



**TECHNOLOGIES**  
**UNIVERSAL**

Universal Technologies Holdings Limited  
*(Incorporated in the Cayman Islands with limited liability)*  
Stock code: 8091

*INTERIM REPORT*

2006

## **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.

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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 June 2006 amounted to approximately HK\$15.68 million (2005: HK\$2.30 million), representing an increase of approximately 5.8 times over the corresponding period in the last financial year.
- Net profits attributable to shareholders of the Company for the six-month period ended 30 June 2006 amounted to approximately HK\$1.22 million (2005: loss of approximately HK\$6.37 million).
- Basic earnings per share for the six-month period ended 30 June 2006 amounted to approximately HK0.17 cent (2005: loss of approximately HK0.95 cent).
- The Board does not recommend payment of any dividend for the six-month period ended 30 June 2006 (2005: Nil).



The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated financial profits of the Company and its subsidiaries (together, the "Group") for the three-month and six-month periods ended 30 June 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the six-month period ended 30 June 2006 HK\$'000	For the six-month period ended 30 June 2005 HK\$'000	For the three-month period ended 30 June 2006 HK\$'000	For the three-month period ended 30 June 2005 HK\$'000
Turnover	2	15,680	2,297	8,686	732
Other revenue	2	365	(168)	204	2
		<b>16,045</b>	2,129	<b>8,890</b>	734
Cost of sales		(5,238)	(1,068)	(2,287)	(193)
Staff costs		(2,080)	(1,437)	(1,066)	(777)
Depreciation		(424)	(1,033)	(264)	(626)
Amortisation of prepaid lease premium		–	(478)	–	–
Minimum operating lease rentals		(703)	(809)	(413)	(259)
Bad debts written off		–	(151)	–	–
Other operating expenses		(6,273)	(4,221)	(1,800)	(2,080)
Profits/(loss) from operations	3	1,327	(7,068)	3,060	(3,201)
Finance costs		(104)	(151)	(16)	(46)
Amortisation of goodwill		–	(462)	–	–
Loss on disposal of fixed assets		(5)	(19)	(5)	(19)
Share of result of an associate		–	2,002	–	831
Profits/(loss) before taxation		1,218	(5,698)	3,039	(2,435)
Income tax expense	5	–	(1,418)	–	–
Profits/(loss) for the period		1,218	(7,116)	3,039	(2,435)
Attributable to:					
Shareholders of the Company		1,218	(6,368)	3,039	(2,137)
Minority interests		–	(748)	–	(298)
		1,218	(7,116)	3,039	(2,435)
Basic earnings/(loss) per share (in HK cent)	6	0.17	(0.95)	0.41	(0.32)



**CONDENSED CONSOLIDATED BALANCE SHEET**

		(Unaudited) As at 30 June 2006 HK\$'000	(Audited) As at 31 December 2005 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	8	2,616	2,896
Goodwill	9	43,050	43,050
		<u>45,666</u>	<u>45,946</u>
CURRENT ASSETS			
Inventories		3,915	77
Amounts due from related companies	10	612	612
Debtors	11	2,829	3,286
Deposits, prepayments and other receivables		3,976	5,603
Pledged time deposits		207	204
Cash and bank balances		38,326	21,765
		<u>49,865</u>	<u>31,547</u>
DEDUCT:			
CURRENT LIABILITIES			
Deposits received, sundry creditors and accruals		27,804	23,344
Other payables		8,038	8,038
Tax payable		1,173	817
		<u>37,015</u>	<u>32,199</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>12,850</u>	(652)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>58,516</u>	45,294
DEDUCTS:			
NON-CURRENT LIABILITIES			
Convertible bonds	12	5,762	9,566
Other payables		25,616	25,616
		<u>31,378</u>	<u>35,182</u>
NET ASSETS		<u>27,138</u>	10,112
REPRESENTING:			
CAPITAL AND RESERVES			
Share Capital		7,772	6,682
Reserves		19,366	3,430
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		27,138	10,112
MINORITY INTERESTS		-	-
TOTAL EQUITY		<u>27,138</u>	<u>10,112</u>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

