



**Jian ePayment Systems Limited**

**華普智通系統有限公司**

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



**INTERIM REPORT 2004**



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

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

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## HIGHLIGHTS

- Turnover for the six months ended 30 June 2004 was approximately RMB2,724,000, which represented an increase of approximately 24% as compared to that of the corresponding period in 2003.
- Loss attributable to shareholders amounted to approximately RMB6,928,000 for the six months ended 30 June 2004.
- Basic losses per share amounted to RMB0.017 for the six months ended 30 June 2004.

## RESULTS

The Board of Directors (“the Board”) of Jian ePayment Systems Limited (the “Company”) hereby announces the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months and three months ended 30 June 2004 with comparative figures of the same period in 2003.

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2004	2003	2004	2003
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Turnover and revenue	3	2,401	589	2,724	2,202
Cost of sales		(310)	(29)	(348)	(693)
Gross profit		2,091	560	2,376	1,509
Distribution expenses		(393)	(403)	(756)	(956)
Research and development costs		(97)	(135)	(549)	(769)
General and administration expenses		(3,942)	(4,887)	(7,842)	(8,799)
Loss from operations		(2,341)	(4,865)	(6,771)	(9,015)
Subsidy income		–	–	–	1,416
Interest income		1	2	3	6
Interest expense		–	(357)	(160)	(748)
Loss before taxation	4	(2,340)	(5,220)	(6,928)	(8,341)
Taxation	5	–	–	–	–
Loss attributable to shareholders		<u>(2,340)</u>	<u>(5,220)</u>	<u>(6,928)</u>	<u>(8,341)</u>
Losses per share – basic	6	<u>RMB (0.006)</u>	<u>RMB (0.013)</u>	<u>RMB (0.017)</u>	<u>RMB (0.021)</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>As at 30 June 2004</b>	<b>As at 31 December 2003</b>
	<i>Notes</i>	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
<b>Non-current assets</b>			
Fixed assets, net	9	35,185	38,906
<b>Current assets</b>			
Inventories		235	5
Accounts receivable	10	3,513	272
Prepayments and deposits	11	2,889	3,645
Other receivables	12	1,676	676
Due from related companies		–	391
Other current assets		238	238
Cash and cash equivalents		5,583	17,021
Total current assets		14,134	22,248
<b>Current liabilities</b>			
Accounts payable	13	7,163	8,354
Due to related companies		209	–
Due to the ultimate holding company		1,030	818
Deposit from customers		399	1,406
Accruals and other payables	14	10,738	13,870
Convertible notes		10,611	10,611
Total current liabilities		30,150	35,059
Net current liabilities		(16,016)	(12,811)
<b>Total assets less current liabilities</b>		<b>19,169</b>	<b>26,095</b>
<b>Capital and reserves:</b>			
Share capital		21,208	21,208
Reserves	15	(2,039)	4,887
Total capital and reserves		19,169	26,095

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	<b>2004</b> <i>RMB'000</i> <i>(Unaudited)</i>	<b>2003</b> <i>RMB'000</i> <i>(Unaudited)</i>
Net cash (outflow) inflow from operating activities	(11,653)	(35)
Net cash (outflow) inflow from investing activities	3	(2,589)
Net cash inflow(outflow) from financing activities	212	(4,083)
(Decrease)/increase in cash and cash equivalents	(11,438)	(6,707)
Cash and cash equivalents, beginning of period	<u>17,021</u>	<u>13,272</u>
Cash and cash equivalents as at 30 June	<u><u>5,583</u></u>	<u><u>6,565</u></u>
Analysis of balances of cash and cash equivalents:		
Cash and cash equivalents	<u><u>5,583</u></u>	<u><u>6,565</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	<b>2004</b> <i>RMB'000</i> <i>(Unaudited)</i>	<b>2003</b> <i>RMB'000</i> <i>(Unaudited)</i>
Total equity as at 1 January	26,095	77,224
Exchange difference on translation of the financial statements of foreign subsidiaries	2	-
Loss attributable to shareholders	<u>(6,928)</u>	<u>(8,341)</u>
Total equity as at 30 June	<u><u>19,169</u></u>	<u><u>68,883</u></u>

## NOTES TO THE ACCOUNTS

### 1. BASIS OF CONSOLIDATION

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

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

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

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

### 2. PRINCIPAL ACCOUNTING POLICIES

The unaudited financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 "Interim Financial Reporting", and on a basis consistent with the accounting policies adopted by the Group in preparation of its financial statements for the year ended 31 December 2003.

