the year HK\$'000	At 31.3.2004 HK\$'000
Mr. Lau Sik Suen	–	1,672	102

The amount is interest-free, unsecured and repayable on demand.

19. DEBTORS

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with debtors, credit evaluations of customers are performed periodically.

An aging analysis of debtors is set out below:–

	The Group	
	2004 HK\$'000	2003 HK\$'000
0 – 6 months	66	621
7 – 12 months	–	6
	66	627

20. AMOUNTS DUE FROM RELATED COMPANIES – THE GROUP

The amounts are interest-free, unsecured and repayable on demand.



Notes to the Financial Statements

For the year ended 31 March 2004

21. CASH AND BANK BALANCES – THE GROUP

At 31 March 2004, cash and bank balances of the Group denominated in Renminbi amounted to approximately HK\$5,707,000 (2003: HK\$4,296,000). Renminbi is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

22. AMOUNTS DUE TO RELATED COMPANIES – THE GROUP

The amounts are interest-free, unsecured and repayable on demand.

23. AMOUNT DUE TO AN ASSOCIATE – THE GROUP

The amount is interest-free, unsecured and repayable on demand.

24. AMOUNT DUE TO A DIRECTOR – THE GROUP

The amount is interest-free, unsecured and repayable on demand.

25. SHARE CAPITAL

	Note	The Group and the Company	
		Number of shares	HK\$'000
<i>Authorised:–</i>			
Ordinary shares of HK\$0.01 each			
At 31 March 2004/31 March 2003		2,000,000,000	20,000
<i>Issued and fully paid:–</i>			
Ordinary shares of HK\$0.01 each			
At 1 April 2003		641,870,000	6,419
Issue of shares upon the exercise of share options	(a)	2,550,000	25
Issue of shares upon further acquisition of a subsidiary	(b)	23,778,858	238
At 31 March 2004		668,198,858	6,682



Notes to the Financial Statements

For the year ended 31 March 2004

25. SHARE CAPITAL (Continued)

Notes:–

- (a) On 12 May 2003, 1,400,000 new shares of HK\$0.01 each were allotted and issued at a premium of HK\$0.08 per share upon the exercise of 1,400,000 share options granted under the Share Option Scheme on 9 May 2003.

On 12 May 2003, 1,150,000 new shares of HK\$0.01 each were allotted and issued at a premium of HK\$0.074 per share upon the exercise of 1,150,000 share options under the Pre-IPO Share Option Scheme B on 9 May 2003.

The excess of the issue price over the par value of the shares issued upon the exercise of the above 2,550,000 share options amounted to approximately HK\$197,000 was credited to the share premium account of the Company.

- (b) On 20 March 2004, 23,778,858 new shares of HK\$0.01 each were issued at a premium of HK\$0.09 per share upon the acquisition of 388,000 old shares of UTL, pursuant to the agreements entered into on 20 February 2004. The excess of the issue price over the par value of the shares amounted to approximately HK\$2,140,000 was credited to the share premium account of the Company.

26. SHARE OPTIONS

The Company operates three Share Option Schemes (including two Pre-IPO Share Option Schemes) adopted on 12 October 2001 under which the board of directors (the "Board") are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and other eligible persons, to take up options to subscribe for shares of the Company. For the two Pre-IPO Share Option Schemes, the exercise prices were determined by the Board to be HK\$0.010 and HK\$0.084 respectively. The exercise price of the Share Option Scheme (other than the Pre-IPO Share Option Schemes) shall be determined by the Board in its absolute discretion, but in any event shall not be less than the higher of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option.

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

The vesting period and exercisable period of the Share Option Scheme (other than the Pre-IPO Share Option Schemes) are determined by the Board but in any case no option can be exercised later than ten years from the date of grant.