	<b>For the six-month period ended 30 June 2006 HK\$'000</b>	For the six-month period ended 30 June 2005 HK\$'000
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	<b>4,635</b>	(1,405)
NET CASH USED IN INVESTING ACTIVITIES	<b>(149)</b>	(416)
NET CASH FROM FINANCING ACTIVITIES	<b>12,075</b>	6,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>16,561</b>	4,179
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<b>21,765</b>	1,497
CASH AND CASH EQUIVALENTS AT 30 JUNE	<b>38,326</b>	5,676
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>38,326</b>	5,676

**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	Share options reserve HK\$'000	Convertible bonds reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	6,682	37,426	1,093	10,754	63	-	-	(34,059)	21,959
Exchange differences arising on translation of financial statements of subsidiaries established in the PRC	-	-	-	-	(3)	-	-	-	(3)
Loss for the period	-	-	-	-	-	-	-	(6,368)	(6,368)
At 30 June 2005	6,682	37,426	1,093	10,754	60	-	-	(40,427)	15,588
At 1 January 2006	6,682	37,426	1,093	10,754	128	1,122	668	(47,761)	10,112
Issue of new shares	690	11,385	-	-	-	-	-	-	12,075
Conversion of convertible bonds	400	3,600	-	-	-	-	(267)	-	3,733
Profits for the period	-	-	-	-	-	-	-	1,218	1,218
At 30 June 2006	7,772	52,411	1,093	10,754	128	1,122	401	(46,543)	27,138



## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*For the six-month period ended 30 June 2006*

### **1. GENERAL INFORMATION AND BASIS OF PREPARATION**

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 principal place of business is Unit 231-233, Building 2, Phase I, No. 1 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong. The shares of the Company were listed on GEM on 26 October 2001.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and are prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

During the period, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives of preceding financial year have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investment in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations



The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33 and 37 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 33 and 37 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from fixed assets to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights was accounted for at fair value or cost less aggregate depreciation and aggregate impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. Accordingly, a compound financial instrument (that contains both financial liability and equity components) should be separated into liability and equity components. The liability component is carried at amortised cost using the effective interest method. Prior to the adoption of HKAS 32, convertible bonds were classified as liabilities at their inception amounts on the balance sheet. The comparative figures had not been restated as this is prohibited by the transitional arrangement in HKAS 39.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 March 2005, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 April 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 March 2005, goodwill was:

- Amortised on a straight-line basis over a period of 5 years; and
- Assessed for an indication of impairment at each balance sheet date.





In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 April 2005;
- Accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and
- From the period ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The principal accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2005.

## 2. TURNOVER AND REVENUE

The Group is principally engaged in investment holding, provision of online and mobile payment and related services, trading, system integration and related technical support services. Turnover for the period represents revenue recognised from the provision of online payment handling income net of business tax, net invoiced amount from trading, system integration and the related consultancy services at net invoice amount. An analysis of the Group's turnover and other revenue is set out below:

	<b>For the six-month period ended 30 June 2006 HK\$'000</b>	For the six-month period ended 30 June 2005 HK\$'000	<b>For the three-month period ended 30 June 2006 HK\$'000</b>	For the three-month period ended 30 June 2005 HK\$'000
Online and mobile payment and related services income	10,125	-	6,314	-
Trading	4,716	-	2,271	-
System integration and related technical support services	<u>839</u>	2,297	<u>101</u>	732
Turnover	<b>15,680</b>	2,297	<b>8,686</b>	732
Interest on bank deposits	105	-	67	-
Others	<u>260</u>	(168)	<u>137</u>	2
Total revenue	<b><u>16,045</u></b>	2,129	<b><u>8,890</u></b>	734



### 3. PROFITS/(LOSS) FROM OPERATIONS

	Six-month period ended 30 June		Three-month period ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profits/(loss) from operations are stated after charging:–				
Cost of sales	5,238	1,068	2,287	193
Depreciation	424	1,033	264	626
Minimum operating lease rentals				
– Land and buildings	703	809	413	259

### 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:

**(a) Payment enterprise solutions**

Provision of payment enterprise solutions and ongoing technical support services.