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

### 3. TURNOVER AND REVENUE

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

Turnover consisted of:

	Three months ended 30 June		Six months ended 30 June	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Sales of hardware and software	2,003	–	2,031	1,309
Transaction levies	398	589	693	893
	<u>2,401</u>	<u>589</u>	<u>2,724</u>	<u>2,202</u>

#### 4. LOSS BEFORE TAXATION

Loss before taxation was arrived at after crediting and charging the following:

	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Crediting:		
Interest income on bank deposits	3	6
Charging:		
Cost of goods sold	348	693
Interest expense on bank loans repayable within five years	–	112
Interest expense on other borrowings	–	318
Interest expense on convertible notes	–	318
Depreciation of fixed assets	3,721	2,372
Amortisation of goodwill	–	105
	<u>          </u>	<u>          </u>

#### 5. TAXATION

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

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided for as the Group has no assessable profit arising in or derived from those jurisdictions for the six months and three months ended 30 June 2004 (2003: Nil).

The Group's subsidiary, Zhengzhou Jian-O'Yuan ITS Systems Co. Ltd. ('Jian-O'Yuan'), was incorporated in the PRC as a privately owned limited liability company on 26th April, 1999. In July 2001, Jian-O'Yuan obtained the tax registration as an enterprise with foreign investment. Pursuant to the PRC laws of Enterprise Income Tax ('EIT') for Enterprises with foreign Investment and Foreign Enterprise, as a manufacturing enterprise with foreign investment, Jian-O'Yuan is entitled to full exemption from EIT for the first two years and a 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. No EIT provision has been made in the accounts of Jian-O'Yuan as Jian-O'Yuan has no assessable profit for the six months and three months ended 30 June 2004.

No EIT provision for the other two subsidiaries incorporated in the PRC, Beijing Jian ePayment Science and Technology Co., Ltd. and Wuhan Jian ePayment Science and Technology Co., Ltd., as they have no assessable profit for the six months and three months ended 30 June 2004.

There was no significant unprovided deferred taxation for the six months and three months ended 30 June 2004 (2003: Nil).

## 6. LOSSES PER SHARE

The calculation of basic losses per share for the six months and three months ended 30 June 2004 are based on the loss attributable to shareholders of approximately RMB6,928,000 and approximately RMB2,340,000 respectively (six months and three months ended 30 June 2003: loss attributable to shareholders of approximately RMB8,341,000 and approximately RMB5,220,000 respectively) and the weighted average number of 400,000,000 shares (2003: 400,000,000 shares) deemed to be in issue during the period.

No diluted loss per share has been presented for either period as the assumed exercise of the Company's share options would result in a decrease in loss per share.

## 7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

## 8. RELATED PARTY TRANSACTIONS

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

	<b>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
(i) Sales of hardware and software, provision of systems integration services and transaction levies		
– Guangzhou Electronic Parking Management Co. Ltd.	276	106
– Haikou Huapu Lide Parking Management Co. Ltd.	66	56
– Yichang Wuhua Electronic Parking Management Co., Ltd.	13	4
– Weihai Tian Chuang Electronic System Co., Ltd.	10	5
	<u>365</u>	<u>171</u>
(ii) Operating leases rentals paid/payable to:		
– Beijing Huapu International Plaza Co. Ltd.	234	468
– A director	1,030	191
	<u>1,264</u>	<u>659</u>



9. **FIXED ASSETS**

	2004 (unaudited)			<b>Total</b> <i>RMB'000</i>
	<b>Machinery</b> <i>RMB'000</i>	<b>Office equipment</b> <i>RMB'000</i>	<b>Leasehold improvements</b> <i>RMB'000</i>	
<b>COST</b>				
As at 1 January	58,542	1,141	92	59,775
Additions	—	—	—	—
As at 30 June	<u>58,542</u>	<u>1,141</u>	<u>92</u>	<u>59,775</u>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>				
As at 1 January	20,354	423	92	20,869
Charges for the period	<u>3,593</u>	<u>128</u>	<u>—</u>	<u>3,721</u>
As at 30 June	<u>23,947</u>	<u>551</u>	<u>92</u>	<u>24,590</u>
<b>NET BOOK VALUE</b>				
As at 30 June	<u>34,595</u>	<u>590</u>	<u>—</u>	<u>35,185</u>
As at 1 January	<u>38,188</u>	<u>718</u>	<u>—</u>	<u>38,906</u>