Notes to the Financial Statements

For the year ended 31 March 2004

26. SHARE OPTIONS (Continued)

- (a) A summary of the movements of share options granted under the Company's share option schemes during the year is as follows:–

Option scheme adopted on	Date of grant	Exercise period	Exercise price	Number of share options				
				Outstanding as at 1 April 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 March 2004
12 October 2001	7 February 2002	7 February 2002 to 6 February 2012	HK\$1.300	1,250,000	–	–	(400,000)	850,000
12 October 2001	7 February 2002	7 August 2002 to 6 February 2012	HK\$1.300	3,000,000	–	–	(3,000,000)	–
12 October 2001	17 October 2001	26 April 2002 to 25 April 2012	HK\$0.084	14,990,000	–	–	(6,600,000)	8,390,000
12 October 2001	18 October 2001	26 April 2002 to 25 April 2012	HK\$0.084	1,150,000	–	(1,150,000)	–	–
12 October 2001	9 April 2002	Maximum 50%: 9 April 2002 to 8 April 2012 Remaining 50%: 9 October 2002 to 8 April 2012	HK\$1.400	3,000,000	–	–	–	3,000,000
12 October 2001	9 April 2002	9 April 2002 to 8 April 2012	HK\$1.400	3,970,000	–	–	(2,520,000)	1,450,000
12 October 2001	22 November 2002	22 November 2002 to 21 November 2012	HK\$0.090	3,800,000	–	(1,400,000)	–	2,400,000
12 October 2001	23 December 2002	23 December 2002 to 22 December 2012	HK\$0.108	7,500,000	–	–	–	7,500,000
12 October 2001	23 December 2002	Maximum 50%: 1 July 2003 to 22 December 2012 Remaining 50%: 1 January 2004 to 22 December 2012	HK\$0.108	11,070,000	–	–	(2,530,000)	8,540,000

Notes to the Financial Statements

For the year ended 31 March 2004

26. SHARE OPTIONS (Continued)

Option scheme adopted on	Date of grant	Exercise period	Exercise price	Number of share options				Outstanding as at 31 March 2004
				Outstanding as at 1 April 2003	Granted during the year	Exercised during the year	Lapsed during the year	
12 October 2001	10 April 2003	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK\$0.165	-	2,000,000	-	-	2,000,000
12 October 2001	10 April 2003	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK\$0.165	-	7,000,000	-	-	7,000,000
				49,730,000	9,000,000	(2,550,000)	(15,050,000)	41,130,000

(b) At 31 March 2004, the number of share options vested was 36,630,000 (2003: 38,660,000).



Notes to the Financial Statements

For the year ended 31 March 2004

26. SHARE OPTIONS (Continued)

(c) Details of share options granted during the year:–

Exercise period	Exercise price HK\$	2004		2003	
		Number of options	Consideration received HK\$	Number of options	Consideration received HK\$
Maximum 50%: 9 April 2002 to 8 April 2012 Remaining 50%: 9 October 2002 to 8 April 2012	1.400	–	–	3,000,000	1
9 April 2002 to 8 April 2012	1.400	–	–	8,030,000	50
22 November 2002 to 21 November 2012	0.090	–	–	5,000,000	7
23 December 2002 to 22 December 2012	0.108	–	–	7,500,000	3
Maximum 50%: 1 July 2003 to 22 December 2012 Remaining 50%: 1 January 2004 to 22 December 2012	0.108	–	–	11,070,000	17
Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	0.165	9,000,000	3	–	–
		9,000,000	3	34,600,000	78

Notes to the Financial Statements

For the year ended 31 March 2004

26. SHARE OPTIONS (Continued)

(d) Details of share options exercised during the year:-

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	2004		2003	
			Number of options	Proceeds received HK\$	Number of options	Proceeds received HK\$
3 May 2002	0.010	0.60	-	-	300,000	3,000
20 May 2002	0.010	0.69	-	-	2,600,000	26,000
27 May 2002	0.084	0.66	-	-	100,000	8,400
28 June 2002	0.010	0.27	-	-	200,000	2,000
13 August 2002	0.010	0.25	-	-	200,000	2,000
15 November 2002	0.010	0.09	-	-	7,000,000	70,000
14 January 2003	0.010	0.12	-	-	3,300,000	33,000
14 January 2003	0.090	0.12	-	-	1,200,000	108,000
20 February 2003	0.010	0.17	-	-	2,000,000	20,000
9 May 2003	0.084	0.14	1,150,000	96,600	-	-
9 May 2003	0.090	0.14	1,400,000	126,000	-	-
			<u>2,550,000</u>	<u>222,600</u>	<u>16,900,000</u>	<u>272,400</u>