**(b) System integration and trading**

Provision of system integration, trading and related technical support services.

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

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



**(a) Business segments**

	Payment enterprise solutions		System integration and trading		Others		Inter- segment elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
Revenue from external customers	10,143	-	5,537	2,297	-	-	-	-	15,680	2,297
Other revenue	181	-	184	-	-	(168)	-	-	365	(168)
Total revenue	10,324	-	5,721	2,297	-	(168)	-	-	16,045	2,129
Segment results	1,057	-	161	(7,700)	-	-	-	-	1,218	(7,700)
Share of result of an associate	-	2,002	-	-	-	-	-	-	-	2,002
Profits/(loss) before taxation									1,218	(5,698)
Taxation									-	(1,418)
Profits/(loss) after taxation									1,218	(7,116)
Minority interests									-	748
Profits/(loss) attributable to shareholders									1,218	(6,368)

**(b) Geographical segments**

	People's Republic of China (the "PRC")		Hong Kong		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	9,609	-	6,071	2,297	15,680	2,297



## 5. INCOME TAX EXPENSE

- (a) No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the period. The Company's subsidiaries operating in the PRC are subject to Mainland China enterprise income tax at a rate of 33%.
- (b) The tax expense represents the sum of the current tax and deferred tax and is made up as follows:

	<b>For the six-month period ended 30 June 2006 HK\$'000</b>	For the six-month period ended 30 June 2005 HK\$'000	<b>For the three-month period ended 30 June 2006 HK\$'000</b>	For the three-month period ended 30 June 2005 HK\$'000
Current tax:				
Overseas taxation	-	-	-	-
Deferred taxation:				
Current period	-	1,418	-	-
	<u>-</u>	<u>1,418</u>	<u>-</u>	<u>-</u>

## 6. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the periods is based on the following data:-

	<b>Six-month period ended 30 June 2006</b>		<b>Three-month period ended 30 June 2006</b>	
	2006	2005	2006	2005
Earnings/(loss) for the periods used in the calculation of basic earnings/(loss) per share (in HK\$'000)	<u>1,218</u>	<u>(6,368)</u>	<u>3,039</u>	<u>(2,137)</u>
Weighted average number of shares in issue, used for the purpose of calculation of basic earnings/(loss) per share (shares)	<u>721,790,018</u>	<u>668,198,858</u>	<u>737,638,418</u>	<u>668,198,858</u>

No diluted earnings/(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 earnings/(loss) per share.

## 7. INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six-month period ended 30 June 2006. (2005: Nil).



## 8. FIXED ASSETS

	Leasehold improvement <i>HK\$'000</i>	Office equipment, computer and other equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:-					
At 1 January 2006	276	3,051	222	1,637	5,186
Additions	-	46	104	-	150
Disposals	-	(8)	-	-	(8)
	<u>276</u>	<u>3,089</u>	<u>326</u>	<u>1,637</u>	<u>5,328</u>
At 30 June 2006					
Accumulated depreciation:-					
At 1 January 2006	78	1,594	101	517	2,290
Charge for the period	27	258	19	120	424
Written back on disposal	-	(2)	-	-	(2)
	<u>105</u>	<u>1,850</u>	<u>120</u>	<u>637</u>	<u>2,712</u>
At 30 June 2006					
Net book value:-					
At 30 June 2006	<u>171</u>	<u>1,239</u>	<u>206</u>	<u>1,000</u>	<u>2,616</u>
At 31 December 2005	<u>198</u>	<u>1,457</u>	<u>121</u>	<u>1,120</u>	<u>2,896</u>

## 9. GOODWILL

	At 30 June 2006 <i>HK\$'000</i>	At 31 December 2005 <i>HK\$'000</i>
At cost	43,050	43,050
Accumulated amortisation	-	-
	<u>43,050</u>	<u>43,050</u>



#### 10. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies are interest-free, unsecured and repayable on demand.

#### 11. 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:-

	<b>At 30 June 2006 HK\$'000</b>	At 31 December 2005 HK\$'000
0 – 6 months	<b>2,829</b>	3,286
7 – 12 months	–	–
	<b><u>2,829</u></b>	<b><u>3,286</u></b>

#### 12. CONVERTIBLE BONDS

On 24 June 2004, the Company and a subscriber entered into a subscription agreement in relation to the subscription of the convertible bond in the principal amount of HK\$4,000,000. The convertible bond is unlisted, interest bearing at the rate of 3.5% per annum and with maturity on 28 June 2007. The interest is payable on the first business day following each anniversary date of the issue date of the bond.

