



TECHNOLOGIES
UNIVERSAL

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



Interim Report

2004/05

Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

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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.

SUMMARY

- Turnover for the six-month period ended 30 September 2004 amounted to approximately HK\$2,433,190 (2003: HK\$6,140,000), representing an decrease of approximately 60% over the corresponding period in the last financial year.
- Net loss for the six-month period ended 30 September 2004 reduced to approximately HK\$3.71 million (2003: HK\$5.79 million. The improvement was primarily due to the effectiveness of: (i) the Group's marketing and promotional activities for building up its business coverage in the PRC; and (ii) the Group's cost saving policies over its operating costs.
- Basic loss per share for the six-month period ended 30 September 2004 amounted to approximately HK0.55 cent (2003: approximately HK0.90 cent).
- The Board does not recommend payment of any dividend for the six-month period ended 30 September 2004 (2003: Nil).

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (together, the "Group") for the three-month and six-month periods ended 30 September 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the six-month period ended 30 September 2004 HK\$'000	For the six-month period ended 30 September 2003 HK\$'000	For the three-month period ended 30 September 2004 HK\$'000	For the three-month period ended 30 September 2003 HK\$'000
Turnover					
Representing:					
– Continuing operation	3	2,433	6,140	124	3,775
Other revenue		148	73	78	54
		<u>2,581</u>	<u>6,213</u>	<u>202</u>	<u>3,829</u>
Cost of computer hardware and software/services rendered		(1,975)	(5,147)	(617)	(3,391)
Staff costs		(1,208)	(2,269)	(620)	(924)
Depreciation		(1,245)	(1,196)	(965)	(940)
Minimum operating lease rentals		(499)	(738)	(359)	(400)
Other operating expenses		(2,501)	(4,033)	(849)	(1,981)
Loss from operations	5	(4,847)	(7,170)	(3,208)	(3,807)
Share of result of an associate		220	7	791	7
Loss before taxation		(4,627)	(7,163)	(2,417)	(3,800)
Representing:					
Loss – Continuing operation		(4,627)	(7,163)	(2,417)	(3,800)
(Loss) Profit – Discontinued operation		–	–	–	–
Taxation	6	–	298	–	298
Loss after taxation		(4,627)	(6,865)	(2,417)	(3,502)
Minority interests		919	1,075	442	583
Loss attributable to shareholders		<u>(3,708)</u>	<u>(5,790)</u>	<u>(1,975)</u>	<u>(2,919)</u>
Basic loss per share (in HK cent)	7	<u>(0.55)</u>	<u>(0.90)</u>	<u>(0.30)</u>	<u>(0.45)</u>



CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 September 2004 HK\$'000	(Audited) As at 31 March 2004 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	9	26,568	27,991
Interest in an associate		354	134
Long term investment		472	472
Goodwill	10	2,574	2,607
Deferred tax assets		1,418	1,418
		<u>31,385</u>	<u>32,622</u>
CURRENT ASSETS			
Inventories		1,059	158
Trade debtors	11	603	66
Deposits, prepayments and other receivables		2,033	1,970
Amount due from a director		55	–
Amount due from an associate		837	–
Amount due from a related company		–	–
Cash and bank balances		3,385	7,672
		<u>7,972</u>	<u>9,866</u>
DEDUCT:			
CURRENT LIABILITIES			
Deposits received, accruals and other payables		1,994	3,006
Amounts due to related companies		114	830
Amount due to an associate		–	878
Amount due to a director		–	627
		<u>2,108</u>	<u>5,341</u>
NET CURRENT ASSETS		<u>5,864</u>	<u>4,525</u>
		<u>37,249</u>	<u>37,147</u>
REPRESENTING:–			
SHARE CAPITAL		6,682	6,682
RESERVES		15,089	20,106
SHAREHOLDERS' FUNDS		21,771	26,788
MINORITY INTERESTS		11,478	10,359
NON-CURRENT LIABILITIES			
Convertible Debenture		4,000	–
		<u>37,249</u>	<u>37,147</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six-month period ended 30 September 2004 HK\$'000	For the six-month period ended 30 September 2003 HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(7,380)	(6,384)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(225)	(1,431)
NET CASH FROM FINANCING ACTIVITIES	3,318	223
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4,287)	(7,592)
CASH AND CASH EQUIVALENTS AT 1 APRIL	7,672	11,416
Effect on foreign exchange rate changes	-	3
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	<u>3,385</u>	<u>3,827</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>3,385</u>	<u>3,827</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	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 April 2003, as previously reported	6,419	35,094	1,093	10,754	60	(19,200)	34,220
Effect of adoption of SSAP 12 (Revised) (Note 2c)	-	-	-	-	-	627	627
At 1 April 2003, as restated	6,419	35,094	1,093	10,754	60	(18,573)	34,847
Exercise of share options	25	-	-	-	-	-	25
Premium arising on exercise of share options	-	198	-	-	-	-	198
Exchange differences arising on translation of financial statements of the PRC subsidiaries	-	-	-	-	3	-	3
Loss for the period	-	-	-	-	-	(5,790)	(5,790)
At 30 September 2003	<u>6,444</u>	<u>35,292</u>	<u>1,093</u>	<u>10,754</u>	<u>63</u>	<u>(24,363)</u>	<u>29,283</u>
At 1 April 2004	6,682	37,426	1,093	10,754	63	(30,538)	25,480
Exercise of share options	-	-	-	-	-	-	-
Premium arising on exercise of share options	-	-	-	-	-	-	-
Exchange differences arising on translation of financial statements of the PRC subsidiaries	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	(3,708)	(3,708)
At 30 September 2004	<u>6,682</u>	<u>37,426</u>	<u>1,093</u>	<u>10,754</u>	<u>63</u>	<u>(34,246)</u>	<u>(21,772)</u>

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 September 2004

1. BASIS OF PRESENTATION

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. The Company's shares are listed on GEM.

2. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The interim financial report has been prepared in accordance with accounting principles generally accepted in Hong Kong, Statement of Standard Accounting Practices ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the condensed consolidated financial statements for the current period are consistent with those used in the Group's annual financial statements for the year ended 31 March 2003 except that the Group has adopted the following accounting policies, including accounting policy of deferred taxation which conform with the revised SSAP No.12 "Accounting for income taxes" ("SSAP12 (revised)") which is effective for accounting periods commencing on or after 1 January 2003.

(a) Associate

An associate is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management. The condensed consolidated income statement includes the Group's share of results of an associate for the period, and the condensed consolidated balance sheet includes the Group's share of the net assets of an associate, advance to/from an associate and goodwill (net of accumulated amortisation) on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of an associate.

(b) Long term investments

Long term investments are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.



(c) **Deferred taxation**

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with limited exceptions. The principal temporary differences arise from depreciation on fixed assets and tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3. **TURNOVER – CONTINUING OPERATION**

Turnover – continuing operation represents revenue recognised from the provision of enterprise solution services, system integration and the related consultancy services, net of value-added tax and business tax.

4. **SEGMENT INFORMATION**

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services provided. 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. The Group has the following business segments under its continuing operation:

(a) **Payment enterprise solutions**

Provision of payment enterprise solutions and ongoing technical support services.

(b) **Other information technology solutions**

Provision of system integration and related technical support services.

(c) **Others**

Investment holding.

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

(a) Business segments

	Payment enterprise solutions		Other information technology solutions		Others		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue								(Restated)
Revenue from external customers	289	757	2,144	5,383	-	-	2,433	6,140
Other revenue	28	109	118	1	-	9	148	68
Total revenue	<u>317</u>	<u>866</u>	<u>2,262</u>	<u>5,384</u>	<u>-</u>	<u>9</u>	<u>2,581</u>	<u>6,208</u>
Segment results	(2,551)	(3,024)	(43)	19	(2,254)	(4,221)	(4,848)	(7,175)
Interest income	-	5	-	-	-	-	-	5
Loss from operations							(4,848)	(7,170)
Share of result of an associate	220	7	-	-	-	-	220	7
Loss before taxation							(4,628)	(7,163)
Taxation							-	298
Loss after taxation							(4,628)	(6,865)
Minority interests							919	1,075
Loss attributable to shareholders							<u>(3,708)</u>	<u>(5,790)</u>
Depreciation for the period	<u>401</u>	<u>1,063</u>	<u>4</u>	<u>3</u>	<u>164</u>	<u>130</u>	<u>569</u>	<u>1,196</u>
Capital expenditure for the period	<u>70</u>	<u>6,555</u>	<u>-</u>	<u>24</u>	<u>391</u>	<u>393</u>	<u>253</u>	<u>7,570</u>
Segment assets	<u>31,124</u>	<u>37,598</u>	<u>2,483</u>	<u>1,024</u>	<u>5,751</u>	<u>38,869</u>	<u>39,358</u>	<u>81,388</u>
Segment liabilities	<u>1,720</u>	<u>638</u>	<u>37</u>	<u>83</u>	<u>4,352</u>	<u>19,147</u>	<u>6,109</u>	<u>19,954</u>