## 10. ACCOUNTS RECEIVABLE

Ageing analysis of accounts receivable was as follows:

	<b>As at 30 June 2004</b>	<b>As at 31 December 2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
0-30 days	69	37
31-60 days	72	26
61-90 days	70	31
91-120 days	70	30
121-180 days	251	46
181-365 days	350	1,323
Over 365 days	13,025	9,173
	<hr/>	<hr/>
	13,907	10,666
Provision for doubtful accounts	(10,394)	(10,394)
	<hr/>	<hr/>
	3,513	272
	<hr/> <hr/>	<hr/> <hr/>

## 11. PREPAYMENTS AND DEPOSITS

	<b>As at 30 June 2004</b>	<b>As at 31 December 2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Prepayments to suppliers	2,855	1,024
Prepayments of enterprise income tax ("EIT")	34	2,621
	<hr/>	<hr/>
	2,889	3,645
	<hr/> <hr/>	<hr/> <hr/>

## 12. OTHER RECEIVABLES

	<b>As at 30 June 2004</b>	<b>As at 31 December 2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Advances to staff	–	97
Deposits for interests of convertible notes	–	318
Others	1,676	261
	<hr/>	<hr/>
	1,676	676
	<hr/> <hr/>	<hr/> <hr/>

### 13. ACCOUNTS PAYABLE

The ageing analysis of accounts payable was as follows:

	<b>As at 30 June 2004</b>	<b>As at 31 December 2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
0-30 days	–	127
31-60 days	–	201
61-90 days	–	15
91-120 days	–	461
121-180 days	–	380
181-365 days	–	190
Over 365 days	7,163	6,980
	<u>7,163</u>	<u>8,354</u>

### 14. ACCRUALS AND OTHER PAYABLES

	<b>As at 30 June 2004</b>	<b>As at 31 December 2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Value-added tax payable	–	5,831
Provision for staff and workers' bonus and welfare fund	817	817
Other payables	4,163	1,614
Accruals for operating expenses	5,307	4,519
Salary and welfare payable	451	1,089
	<u>10,738</u>	<u>13,870</u>

### 15. RESERVES

	<b>Share premium</b>	<b>Capital reserve</b>	<b>General reserve fund</b>	<b>Enterprise expansion fund</b>	<b>Cumulative translation adjustment</b>	<b>Retained deficits</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Consolidated (unaudited)</b>							
Balances, as at 1 January 2004	1,476	6,304	2,870	1,435	(9)	(7,189)	4,887
Foreign exchange adjustment	–	–	–	–	2	–	2
Loss attributed to shareholders	–	–	–	–	–	(6,928)	(6,928)
Balances, as at 30 June 2004	<u>1,476</u>	<u>6,304</u>	<u>2,870</u>	<u>1,435</u>	<u>(7)</u>	<u>(14,117)</u>	<u>(2,039)</u>

## 16. COMMITMENTS

### Capital commitments

Capital commitments outstanding as at 30 June 2004 not provided for in the accounts are summarised as follows:

	<b>As at 30 June 2004</b>	<b>As at 31 December 2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Contracted	<u>28,200,000</u>	<u>—</u>

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

The Company announced on 24 March 2004 of the "Acquisition of Interests on Wuhan Traffic IC Card Management Limited." It was stated that, prior to the satisfaction of the condition precedent, "the consideration must be paid within three months from the date of the Agreement." As the approval of "Approval Document by the Relevant China Government Bodies" stated in item (C) of the condition precedent was still under processing, the Acquisition could not be completed by 30 June 2004. The Company has negotiated with Wuhan Transportation Group Company Limited (i.e. the holding company of Wuhan Traffic IC Card Management Limited) that the legal documents such as the Acquisition Agreement are still effective, with the relevant procedures being under processing.

## 17. SEGMENT REPORTING

### a. Business segment

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

### b. Geographical segments

The Group's activities for the six months ended 30 June 2004 and corresponding period of 2003 are mainly conducted in the Southern China, Northern China, Central China, Eastern China and Northeastern China in the PRC. An analysis by geographical segment is as follows:

	Southern China		Northern China		Central China		Eastern China		Northeastern China		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
External sales	1,132	204	65	24	1,418	1,899	109	5	-	70	<u>2,724</u>	<u>2,202</u>
Contribution to net income	800	194	49	21	1,418	1,223	109	5	-	66	<u>2,376</u>	<u>1,509</u>

## FINANCIAL REVIEW

For the six months ended 30 June, 2004, the Group's turnover amounted to approximately RMB2,724,000. Loss attributable to shareholders for this period was approximately RMB6,928,000.