Notes to the Financial Statements

For the year ended 31 March 2004

27. RESERVES – THE COMPANY

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1.4.2002	28,041	(1,672)	26,369
Premium arising on placing of shares	14,836	–	14,836
Share issue expenses	(322)	–	(322)
Premium arising on exercise of share options	103	–	103
Loss for the year	–	(4,236)	(4,236)
	<u>42,658</u>	<u>(5,908)</u>	<u>36,750</u>
At 31.3.2003	42,658	(5,908)	36,750
At 1.4.2003	42,658	(5,908)	36,750
Premium arising on exercise of share options – Note 25(a)	197	–	197
Premium arising on issue of new shares – Note 25(b)	2,140	–	2,140
Share issue expenses	(5)	–	(5)
Loss for the year	–	(2,859)	(2,859)
	<u>44,990</u>	<u>(8,767)</u>	<u>36,223</u>
At 31.3.2004	44,990	(8,767)	36,223

Notes:–

- (a) The share premium of the Company includes (i) shares issued at premium and (ii) the difference between the nominal value of the ordinary shares issued by the Company and the net asset values of the subsidiaries at the date they were acquired through an exchange of shares pursuant to the Reorganisation. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.
- (b) At 31 March 2004, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$36,223,000 (2003: HK\$36,750,000) subject to the restrictions as stated above.



Notes to the Financial Statements

For the year ended 31 March 2004

28. DISPOSAL OF INTERESTS IN SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of comprised:-		
Fixed assets	-	595
Debtors	-	500
Cash and bank balances	-	2,737
Mainland China taxes payable	-	(33)
Minority interests	-	(1,520)
	<hr/>	<hr/>
	-	2,279
Profit on disposal of interests in subsidiaries	-	1,231
	<hr/>	<hr/>
	-	3,510
	<hr/>	<hr/>
Satisfied by:-		
Other receivables	-	1,404
Cash consideration	-	2,106
	<hr/>	<hr/>
	-	3,510
	<hr/>	<hr/>
Analysis of net cash outflow of cash and cash equivalents in connection with the disposal of interests in subsidiaries		
Cash consideration	-	2,106
Cash and bank balances disposed	-	(2,737)
	<hr/>	<hr/>
Net cash outflow of cash and cash equivalents	-	(631)
	<hr/>	<hr/>

29. MAJOR NON-CASH TRANSACTIONS

(a) Year ended 31 March 2004

On 20 February 2004, the Company entered into agreements with the four existing minority shareholders of UII, an indirectly 95.831% owned subsidiary of the Company, in relation to the acquisition of their interest of 4.169% in UII. Pursuant to the agreements, the Company issued an aggregate of 23,778,858 new shares of HK\$0.01 each at a premium of HK\$0.09 per share to the four existing minority shareholders in return for 388,000 old shares of UII on 20 March 2004.



Notes to the Financial Statements

For the year ended 31 March 2004

29. MAJOR NON-CASH TRANSACTIONS (Continued)

(b) Year ended 31 March 2003

On 10 May 2003, UIC made an advance of Rmb20,000,000 (equivalent to approximately HK\$18,868,000) to Shanghai Yi Mei Trading Company Limited ("Shanghai Yi Mei"), a shareholder of Gao Yuan which is one of the joint venture parties of Universal iPayment China Limited, by issuing master acceptance bills (the "Bills") of the same amount in favour of Shanghai Yi Mei. The advance was fully repaid on 10 November 2003 upon full settlement of the Bills on the same date.

30. PRIOR YEAR ADJUSTMENT

In previous years, deferred taxation was calculated under the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

In the current year, in order to comply with SSAP 12 (revised) "Income Taxes" issued by the HKSA, the Group adopted a new accounting policy for deferred tax retrospectively and accordingly restated the opening balances of the following items as at 1 April 2002 and 2003.