(b) Geographical segments

	People's Republic of China (the "PRC")		Hong Kong		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue from external customers	<u>213</u>	<u>757</u>	<u>2,220</u>	<u>5,383</u>	<u>2,433</u>	<u>6,140</u>
Segment assets	<u>33,771</u>	<u>33,764</u>	<u>5,587</u>	<u>8,074</u>	<u>39,358</u>	<u>41,838</u>
Capital expenditure for the period	<u>70</u>	<u>32</u>	<u>391</u>	<u>221</u>	<u>-</u>	<u>253</u>



5. LOSS FROM OPERATIONS

	Six-month period ended 30 September		Three-month period ended 30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss from operations are stated after charging:–				
Cost of sales	1,975	5,147	617	1,255
Staff costs (including directors' remuneration)				
– Salaries and other benefits	1,062	2,070	550	1,469
– Pensions scheme contributions	146	199	70	153
Depreciation	1,245	1,196	289	198
Amortisation of goodwill	33	11	16	–
Minimum operating lease rentals				
– Land and buildings	499	651	359	89
– Servers	–	87	–	24
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

6. TAXATION

The taxation credit (charge) comprises:

	Six-month period ended 30 September		Three-month period ended 30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current taxation				
– an associate	–	(2)	–	(2)
Deferred taxation				
– a subsidiary	–	300	–	300
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Current taxation:–

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the periods. The Group's subsidiaries operating in the PRC did not generate any profits assessable to the PRC enterprise income tax ("EIT") during the periods. EIT has been provided by an associate operating in the PRC at the normal tax rate of 33% on the assessable profit for the period.

Deferred taxation:–

Universal iPayment China Limited, a Group's subsidiary operating in the PRC, incurred tax losses since its incorporation. This subsidiary had tax registration as an enterprise with foreign investment ("FIE") and pursuant to EIT rules for FIE, this subsidiary is entitled to full exemption from EIT for two years and a 50% reduction in the next three years commencing from the first profit-making year, as computed under PRC accounting standards and tax regulations. Deferred taxation has been provided and deferred tax assets are recognised to the extent that it is probable that the future taxable profits of this subsidiary will be available against which the tax losses carried forward can be utilised. The Directors are of the opinion that the recoverable amount of the deferred tax assets was not less than its carrying amount at the balance sheet date.

7. LOSS PER SHARE

The calculation of basic loss per share for the periods is based on the following data:–

	Six-month period ended 30 September		Three-month period ended 30 September	
	2004	2003	2004	2003
Loss for the periods used in the calculation of basic loss per share (in HK\$'000)	<u>3,708</u>	<u>5,790</u>	<u>1,975</u>	<u>2,919</u>
Weighted average number of shares in issue, used for the purpose of calculation of basic loss per share (shares)	<u>668,198,858</u>	<u>643,806,885</u>	<u>668,198,858</u>	<u>644,420,000</u>

No diluted loss per share is shown as the share options of the Company which were outstanding during the periods had anti-dilutive effects on the respective basic loss per share.

8. INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six-month period ended 30 September 2004. (2003: Nil).

9. FIXED ASSETS

	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 April 2004	330	220,110	1,434	8,310	81	1,622	32,220
Additions	-	-	262	112	87	-	461
Disposals	(330)	-	(266)	(232)	-	-	(1,161)
At 30 September 2004	-	220,110	1,430	8,397	168	1,622	31,520
Accumulated depreciation:-							
At 1 April 2004	-	537	797	2,233	48	281	4,229
Charge for the period	3	239	25	903	3	72	1,245
Written Back	(3)	-	(173)	(13)	-	-	(522)
At 30 September 2004	-	776	649	3,123	51	353	4,952
Net book value:-							
At 30 September 2004	-	19,334	781	5,067	117	1,269	26,568
At 31 March 2004	330	19,573	637	6,077	33	1,341	27,991

10. GOODWILL

	At 30 September 2004 HK\$'000	At 31 March 2004 HK\$'000
Goodwill, at cost	2,651	2,651
Less: accumulated amortisation	(77)	(44)
	<u>2,574</u>	<u>2,607</u>

Goodwill represents the excess of the purchase consideration over the attributable share of the fair value of separable assets of an associate at the date of acquisition. Goodwill is amortised on a straight-line basis over its estimated useful life of 5 years.

11. TRADE DEBTORS

Average credit period of 30 to 60 days are granted to customers. The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. Credit evaluations of customers are performed periodically.

An aging analysis of trade debtors is set out below:–

	At 30 September 2004 HK\$'000	At 31 March 2004 HK\$'000
0 – 6 months	603	66
7 – 12 months	–	–
	<u>603</u>	<u>66</u>

12. CAPITAL COMMITMENTS

As at 30 September 2004, the Group had capital commitment, authorised and contracted for, of approximately HK\$1,936,000.

13. CONNECTED AND RELATED PARTY TRANSACTIONS

The amounts due from an associate, a director and a related company are unsecured, interest-free and repayable on demand.

During the period, the Group had the following significant transactions with connected and/or related parties:

		Six-month period ended 30 September	
	Notes	2004 HK\$'000	2003 HK\$'000
Technical support services fee from an associate	(a)	–	368
Office premises rental to a minority shareholder	(b)	<u>(442)</u>	<u>(442)</u>

Notes:

- (a) Pursuant to a technical support services agreement dated 7 September 2001 between the Group and Universal eCommerce China Limited (“UECL”), an associate – acquired by the Group during the current period, the Group agreed to provide technical support services in respect of the custom-designed online payment enterprise solutions to UECL at a service fee determined by reference to the market price. Mr. Liu Ruisheng, who is the relative of Mr. Lau Sik Suen – a director of the Company, had beneficial interest in UECL. Pursuant to a supplementary agreement between the Group and UECL, the provision of technical support services was terminated commencing from 1 September 2003.



- (b) Pursuant to a tenancy agreement dated 19 November 2002 between the Group and Shanghai Gao Yuan Property (Group) Limited ("Gao Yuan"), one of the joint venture parties of a subsidiary, the Group agreed to prepay office premises rental of Rmb1,872,000 (equivalent to approximately HK\$1,766,000) for the two years ending 31 March 2005 which was determined by reference to the market value.

BUSINESS REVIEW AND PROSPECTS

Operation review

In view of the increasing popularity of eCommerce, together with the increasing number of internet users, the Group's business continued to perform satisfactorily. During the six-month period under review, the following matters have been carried out and effectuated by the Group:—

1. *Reseller Scheme*

The Group has set up a plan for co-operating with qualified partners, who will act as the Group's and will promote the Group's online payment services nationwide, in particular, in those areas the Group has yet established branch office so that the market coverage of the Group's services could be expanded in a more efficient and effective ways.

2. *Membership Scheme*

The Group has established a membership loyalty scheme. By the scheme, all internet users registered with the scheme will get benefits from each internet transactions the payment of which is effected through the Group's online payment services. The scheme is a prototype for person-to-person payment model to be launched in near future.

3. *Shenzhen Office*

The Group set up an office in Shenzhen in July. The location was selected for strategic purpose since we believe that the Group's Shenzhen office could foster the market shares of the Group's business in southern China, which is more well-developed in the sector of internet application.

4. *Issue of Convertible Bonds*

The Group announced, on 29 June 2004, a conditional Subscription Agreement in connection with the subscription by the Subscribers of HK\$4 million convertible bonds to be issued by the Company. The Company intends to use the net proceeds to develop the online membership data-mining system and to develop modules for issuing e-cash and e-cheque and to further the Group's direct marketing efforts and promotion of corporate images. The details of the use of proceeds is set out in the relevant announcement.

