



TECHNOLOGIES
UNIVERSAL

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



Third Quarterly Report

2004/05

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.

SUMMARY

- Turnover for the nine-month period ended 31 December 2004 amounted to approximately HK\$3,478,000 (2003: HK\$8,716,000), representing an decrease of approximately 60% over the corresponding period in the last financial year.
- Net loss for the nine-month period ended 31 December 2004 reduced to approximately HK\$4.8 million (2003: HK\$7.8 million). The improvement was mainly due to effective cost control and expanding sources of revenue.
- Basic loss per share for the nine-month period ended 31 December 2004 amounted to approximately 0.72 HK\$ cents (2003: approximately 1.21 HK\$ cents).
- The Board does not recommend payment of any dividend for the nine-month period ended 31 December 2004 (2003: Nil).

RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three-month and nine-month periods ended 31 December 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:—

		For the nine-month period ended 31 December 2004 HK\$'000	For the nine-month period ended 31 December 2003 HK\$'000	For the three-month period ended 31 December 2004 HK\$'000	For the three-month period ended 31 December 2003 HK\$'000
Turnover					
Representing:					
– Continuing operation	3	3,478	8,716	1,045	2,576
– Discontinued operation		–	–	–	–
		3,478	8,716	1,045	2,576
Other revenue		271	86	123	13
		3,749	8,802	1,168	2,589
Cost of computer hardware and software/services rendered		(2,691)	(7,371)	(716)	(2,224)
Staff costs		(1,887)	(2,974)	(679)	(705)
Depreciation		(1,858)	(1,759)	(613)	(563)
Minimum operating lease rentals		(695)	(1,156)	(196)	(418)
Other operating expenses		(3,866)	(5,203)	(1,386)	(1,170)
Loss from operations		(7,248)	(9,661)	(2,422)	(2,491)
Share of result of an associate		694	(144)	474	(151)
Loss before taxation		(6,554)	(9,805)	(1,948)	(2,642)
Representing:					
Loss – Continuing operation		(6,554)	(9,805)	(1,948)	(2,642)
Profit – Discontinued operation		–	–	–	–
Taxation	4	–	446	–	148
Loss after taxation		(6,554)	(9,359)	(1,948)	(2,494)
Minority interests		1,725	1,560	806	485
Loss attributable to shareholders		(4,829)	(7,799)	(1,142)	(2,009)
Basic loss per share (in HK cent)	5	(0.72)	(1.21)	(0.17)	(0.31)



Notes:

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 results presented above have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong, Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Institute of Certified Public 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 results presented above are consistent with those used in the Group's annual financial statements for the year ended 31 March 2004.

(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 results presented above include the Group's share of results of an associate for the period, and the 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 – conform with SSAP12 (revised)

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

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. TAXATION

The taxation credit comprises:

	Nine-month period ended 31 December		Three-month period ended 31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Write back of current taxation				
– an associate	–	–	–	2
Deferred taxation				
– a subsidiary	–	446	–	146
	<u>–</u>	<u>446</u>	<u>–</u>	<u>148</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 and associate operating in the PRC did not generate any profits assessable to the PRC enterprise income tax ("EIT") during the periods.

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.

5. LOSS PER SHARE

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

	Nine-month period ended 31 December		Three-month period ended 31 December	
	2004	2003	2004	2003
Loss for the periods used in the calculation of basic loss per share (in HK\$'000)	<u>4,829</u>	<u>7,799</u>	<u>1,142</u>	<u>2,009</u>
Weighted average number of shares in issue, used for the purpose of calculation of basic loss per share (shares)	<u>668,195,858</u>	<u>644,012,000</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.

6. 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	-	-	-	-	-	(7,799)	(7,799)
At 31 December 2003	<u>6,444</u>	<u>35,292</u>	<u>1,093</u>	<u>10,754</u>	<u>63</u>	<u>(26,372)</u>	<u>27,274</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	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	(4,829)	(4,829)
At 31 December 2004	<u>6,682</u>	<u>37,426</u>	<u>1,093</u>	<u>10,754</u>	<u>63</u>	<u>(35,367)</u>	<u>20,651</u>

7. INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the nine-month period ended 31 December 2004. (2003:Nil)

BUSINESS REVIEW

Operation review

The business of the Group continued to grow steadily during the period. The Group recorded a turnover of approximately HKD3,478,000 for the nine-month period ended 31 December 2004, showing an approximately 60% decrease as compared to the corresponding period in the last financial year.

The loss attributable to shareholders decreased to approximately HKD4,829,000 for the period under review, showing an improvement of approximately 38% as compared to the corresponding period in the last financial year. The improvement was mainly due to effective cost control and expanding sources of revenue.

Payment business

Transaction volume conducted through IPS (the payment platform developed by the Group) showed an encouraging results for the period under review. The Group will continue to enhance the value-added services of its payment business. The Directors are confident that the payment business will continue to grow steadily and remain as the focus of the Group.

Other businesses

System integration business also contributed to the Group's performance for the period under review. With the centralised sales and marketing activities, the synergy between payment business and system integration business showed the effect.

Prospects

As the sentiment of the overall economy recovers, the Directors are confident that the financial performance of the Group will continue to improve.

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

As at 31 December 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	Total underlying interests in equity of associated corporation	Aggregate interests	% 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 nine-month ended 31 December 2004, there was no debt securities nor debentures issued by the Group at any time during the period.

Save as disclosed above, as at 31 December 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 31 December 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 31 December 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 (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	32.89%
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	5.50%

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 31 December 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 31 December 2004
					Outstanding as at 1 April 2004	Granted during the year	Exercised during the year	Lapsed during the year	
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 31 December 2004
					Outstanding as at 1 April 2004	Granted during the year	Exercised during the year	Lapsed during the year	
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 nine-month period ended 31 December 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 31 December 2004
					Outstanding as at 1 April 2004	Exercised during the period	Lapsed during the period	
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
					<u>8,390,000</u>	<u>–</u>	<u>–</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 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 nine-month period ended 31 December 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. Lau Tak On. Mr. Meng Li Hui is the chairman of the audit committee.

The Group's unaudited condensed consolidated financial reports for the nine-month period ended 31 December 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 nine-month period ended 31 December 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, 2 February 2005