	The Group	
	At 1 April 2003 HK\$'000	At 1 April 2002 HK\$'000
Increase in deferred tax asset	1,137	8
Decrease in accumulated losses	(664)	(5)
Increase in minority interests	(473)	(3)
	<u> </u>	<u> </u>



Notes to the Financial Statements

For the year ended 31 March 2004

31. COMMITMENTS

(a) Operating leases arrangements

At 31 March 2004, the future minimum leases payments to be received by the Group under non-cancellable operating leases for each of the following periods are as follows:-

	2004 HK\$'000	2003 <i>HK\$'000</i>
Within one year	126	-
After one year but within five years	72	-
	<u>198</u>	<u>-</u>

At 31 March 2004, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:-

	2004 HK\$'000	2003 <i>HK\$'000</i>
Within one year	145	385
After one year but within five years	-	140
	<u>145</u>	<u>525</u>

Operating lease payments represent rentals payable by the Group for the use of servers and office premises. Leases are negotiated for an average term of two years with fixed monthly rentals.

At 31 March 2004, the Company had no operating leases commitments.

(b) Capital commitments

At 31 March 2004, the Group and the Company had no capital commitments.



Notes to the Financial Statements

For the year ended 31 March 2004

32. CONNECTED AND RELATED PARTY TRANSACTIONS

Apart from the transactions as disclosed in notes 18, 20, 22, 23 and 24 to the financial statements, the Group had the following material transactions with its related parties during the year:-

	Note	2004 HK\$'000	2003 HK\$'000
Technical support services fee received from Universal eCommerce China Limited	(a)	368	702
Office premises rental paid to Shanghai Gao Yuan Property (Group) Company Limited		-	1,834
Commission income received from Shanghai Gao Yuan Property (Group) Company Limited		-	566
Purchase of a property from Mr. Lau Yeung Sang		-	580
Purchase of fixed assets and goods from Synenet Limited		-	85
Rental income received from Universal Trading Company Limited	(b)	136	-
Office premises rental paid to Madam Wu Wai Lai	(c)	<u>90</u>	<u>-</u>

Notes:-

- (a) Mr. Liu Rui Sheng is a shareholder of UECL. Pursuant to a technical support services agreement dated 7 September 2001 between UIC and UECL, UIC agreed to provide technical support services in respect of the custom-designed online payment enterprise solutions to UECL. Services fee was determined by reference to the market price. Pursuant to a supplementary agreement dated 1 September 2003 between UIC and UECL, the provision of technical support services was terminated commencing from 1 September 2003.
- (b) Pursuant to a tenancy agreement dated 20 March 2003 between UIC and Universal Trading Company Limited ("UTCL"), UTCL agreed to pay a monthly rental of Rmb3,500 for the period from 1 April 2003 to 31 October 2003 and a monthly rental of Rmb6,000 for the period from 1 November 2003 to 31 December 2005. The rental amount was determined by reference to the market value.
- Pursuant to another tenancy agreement between UIC and UTCL, UTCL agreed to pay a monthly rental of Rmb10,000 for the period from 1 July 2003 to 31 December 2005. The rental amount was determined by reference to the market value.
- (c) Pursuant to a tenancy agreement dated 20 March 2003 between UIC and Madam Wu Wai Lai, UIC agreed to pay a monthly rental of HK\$7,500 for office use. The rental amount was determined by reference to the market value.

All the transactions except (b) and (c) set out above for the current year also constituted connected transactions under the GEM Listing Rules. The directors have reviewed the connected transactions and are of the opinion that these transactions were effected on normal commercial terms and in the ordinary course of the business of the Group.



Notes to the Financial Statements

For the year ended 31 March 2004

33. SEGMENT REPORTING

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:-

(a) *Payment enterprise solutions*

Provision of payment enterprise solutions and ongoing technical support services.

(b) *Logistics enterprise solutions*

Provision of logistics enterprise solutions and system maintenance services.

(c) *System integration*

Provision of system integration and related technical support services.

Other operating segment represents the operating segment which do not meet the quantitative threshold for determining reportable segment. It represents investment holding activities.

In determining the Group's geographical segments, revenues are attributable to the segments based on the location of the customers, and assets are attributable to the segments based on the location of the assets.