The subscriber may convert the whole or any part of the principal amount of the bond into new shares of the Company at a conversion price of HK\$0.10 per share, subject to adjustment in the event of share consolidation, sub-division and capital reorganisation, during the period from 29 June 2005 to 28 June 2007 in multiples of HK\$1,000,000 on each conversion. The Company may at any time early redeem the outstanding principal amount of the bond prior to the maturity date. If the Company redeems the whole or any part of the bond before the maturity date, the subscriber shall be entitled to an additional interest, at the rate of 10% per annum, in respect of such part or the whole of the principal amount redeemed before the maturity date.

On 1 March 2005, the Company and two subscribers entered into subscription agreements in relation to the subscription of the convertible bonds in the principal amount of HK\$4,000,000 and HK\$2,000,000 respectively and convertible bonds in the principal amount of HK\$4,000,000 was converted to 40,000,000 ordinary shares of the Company on 30 June 2006. The convertible bonds are unlisted, interest bearing at the rate of 3.5% per annum and with maturity on three years from the date of issue. The interest is payable on the first business day following each anniversary date of the issue date of the bonds.



The subscribers may convert the whole or any part of the principal amount of the bonds into new shares of the Company at a conversion price of HK\$0.10 per share, subject to adjustment in the event of share consolidation, sub-division and capital reorganisation, during the three years, in multiples of HK\$1,000,000 on each conversion. The Company may at any time early redeem the outstanding principal amount of the bonds prior to the maturity date. If the Company redeems the whole or any part of the bonds before the maturity date, the subscribers shall be entitled to an additional interest, at the rate of 10% per annum, in respect of such part or the whole of the principal amount redeemed before the maturity date.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves net of deferred income taxes.

The convertible bonds recognised in the balance sheet is calculated as follows:-

	<b>The Group</b>	
	<b>At</b>	<b>At</b>
	<b>30 June 2006</b>	<b>31 December 2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Face value of convertible bonds	<b>6,000</b>	10,000
Equity component	<b>(401)</b>	(668)
Liability component on initial recognition	<b>5,599</b>	9,332
Interest expense	<b>431</b>	619
Interest payable	<b>(268)</b>	(385)
Liability component	<b>5,762</b>	9,566

The fair value of the liability component of the convertible bonds at 30 June 2006 amounted to HK\$5,762,000. As there was no public market interest rate offered to the Company at the respective dates of issuance of the bonds, the directors estimated that the prime rate plus one per cent as the Company's borrowing rate. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 6%.

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 6% to the liability component.

### 13. CAPITAL COMMITMENTS

As at 30 June 2006, the Group had no capital commitments.



## **BUSINESS REVIEW AND PROSPECTS**

### **Business Review**

In the past six months, the Group made full use of its existing resources and aggressively explored and diversified its business base in response to the market demand. Development had been made to both major business and other value-added business:

#### *1. Payment Business*

##### **1. Payment Gateway Business**

For the six-month period ended 30 June 2006, growth momentum sustained with the payment gateway business. The number and volume of transactions increased as compared with those of the same period last year. The number of transaction in this period was nearly 2.2 times of that in the same period last year and attained nearly 50,000 transactions daily. Merchant contract renewal rate and the number of new merchants reached a new record.

During the six-month period, the payment gateway system was upgraded to IPS 3.0, which provided merchants with an user-friendly interface so that it is more convenient for merchants to use.

##### **2. Online Account System (“e-Wallet”)**

During the six-month period, the online account system, so-called “e-Wallet”, had been developed as scheduled. The membership base of the Group was widen at a fast pace. With consent of members, strategic alliances were established to share member sources with existing merchants. The number of members further increased during the period.

