



**TECHNOLOGIES**  
**UNIVERSAL**

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

• *Third Quarterly REPORT*  
2006

## **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 nine-month period ended 30 September 2006 amounted to approximately HK\$28.75 million (2005: HK\$3.15 million), representing an increase of approximately 8.13 times over the corresponding period in the last financial year.
- Net profits attributable to shareholders of the Company for the nine-month period ended 30 September 2006 amounted to approximately HK\$4.84 million (2005: loss of approximately HK\$8.37 million).
- Basic earnings per share for the nine-month period ended 30 September 2006 amounted to approximately HK0.65 cent (2005: loss of approximately HK1.25 cents).
- The Board does not recommend payment of any dividend for the nine-month period ended 30 September 2006 (2005: Nil).

**UNAUDITED RESULTS**

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



**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

		<b>For the nine-month period ended 30 September 2006</b>	<b>For the nine-month period ended 30 September 2005</b>	<b>For the three-month period ended 30 September 2006</b>	<b>For the three-month period ended 30 September 2005</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	28,747	3,147	13,067	851
Other revenue	2	542	(156)	177	11
		<b>29,289</b>	2,991	<b>13,244</b>	862
Cost of sales		(9,403)	(1,403)	(4,165)	(335)
Staff costs		(3,052)	(1,867)	(972)	(430)
Depreciation		(639)	(1,648)	(215)	(615)
Amortisation of prepaid lease premium		–	(478)	–	–
Minimum operating lease rentals		(1,224)	(957)	(521)	(148)
Bad debts written off		–	(151)	–	–
Other operating expenses		(9,982)	(4,444)	(3,709)	(223)
Profits/(loss) from operations	3	4,989	(7,957)	3,662	(889)
Finance costs		(145)	(316)	(41)	(165)
Amortisation of goodwill		–	(462)	–	–
Loss on disposal of fixed assets		(5)	(143)	–	(125)
Share of result of an associate		–	962	–	(1,040)
Profits/(loss) before taxation		4,839	(7,916)	3,621	(2,219)
Income tax expense	4	–	(1,418)	–	–
Profits/(loss) for the period		<b>4,839</b>	(9,334)	<b>3,621</b>	(2,219)
Attributable to:					
Shareholders of the Company		4,839	(8,367)	3,621	(1,999)
Minority interests		–	(967)	–	(220)
		<b>4,839</b>	(9,334)	<b>3,621</b>	(2,219)
Basic earnings/(loss) per share (in HK cent)	5	0.65	(1.25)	0.46	(0.30)



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

*For the nine-month period ended 30 September 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 third quarterly 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 nine-month period ended 30 September 2006 HK\$'000</b>	For the nine-month period ended 30 September 2005 HK\$'000	<b>For the three-month period ended 30 September 2006 HK\$'000</b>	For the three-month period ended 30 September 2005 HK\$'000
Online and mobile payment and related services income	18,895	-	8,770	-
Trading	9,013	-	4,297	-
System integration and related technical support services	839	3,147	-	851
	<u>28,747</u>	<u>3,147</u>	<u>13,067</u>	<u>851</u>
Turnover	28,747	3,147	13,067	851
Interest on bank deposits	164	-	59	-
Others	378	(156)	118	11
	<u>29,289</u>	<u>2,991</u>	<u>13,244</u>	<u>862</u>

## 3. PROFITS/(LOSS) FROM OPERATIONS

	<b>Nine-month period ended 30 September 2006 HK\$'000</b>	2005 HK\$'000	<b>Three-month period ended 30 September 2006 HK\$'000</b>	2005 HK\$'000
Profits/(loss) from operations are stated after charging:-				
Cost of sales	9,403	1,403	4,165	335
Depreciation	639	1,648	215	615
Minimum operating lease rentals - Land and buildings	1,224	957	521	148
	<u>11,266</u>	<u>3,998</u>	<u>4,901</u>	<u>1,098</u>



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

#### 5. EARNINGS/(LOSS) PER SHARE

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

	<b>Nine-month period ended 30 September 2006</b>		<b>Three-month period ended 30 September 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>4,839</u>	<u>(8,367)</u>	<u>3,621</u>	<u>(1,999)</u>
Weighted average number of shares in issue, used for the purpose of calculation of basic earnings/(loss) per share (shares)	<u>745,257,466</u>	<u>668,198,858</u>	<u>790,677,119</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.