5. *Closer Relationship with Business Partners*

The Group was selected as alliance partner by VISA and mutual agreement with Bank of China was made on more effort put on foreign card payment services.

Prospects

The Group expects an increasing development and application of internet nationwide. At the same time the Group is seeking for any opportunity to co-operate with overseas online payment companies. Under this favourable marketing environment and aided by the effective marketing strategy of the Group, the Directors are optimistic as to the turnover of the Group in future.

Summing all these, the Directors are optimistic to its business and the financial performance of the Group will continue to improve.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity and financial resources

As at 30 September 2004, the Group had net current assets of approximately HK\$7.97 million. Current assets comprised inventories of approximately HK\$1.06 million, trade debtors of approximately HK\$0.6 million, deposits, prepayments and other receivables of approximately HK\$2.03 million, amount due from a director of approximately HK\$155,000, amount due from an associate of approximately HK\$837,024 and cash and bank balances of approximately HK\$3.38 million. Current liabilities comprised deposits received, accruals and other payables of approximately HK\$1.99 million.

The source of finance of the Group is primarily from the convertible debenture of HK\$4,000,000. The gearing ratio of the Group was 0.18 as at 30 September 2004. The calculation is based on the Group's interest bearing debt over the total equity interest as at 30 September 2004.

The Directors consider that the Group has sufficient cash to cope with its recent expansion and development and no debt financing is considered as necessary in the short-term. In the long-run, the Directors believe that the Group will fund its foreseeable expenditures through cash flow from operations and/or through additional equity financing or bank borrowing, if necessary.

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 structure of the Group's assets, liabilities and commitments can meet its funding requirements.



SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The Group made no significant investment nor any material acquisition or disposal during the period.

EMPLOYEES

As at 30 September 2004, the total number of employees of the Group was 70 (2003:57), representing a 23% increase as compared with that as at 30 September 2003. The dedication and contribution of the Group's staff during the six-month period ended 30 September 2004 are greatly appreciated and recognised.

Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible staff 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.

CHARGES ON GROUP'S ASSETS

None of the Group's assets was pledged as at 30 September 2004.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group had no detailed future plans for material investments or capital assets as at 30 September 2004.

EXCHANGE RISK

The Group's enterprise solution services are mainly transacted in Renminbi. Since the exchange rate fluctuation between the Hong Kong dollars and Renminbi is minimal, the Board considers that the Group's exposure to the exchange risk is very low and accordingly, no hedging transactions were entered into during the periods.

CONTINGENT LIABILITIES

The Directors consider that the Group did not have any contingent liabilities as at 30 September 2004.

COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2004

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. Commence development of modules for issuing e-cash and e-cheque. | Preliminary research was conducted. |
| 3. Complete development of modules for payment services for m-commerce. | Still under development. |
| 4. Commence development of modules for transportation management system of iwareZ package. | Pending, as the Group targets at using the strategic alliances' products to match the market needs. |
| 5. Complete development of modules for order management system of iwareZ package. | Pending, as the Group targets at using the strategic alliances' products to match the market needs. |

Services

- | | |
|--|--|
| 1. Enable clients using the Group's online payment enterprise solutions to facilitate paying utility bills online. | Such service is expected to be provided at a later stage. |
| 2. Continue the provision of enterprise solutions. | The Group continues to be engaged in the provision of enterprise solutions |
| 3. 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 continues to provide such kind of services. |

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. | The Group had placed advertisement in the media. The Group had also attended the Computer Expo 2003 in August 2003 in order to promote the overall image. |

Resources deployment

- | | |
|---|---|
| 1. Recruit additional technical staff to cater for expansion of the business. | Additional technical staffs were recruited. |
|---|---|

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 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 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 on marketing 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 its resources in Shanghai 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 as 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 CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2004, the interests or short positions of the directors and chief executives 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 interests in ordinary shares	Total interests in underlying shares (Note 1)	Aggregate interests	% of the Company's issued share capital
	Personal interests	Family interests	Corporate interests				
Executive Directors:							
Mr. Lau Sik Suen	4,200,000	—	—	4,200,000	13,340,000	17,540,000	2.63%
Mr. Liu Rui Sheng	—	—	—	—	—	—	—
Non-executive Director:							
Mr. Zhang Wen Bing (Note 2)	—	—	130,000,000	130,000,000	—	130,000,000	19.46%
Independent Non-executive Directors:							
Mr. Wan Jie Qiu	—	—	—	—	—	—	—
Mr. Meng Li Hui	—	—	—	—	—	—	—
Mr. Lo Wing Hung	—	—	—	—	—	—	—