Meanwhile, capital raised during this period and part of the revenue were used in the development of e-Wallet. The result was astonishing and the account had been designed as a customized product. The customers experience in online account system was collected. The functions of e-Wallet was diversified and positive feedback from users was received.

##### **3. MYIPS**

MYIPS, as an interactive platform for merchants and members, continued to serve the purpose of promoting products and merchants. Through a large number of printed magazines and e-magazines, MYIPS worked well as an excellent communication channel between users and merchants.

##### **4. Market Promotion and Advertisement**

During the period, the Company speed-up its brand and product promotions. In the “Universal IPS Cup” China E-Commerce Competition jointly organised by the Company and the Labour and Social Protection Bureau of the PRC Government, several exhibitions and forums was held and the Group promoted its brand name to the public simultaneously. The Company started to penetrate into the mass media as a promotion channel. The Company built up a good brand reputation and product identity in the public.





5. Opening of Beijing Branch

To better serve our merchants and better explore the Northern China, the Group opened a branch in Beijing this quarter.

With a wide spectrum operations, the Company performed well in managing customer relationship and introducing products. Synergy was observed for the Group's 4-location operation.

2. *System integration and other businesses*

Confronted with the keen market competition, the development of system integration business remained stable.

However, other businesses of the Group boomed. During the six-month period, the Group had access to overseas resources, e.g. business information from Indonesia. The Group succeeded in grasping the business opportunity promptly and made profitable businesses as a result.

**Prospects**

During the six-month period, the online payment business developed with satisfactory result. The Group will put more effort in developing payment gateway business. The Directors believe that it will be even much better in the future. Taken the likelihood of changes in the market structure of payment industry into account, it is of much importance for the Directors to make cautious judgments on the business.

It's worth mentioning that the Group made active exploration into other businesses during the period. The Group performance turned from loss to profits in this quarter. The Group may explore new business, other than payment gateway business to upkeep its future positive cash generating power. Further efforts will be made by the Directors and its employees. Together with the understanding of market, a healthy growth of the Group is expected in the future.

The Directors believe that, the Group, after collecting abundant market information and through adopting dynamic development strategy, is bound to make decisions in response to market demands. The Group, with the efficiency and competency of its employees, will have a much prosperous future.

**LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

**Liquidity and financial resources**

As at 30 June 2006, the Group had net current assets of approximately HK\$12.85 million. Current assets comprised inventories of approximately HK\$3.92 million, debtors of approximately HK\$2.83 million, deposits, prepayments and other receivables of approximately HK\$3.98 million, amount due from a related company of approximately HK\$0.61 million and cash and bank balances of approximately HK\$38.33 million. Current liabilities comprised deposits received, other creditors and accruals of approximately HK\$27.80 million.



The gearing ratio of the Group was 0.21 as at 30 June 2006. The calculation is based on the Group's interest bearing debt over the total equity as at 30 June 2006.

The Directors consider that the Group has sufficient cash to cope with its daily operations in the foreseeable future.

#### **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 June 2006, the total number of employees of the Group was 93 (31 December 2005: 81), representing a 15% increase as compared with that as at 31 December 2005. The dedication and contribution of the Group's staff during the six-month period ended 30 June 2006 are greatly appreciated and recognised.

Employees (including full-time directors) 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**

Time deposits in two banks totaling HK\$207,000 as at 30 June 2006 (31 December 2005: HK\$204,000) had been pledged to two banks to secure the bank guarantees granted to a subsidiary in its ordinary operation.

#### **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 June 2006.



### **EXCHANGE RISK**

The Group's operation were mainly transacted in Hong Kong dollars, United States dollars and Renminbi and significant portions of the Group's net assets were denominated in Hong Kong dollars, United States dollars and Renminbi. Apart from a slight appreciation in Renminbi during the period, the exchange rate between the Hong Kong dollars (the reporting currency) and these currencies was stable. The exposure of the Group's risk from exchange rate fluctuation was minimal. The Board will, however, continue to monitor the exposure of exchange risk closely and will engage in appropriate hedging activities, if required.