In the first half of 2004, the Group recorded approximately RMB2,031,000 in revenue from Jian ePayment (華普智通) software and hardware sales and approximately RMB693,000 from system transaction levies. The increase of 55% in software and hardware sales revenue over the corresponding period of the preceding year was a result of the launch of roadside parking smart card readers in the first half of 2004 in the existing cities where the electronic parking fee collection system was installed. The fall in transaction levies by approximately RMB 200,000 as compared with that of last year was attributed to the effect of the municipal construction activities on several cities (Wuhan, Beijing) where the electronic parking fee collection system was installed, resulting in the temporary suspension of several roadside parking fee collection systems and the fall in the revenue of using smart cards. This led to a decrease in the transaction levies recorded by the Group.

The Group's overall losses for this six months period of 2004 decreased by 17%, representing a decrease in loss attributable to shareholders by approximately RMB1,413,000 as compared with that of last year. The parking system software and hardware sales revenue began to recover in the first half of 2004, which has been mounting up continuously, with the sales revenue amounted to approximately RMB2,031,000, which increased by 55% over the same period of last year. The revenue derived from transaction levies was approximately RMB693,000, which dropped by 22% over last year owing to the abovementioned municipal construction effect on several cities which had led to the fall in parking revenue and, ultimately, the fall in the transaction levies recorded by the Group. The construction of a complete system of "One Card Multiple Uses" was still the Group's business priority for the first half of the year aiming at achieving economies of scale with transaction volume and amount of transaction levies, but the performance was not fully reflected during the period. As a result, despite the increase of the sales revenue during the period by 24% and the increase of gross profits by 57% as compared with the same period of last year, and the fall of such cost expenditures as the sales expenditure and management fee over the corresponding period of last year by 21% and 11% respectively, a loss was still recorded during this half year, though the fall magnitude was narrowed as compared with that of last year.

## BUSINESS DEVELOPMENT

The Group has been committed from the beginning to developing the Jian ePayment smart card system into a large-scale electronic payment system accepted and used throughout China. In 2004, the Company will continue to focus on the development of "One Card Multiple Uses" system in Wuhan and the promotion of the system in Beijing, and will seek opportunities to develop the "One Card Multiple Uses" system in the third and fourth cities.

In Wuhan, the Group has installed a considerable number of Jian Smart Pass Readers for retail and commercial use in restaurants, drug stores, supermarkets, convenient stores and Chinese restaurants. Owing to the success of the promotion and utilization of "One Card Multiple Uses" system in Wuhan, the Group and Wuhan Traffic IC Card Management Limited, under the guidance and motivation from the relevant departments of Wuhan Municipal Government, cooperated to establish a "Yikatong" system, which was similar to the Octopus Cards of Hong Kong. The work was done in accordance with the promotion mode of Jian ePayment smart card system and on the basis of the 1,000,000 Traffic IC Cards being issued in Wuhan. As at 22 March of the year, the Group and Wuhan Transportation Group entered into the Restructuring Agreement to subscribe for 70% of the enlarged registered capital in Wuhan Traffic IC Card Management Limited.

The Group has extended the use of the commercial smart card reader system to Beijing according to the Wuhan model, and has increased the number of cities adopting the system of “One Card Multiple Uses” to two. Currently, 28 Jian ePayment smart commercial card readers have been installed in nine supermarkets in Beijing, from which the benefits can be seen. The consumption by using the smart card has increased by 6.9 times as compared with the latter half of last year. Correspondingly, the transaction levies on consumption has also risen up.

The Sales and Marketing Department of the Group also sought opportunities to promote “One Card Multiple Uses” in the emerging markets by conducting research on the market conditions of the cities where the parking meter has been in use.

The Group has resumed the sale of the equipment software and hardware that has shown positive growth tendency.

The circulation number of Jian Smart Pass has reached approximately 580,000 pieces as at 30 June 2004, with an increase of 16% over the end of 2003.