Name of directors	Interests in equity of associated corporation			Total interests in equity of associated corporation RMB	Total underlying interests in equity of associated corporation RMB	Aggregate interests RMB	% of aggregate interests over equity of associated corporation
	Personal interests RMB	Family interests RMB	Corporate interests RMB				
Mr. Liu Rui Sheng (Note 3)	510,000	—	—	510,000	—	510,000	51%



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 certain 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. During the six-month ended 30 September 2004, there was no debt securities nor debentures issued by the Group at any time during the period.

Save as disclosed above, as at 30 September 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 quarter ended 30 September 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 directors complied with the required standard of dealings and the Company’s code of conduct regarding directors’ securities transactions.

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

As at 30 September 2004, the following persons (other than the Directors or chief executives 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 were as follows:

Name of Shareholders	Total interests in ordinary shares	Total interests in underlying shares	Aggregate interests (Note 1)	% 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	32.89%
Madam Wu Wai Lai (Note 3)	214,370,000	6,000,000	220,370,000	32.89%
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%
Calico Development Limited (Note 6)	40,000,000	-	40,000,000	5.5%

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.
- (6) Calico Development Limited holds convertible debenture of HKD4 million of the Company which is convertible into 40,000,000 shares when due.

Save as disclosed above, as at 30 September 2004, there was no person (other than a Director or chief executive or their associate 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.

SHARE OPTION SCHEMES

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.

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

Grantees	Date of grant	Vesting period	Exercise period	Exercise price	Number of share options				
					Outstanding as at 1 April 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 June 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	850,000				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	–				–
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				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	1,450,000			(30,000)	1,420,000
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	2,400,000				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	–	–	–	3,500,000
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 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	8,540,000			(30,000)	8,510,000



Grantees	Date of grant	Vesting period	Exercise period	Exercise price	Number of share options				
					Outstanding as at 1 April 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 June 2004
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				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	-	-	-	7,000,000
					32,740,000	-	-	(60,000)	32,680,000

(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 ("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.

There was no share option outstanding under Pre-IPO Share Option Scheme A as at 1 April 2004 and all 15,600,000 shares were subscribed by the exercise of options before the six-month period ended 30 September 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.

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

Grantees	Date of grant	Vesting Period	Exercise period	Exercise price	Number of share options			
					Outstanding as at 1 April 2004	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2004
Executive director	17 October 2001	Fully vested on 26 April	26 April to 25 April 2012	HK\$0.084	7,840,000	–	–	7,840,000
Senior management/ consultants of the Group	17 and 18 October 2001	Fully vested on 26 April	26 April to 25 April 2012	HK\$0.084	550,000			550,000
					8,390,000	–	–	8,390,000

Notes:–

- (1) The closing price of the shares immediately before the date on which the options were granted was HK\$0.165.
- (2) 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.

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

During the six-month period ended 30 September 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

COMPETING INTERESTS

During the period under review, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business that competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee on 12 October 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 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, Mr. Lo Wing Hung and the company secretary of the Group, Mr. Yau Wai Ching. Mr. Meng Li Hui is the chairman of the audit committee.

The Group's unaudited condensed consolidated financial reports for the six-month period ended 30 September 2004 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standard and the requirements of GEM Listing Rules and adequate disclosures had been made.

BOARD PRACTICES AND PROCEDURES

During the six-month period ended 30 September 2004, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By order of the Board
Lau Sik Suen
Director

As at the date of this report, the directors are as follows:

Executive Directors:

Mr. Lau Sik Suen
Mr. Liu Rui Sheng

Independent Non-executive Directors:

Mr. Meng Li Hui
Mr. Wan Xie Qiu
Mr. Lo Wing Hung

Non-executive Director:

Mr. Zhang Wen Bing

Hong Kong, 12 November 2004