### **CONTINGENT LIABILITIES**

The Directors considered that the Group had no contingent liabilities as at 30 June 2006.

### **ISSUE OF NEW SHARES**

On 10 February 2006, the Company has issued under the general mandate a total of 69,000,000 new shares to 3 subscribers at a price of HK\$0.175 per share. Proceeds of approximately HK\$12 million was being raised. Approximately RMB9,000,000 was being apply for the increase of registered capital of IPS and remaining balance for general working capital of the Group.

### **CONVERSION OF CONVERTIBLE BOND**

Convertible bond in the principal amounts of HK\$4,000,000 was converted to 40,000,000 ordinary shares of the Company during the period under reviewed.

### **EVENTS SUBSEQUENT TO BALANCE SHEET DATE**

Madam Luan Yumin was appointed as an executive director of the Company, Madam Zhou Zhiyun was appointed as a non-executive director of the Company and Mr. Fong Heung Sang was appointed as an independent non-executive director, audit committee member and remuneration committee member of the Company, with effect from 1 July 2006.

Mr. Wong Wai Man resigned as an independent non-executive director, audit committee member and remuneration committee member of the Company and Mr. Zhang Wen Bing resigned as a non-executive director of the Company with effect from 2 July 2006.

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

As at 30 June 2006, the interests or short positions of the directors and chief executives or their associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO") which (i) are required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register



required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules, were as follows:

Name of Director	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				
<b>Executive Directors:</b>							
Mr. Lau Sik Suen	4,200,000	-	-	4,200,000	13,340,000	17,540,000	2.26%
Mr. Liu Rui Sheng	-	-	-	-	-	-	-
<b>Non-executive Director:</b>							
Mr. Zhang Wen Bing (Note 2)	-	-	130,000,000	130,000,000	-	130,000,000	16.73%
<b>Independent Non-executive Directors:</b>							
Mr. Wan Xie Qiu	-	-	-	-	-	-	-
Mr. Meng Li Hui	-	-	-	-	-	-	-
Mr. Wong Wai Man	-	-	-	-	-	-	-

**Notes:**

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

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

2. The corporate interests of Mr. Zhang Wen Bing in the ordinary shares of the Company are held by East Concord International Limited ("East Concord"). The entire issued share capital of East Concord is wholly and beneficially owned by Mr. Zhang Wen Bing. Mr. Zhang Wen Bing is therefore deemed to be interested in those shares.
3. There were no debt securities nor debentures issued by the Group at any time during the period ended 30 June 2006.

Save as disclosed above, as at 30 June 2006, 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 Rules 5.48 to 5.67 of the GEM Listing Rules.



The directors confirmed that as at 30 June 2006 and for the period ended 30 June 2006,

- (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 Rules 5.48 to 5.67 of the GEM Listing Rules; and
- (ii) all the directors complied with the required standard of dealings and the Company's code of conduct regarding directors' securities transactions.

***PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING***

So far as is known to any director or chief executive of the Company, as at 30 June 2006, persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group were as follows:

**(a) Long positions in the shares of the Company**

Name of Shareholders	Type of interests	Number of shares	Approximate percentage of interests
World One Investments Limited <i>(Note 1)</i>	Beneficial owner	214,370,000	27.58%
Mr. Lau Yeung Sang <i>(Note 2)</i>	Beneficial owner	214,370,000	27.58%
East Concord <i>(Note 3)</i>	Beneficial owner	130,000,000	16.73%
Anhui Investments Limited <i>(Note 4)</i>	Beneficial owner	67,540,000	8.69%
Link Silver International Limited <i>(Note 5)</i>	Beneficial owner	57,160,000	7.35%
Calico Development Limited <i>(Note 6)</i>	Beneficial owner	106,000,000	13.64%
Mr. Zheng Quan	Beneficial owner	51,500,000	6.63%

Notes:

- (1) World One Investments Limited ("World One") is wholly and beneficially owned by Mr. Lau Yeung Sang.
- (2) Total interests of Mr. Lau Yeung Sang in issued ordinary shares of the Company of 214,370,000 shares were held by World One. Mr. Lau Yeung Sang is deemed to be interested in these ordinary shares held by World One.
- (3) East Concord is wholly and beneficially owned by Mr. Zhang Wen Bing.
- (4) Anhui Investments Limited is equally and beneficially owned by Mr. Zhou Jian Hui and Mr. Chen Jiu Ming.