Notes to the Financial Statements

For the year ended 31 March 2004

33. SEGMENT REPORTING (Continued)

(a) Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments:-

	Payment enterprise solutions		Logistics enterprise solutions		System integration		Others		Inter-segment elimination		Consolidated	
	(Restated)						(Restated)				(Restated)	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue												
Revenue from external customers	986	4,031	-	726	10,257	1,964	-	2	-	-	11,243	6,723
Other revenue	277	1,493	-	-	8	-	7	27	(51)	(704)	241	816
Total revenue	1,263	5,524	-	726	10,265	1,964	7	29	(51)	(704)	11,484	7,539
Segment results	(6,800)	(9,106)	(589)	(1,681)	129	(214)	(4,984)	(9,326)	-	-	(12,244)	(20,327)
Interest income	7	32	-	1	-	3	1	53	-	-	8	89
Loss from operations											(12,236)	(20,238)
Share of results of an associate	(404)	-	-	-	-	-	-	-	-	-	(404)	-
Goodwill written off	-	-	-	-	-	-	-	(458)	-	-	-	(458)
Profit on disposal of interests in subsidiaries	-	-	-	-	-	-	-	1,231	-	-	-	1,231
Loss from ordinary activities before taxation											(12,640)	(19,465)
Taxation											281	1,129
Loss for the year											(12,359)	(18,336)
Minority interests											1,665	5,651
Loss attributable to shareholders											(10,694)	(12,685)
Depreciation for the year	2,120	911	28	55	7	3	291	201	-	-	2,446	1,170
Impairment of fixed assets	-	-	-	-	-	-	289	-	-	-	289	-
Segment assets	35,578	36,452	-	644	2,636	2,892	4,274	8,000	-	-	42,488	47,988
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	35,578	36,452	-	644	2,636	2,892	4,274	8,000	-	-	42,488	47,988
Segment liabilities	4,904	371	71	78	65	44	301	520	-	-	5,341	1,013
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	4,904	371	71	78	65	44	301	520	-	-	5,341	1,013
Capital expenditure incurred during the year	608	27,500	-	158	-	25	553	1,881	-	-	1,161	29,564



Notes to the Financial Statements

For the year ended 31 March 2004

33. SEGMENT REPORTING (Continued)

(b) Geographical segments

	PRC		Hong Kong		Consolidated	
	(Restated) 2004 HK\$'000	2003 HK\$'000	(Restated) 2004 HK\$'000	2003 HK\$'000	(Restated) 2004 HK\$'000	2003 HK\$'000
Revenue from external customers	<u>1,211</u>	<u>5,558</u>	<u>10,273</u>	<u>1,981</u>	<u>11,484</u>	<u>7,539</u>
Segment assets	<u>35,868</u>	<u>37,993</u>	<u>6,620</u>	<u>9,995</u>	<u>42,488</u>	<u>47,988</u>
Capital expenditure incurred during the year	<u>608</u>	<u>29,453</u>	<u>553</u>	<u>111</u>	<u>1,161</u>	<u>29,564</u>

34. COMPARATIVE FIGURES

Certain comparative figures have been restated following the adoption of revised SSAP as set out in Note 2(a) above and to conform to the current year's presentation.



Financial Summary

RESULTS

	Years ended 31 March				
	2004 HK\$'000	(Restated) 2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<u>11,243</u>	<u>6,723</u>	<u>3,597</u>	<u>1,311</u>	<u>521</u>
(Loss)/profit for the year	<u>(10,694)</u>	<u>(12,685)</u>	<u>(3,311)</u>	<u>(2,278)</u>	<u>180</u>

ASSETS AND LIABILITIES

	At 31 March				
	2004 HK\$'000	(Restated) 2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
NON-CURRENT ASSETS	<u>32,622</u>	<u>30,960</u>	<u>2,290</u>	<u>1,166</u>	<u>118</u>
CURRENT ASSETS	<u>9,866</u>	<u>17,028</u>	<u>72,742</u>	<u>11,508</u>	<u>2,032</u>
DEDUCT:					
CURRENT LIABILITIES	<u>5,341</u>	<u>1,013</u>	<u>21,758</u>	<u>9,898</u>	<u>2,407</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>4,525</u>	<u>16,015</u>	<u>50,984</u>	<u>1,610</u>	<u>(375)</u>
NET ASSETS/(LIABILITIES)	<u>37,147</u>	<u>46,975</u>	<u>53,274</u>	<u>2,776</u>	<u>(257)</u>