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

The Company announced on 24 March 2004 of the “Acquisition of Interests on Wuhan Traffic IC Card Management Limited.” It was stated that, upon satisfaction of the condition precedent, “the consideration must be paid within three months from the date of the Agreement.” As the “Approval Documents by the Relevant China Government Bodies” stated in item (C) of the condition precedent are still under processing, the Acquisition cannot be completed by 30 June 2004. The Company has negotiated with Wuhan Transportation Group Company Limited (i.e. the holding company of Wuhan Traffic IC Card Management Limited) that the legal documents such as the Acquisition Agreement are still effective, with the relevant procedures being under processing. The Company still maintains close relationship with Wuhan Transportation Group Company Limited, and the contents of the Agreement are still being implemented. The Company considers that the Acquisition is in line with the common interests of all the Shareholders, which is beneficial to the growth and development of the Company and the Company will procure completion of the Acquisition as soon as possible.

## **RESEARCH AND DEVELOPMENT**

The Group made sustained efforts in the promotion and development of commercial applications and value-added development of “One Card Multiple Uses” system in response to the ever-changing market demands.

As one of the leaders in the production of payment terminal equipment in China, the Group has developed series of products with various usage, for instance, the upgrading of parking meter system, the systematization of the commercial smart card reader system, the upgrading of the back end system, and the improvement of the data collection equipment.

The payment terminal equipment sold and promoted by the Group has gained extensive recognition from our users, who are eager to increase the quantity ordered. This is attributable to the continuous improvement and upgrading to the existing products by the research and development centre.

In order to boost the promotion of Jian ePayment system, the Group enhanced after-sales service significantly in the first quarter of 2004 while focusing the research and development on key products and actively seeking development opportunities for the system integration business. This action is believed to be able to provide better service to card users and businesses in partnership, to enlarge the scale of the system and to lay a good foundation for increasing the number of cards in circulation.

## **SALES AND MARKETING**

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

The payment terminal equipment sold and promoted by the Group has gained extensive recognition from our broad users, who are eager to increase their ordering amounts.

The Sales and Marketing Department of the Group also sought opportunities to promote “One Card Multiple Uses” in the emerging markets by conducting research on the market conditions of the cities where the parking meter has been in use.

## **OUTLOOK**

The Group has been consistently committed to the development of smart card electronic payment system market in China, increasing steadily the number of cities using Jian Smart Passes. In the meantime, the application domain of each city continuously expands, a comprehensive development matrix is formed through increasing the number of cities vertically while expanding the commercial applications horizontally so as to achieve a great change in the number of final users and the quantity of final consumption.

The directors of the Company (the “Directors”) believe that Jian Smart Passes will become convenient cards widely owned and used by the residents of a number of cities.

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

The Group currently has cash and cash equivalents of approximately RMB5,583,000, while the current ratio has changed from 0.63 times for 2003 to 0.47 times for the period end and the gearing ratio, defined as the ratio of total debt to total assets, has changed from 57% for 2003 to 61% for the period end.

## **SIGNIFICANT INVESTMENTS**

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



Other than those disclosed in the section headed “Capital commitments”, the Company did not have any plan for material investments and acquisition of material capital assets as at 30 June 2004.

## **EMPLOYEE INFORMATION**

At 30 June 2004, the Company employed 63 employees (2003: 162). They were employed in accordance with their expertise and market condition. All employees were provided with social insurance and provident fund. Staff cost was approximately RMB2,015,000 for the six months ended 30 June 2004 as compared with that of approximately RMB5,275,000 for the corresponding period of 2003.

## **CONTINGENT LIABILITIES**

As at 30 June 2004, the Group did not have any contingent liabilities.

## **CHARGES ON ASSETS**

As at 30 June 2004, the Group did not have any charge on its assets.

## **EXCHANGE RATE EXPOSURE**

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

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

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

## **DISCLOSURE OF DIRECTORS' INTERESTS**

As at 30 June 2004, the interest of the Directors and the chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section



352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

### Aggregate long positions in shares and underlying shares

Director	Name of company	Class of shares	Number of shares hold			Aggregate percentage of long Position
			Personal interests	Family interests	Corporate interests	
Mr. Chin Ying Hoi	The Company	ordinary	2,000,000 underlying shares representing 0.5% of the shares then in issue (Note 1)	–	286,800,000 shares representing 71.7% of the shares then issued (Note 2)	72.2% (Note 3)
Mr. Chin Ying Hoi	Union Perfect International Limited	ordinary	84 shares of US\$1.00 each representing 80% of the shares then in issue	–	–	

Note 1: These are the underlying shares of the Company in respect of which an option was granted to Mr. Chin Ying Hoi (details of which are set out below.) The percentage was calculated on the basis of 400,000,000 shares in issue as at 30 June 2004.