- (5) Link Silver International Limited is equally and beneficially owned by Mr. Pan Bin Lin and Madam Zou Yun Yu.
- (6) Calico Development Limited is equally and beneficially owned by Mr. Wen Jin Jian and Madam Liu Qi Lan.

**(b) Long positions in underlying shares of equity derivatives of the Company**

Name	Type of interests	Number and description of equity derivatives	Number of underlying shares
Mr. Lau Yeung Sang	Personal	Share option to subscribe for 6,000,000 shares pursuant to the Share Option Scheme	6,000,000

**(c) Short positions in the shares and underlying shares of equity derivatives of the Company**

So far as the directors are aware, save as disclosed herein, no persons have short positions in the shares or underlying shares of equity derivatives of the Company.

**SHARE OPTIONS**

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

**(A) Share Option Scheme**

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

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

The period within which the shares must be taken up under the option must not be more than ten years from the date of grant of the option. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. The



subscription price for shares in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion may determine save that such price shall not be less than the higher of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option.

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 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 June 2006
Initial management shareholders and employees	7 February 2002	Fully vested on 7 February 2002	7 February 2002 to 6 February 2012	HK\$1.300	350,000	-	-	-	350,000
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	150,000	-	-	-	150,000
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 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	1,860,000	-	-	-	1,860,000
Executive director	10 April 2003	10 October 2003 to 10 April 2004 (inclusive)	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK\$0.165	2,000,000	-	-	-	2,000,000



Grantees	Date of grant	Vesting period	Exercise period	Exercise price	Number of share options				
					Outstanding as at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 June 2006
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	6,000,000	-	-	-	6,000,000
Senior management of the Group	29 December 2005	29 December 2005 to 29 June 2006 (inclusive)	Maximum 50%: 29 December 2005 to 28 December 2015 Remaining 50%: 29 June 2006 to 28 December 2015	HK\$0.176	41,720,000	-	-	(3,760,000)	37,960,000
					<u>55,580,000</u>	<u>-</u>	<u>-</u>	<u>(3,760,000)</u>	<u>51,820,000</u>

## (B) Pre-IPO Share Option Schemes

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

### (i) Pre-IPO Share Option Scheme A

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

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

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

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





The grantees of this scheme exercised all options before 1 April 2005 and there was no share option outstanding as at 30 June 2006.

(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 January 2006	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2006
Executive director	17 October 2001	Fully vested on 26 April 2002	26 April 2002 to 25 April 2012	HK\$0.084	7,840,000	-	-	7,840,000

*Notes:*

- (1) The Company received a consideration of HK\$1.00 from each of the grantees of the share option schemes.

As at 30 June 2006, the number of shares in respect of which options had been granted under the share option schemes was 59,660,000, representing approximately 7.68% of the issued share capital of the Company.



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

During the six-month period ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

***COMPETING INTERESTS***

During the period under review, none of the Directors, the substantial shareholders 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.

***PRE-EMPTIVE RIGHTS***

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

***AUDIT COMMITTEE***

The Company has established an audit committee on 12 October 2001 with written terms of reference in compliance with Rule 5.28 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 three independent Non-executive Directors, namely Mr. Meng Li Hui, Mr. Wan Xie Qiu and Mr. Fong Heung Sang. 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 June 2006 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 June 2006, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

By order of the Board  
**Lau Sik Suen**  
*Chairman*

Hong Kong, 7 August 2006

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

*Executive Directors:*

Mr. Lau Sik Suen (*Chairman*)

Mr. Liu Rui Sheng

Madam Luan Yumin

*Independent Non-executive Directors:*

Mr. Meng Li Hui

Mr. Wan Xie Qiu

Mr. Fong Heung Sang

*Non-executive Director:*

Madam Zhou Zhiyun