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

Note 3: Based on 400,000,000 shares in issue on 30 June 2004.

### Aggregate long positions in underlying shares

#### Unlisted physically settled equity derivatives

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

Name of Director	Date of grant	Vesting Period and percentage of vested options (Note)	Exercise price per share	Outstanding number of share under option as at 30 June 2004
Mr Chin Ying Hoi	31 May 2002	75%	HK\$2.35	2,000,000
Mr. Liu De Fu	31 May 2002	75%	HK\$2.35	700,000
Mr. Guo Yan Hong	31 May 2002	75%	HK\$2.35	400,000
Mr Li Sui Yang	31 May 2002	75%	HK\$2.35	1,000,000
				4,100,000

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

None of the above options were exercised or cancelled during the six months ended 30 June 2004.

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

### **Aggregate short positions in underlying shares**

#### **Unlisted physically settled equity derivatives**

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

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

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

Save as disclosed above, the Company has no notice of any interest to be recorded under Section 29 of the SDI Ordinance as at 30 June 2004.

Other than the share option scheme as described below, at no time during the period was the Company, its subsidiaries or holding company a party to any arrangements to enable any of the Company's Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors or the chief executive of the Company, nor any of their respective spouses or children under the age of 18, had any right to subscribe for equity or debt securities of the Company, or had exercised any such right during the period.

### **SHARE OPTION SCHEME**

Pursuant to the share option scheme of the Company adopted on 19 November 2001 (the "Share Option Scheme"), the Company may grant options to the participants of the Share Option Scheme to subscribe for shares of the Company. The participants include any employees of the Group (including Directors) and certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed to the Group. The overall limit on the number of

shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Share Option Scheme and other share option schemes must not, in aggregate, exceed 30% of the issued shares capital of the Company from time to time. Any options granted under the Share Option Scheme may be exercised at any time during a period which shall not be more than ten years after the date on which the option is granted. The subscription price will be determined by the Board and will not be less than the highest of (i) the closing price of the shares quoted on the GEM on the date of grant, (ii) the average closing price of the shares quoted on the GEM for the five business days immediately preceding the date of grant and (iii) the nominal value of the shares on the date of grant.

Details of the share options outstanding as at 30 June 2004 which have been granted under the scheme are as follows:

	Options held at 1 January 2004	Options granted during period	Options exercised during period	Options lapsed during period	Options held at 30 June 2004	Exercise Price	Grant Date	Exercisable from	Exercisable until	Closing price of the Company's share before date of grant
Directors	4,600,000	-	-	500,000	4,100,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Employees	13,900,000	-	-	900,000	13,000,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Consultants, suppliers or customers	13,200,000	-	-	-	13,200,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Consultants, suppliers or customers	3,000,000	-	-	-	3,000,000	HK\$2.03	16 Aug 2002	16 Aug 2002	16 Aug 2007	HK\$2.025
	<u>34,700,000</u>			<u>1,400,000</u>	<u>33,300,000</u>					

None of the above options were exercised or cancelled during the six months ended 30 June 2004.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the following substantial shareholder and person (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

### Aggregate long positions in shares

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

## Aggregate short position in underlying shares

### Unlisted physically settled equity derivatives

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

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

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

### COMPETING INTEREST

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

### OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed in the sections "Interests and short positions of Directors and chief executive in the shares and underlying shares" and "Interests and short positions of substantial shareholders discloseable under the SFO" above, so far as is known to the Director, there is no other person who has an interest or short position in the shares and underlying shares that is discloseable under the SFO.

### BOARD PRACTICES AND PROCEDURES

For the six months ended 30 June 2004, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures.

## AUDIT COMMITTEE

An Audit Committee was established with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive directors, Mr Zhang Xiao Jing and Ms Tung Fong. The Group's unaudited consolidated results for the six months and three months ended 30 June 2004 have been reviewed by the audit committee.

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

Beijing, the PRC, 10 August 2004

*As at the date hereof, the Board comprises four executive directors, being Chin Ying Hoi, Guo Yang Hong, Liu De Fu and Li Sui Yang and two independent non-executive directors, being Zhang Xiao Jing and Tung Fong.*