## 6. CHANGES IN SHAREHOLDER'S EQUITY

	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	-	-	-	-	-	-	-	(8,367)	(8,367)
At 30 September 2005	<u>6,682</u>	<u>37,426</u>	<u>1,093</u>	<u>10,754</u>	<u>60</u>	<u>-</u>	<u>-</u>	<u>(42,426)</u>	<u>13,589</u>
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	800	7,200	-	-	-	-	(534)	-	7,466
Profits for the period	-	-	-	-	-	-	-	4,839	4,839
At 30 September 2006	<u>8,172</u>	<u>56,011</u>	<u>1,093</u>	<u>10,754</u>	<u>128</u>	<u>1,122</u>	<u>134</u>	<u>(42,922)</u>	<u>34,492</u>

## 7. INTERIM DIVIDEND

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



## **BUSINESS AND FINANCIAL REVIEW**

### **BUSINESS REVIEW**

The Group recorded an unaudited turnover of approximately \$13.07 million for the three months ended 30 September 2006, an 50.40% increase from approximately \$8.69 million of the second quarter.

For the nine-month period ended 30 September 2006, online payment business sustained tremendous growth. Monthly transaction volume created record high and the accumulated transaction volume was around 2.5 times of the same period last year. Important break-through has been obtained in development of users in the new business sector. We have successfully signed with China Life Insurance (Group) Company, China Pacific Insurance (Group) Company and Hua Tai Insurance Company after we have been granted license of concurrent – business insurance agency from China Insurance Regulatory Commission. Our online IPS insurance channel was officially launched in this quarter.

During this quarter, the Group devoted much effort to promote our IPS product and brand name. IPS Shanghai was being awarded “The Best Online Payment Platform in China 2006” by China E-commerce Summit Forum and “E-payment Trustworthy Award” by 2006 China E-payment Summit Forum. Moreover, we have co-operated with VISA to jointly organize “The First VISA E-commerce and Online Secure Payment Salon” in order to enhance our influence within the online payment industry.

During this quarter, IPS Shanghai has re-organized its company hierarchy; and business department was sub-divided into operation division, product division, marketing division and sales division. The re-organization resulted in clearly defined job duties and responsibilities, which is fundamental to further business expansion. IPS Shanghai has increased 23 employees during the period, among 80% with a bachelor degree. 5 employees were recruited by Beijing office to propel its operation.

During this quarter, the Group further explores the feasibility of business diversification. Besides online payment, we have actively looking for new business opportunity with high gross profit through the recruitment of new employee and from our valuable business experience. Although we are now in the initial stage of preparation work, we hope the new business will have great contribution to the Group within one to two years.



## **PROSPECTS**

From the aspect of the online payment business, the Group will carry on the sustained profitability and continued growth of the third quarter. The Group will take the following measures to assure future development.

1. To improve the IPS3.0 system, and to strengthen the promotion with marketing strategy in order to enhance the brand name and widen the market coverage of IPS.
2. Further extend the application of online payment in new business sectors. Besides the new business sector in insurance, we will focus on one to two new business sectors which can provide steady revenue growth.
3. To strengthen the co-operation with our strategic partners, we will deliver other means of payment besides online banking card with marketing plan; and realization of the company's strategic transformation from online collection service provider to online payment service provider.

Along with gradually mature of online payment industry, the related government rule and regulation become consummate. The government may probably impose certain restriction on the online payment industry. Meanwhile, besides to ensure our ongoing development on the business, the Group will vigorously gather information concerning the legislation process, so that we can ensure the Group can fulfill the future legal requirement imposed by the government.

Besides online payment business, the Group will supply proper input and re-allocate the existing resources in order to improve revenue generated from other business within this year. The development in other business can disperse the regulation risk of the online payment business and sustain the Group's long term growth.

Due to the increased in the number of staff within this quarter, our Shanghai office becomes crowded. Taking into account that Shanghai will continue to be the Group's operation center and the necessity of a positive marketing image, and it can enhance the Group's trustworthy if the Group can have its own premises. We are now looking for a new office in Shanghai which will conform to the Group long term development strategy and economic value.

The Board believes that the Group will achieve a break-through development in the next quarter as a result of the steady growth of IPS business and the remarkable improvement in other business.



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

As at 30 September 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	2.15%
Mr. Liu Rui Sheng	-	-	-	-	-	-	-
Madam Luan Yumin	-	-	-	-	1,200,000	1,200,000	0.15%
<b>Non-executive Director:</b>							
Mr. Zhang Wen Bing (Note 2)	-	-	130,000,000	130,000,000	-	130,000,000	15.91%
Madam Zhou Zhiyun	-	-	-	-	-	-	-
<b>Independent Non-executive Directors:</b>							
Mr. Wan Xie Qiu	-	-	-	-	-	-	-
Mr. Meng Li Hui	-	-	-	-	-	-	-
Mr. Wong Wai Man	-	-	-	-	-	-	-
Mr. Fong Heung Sang	-	-	-	-	-	-	-



*Notes:*

1. The interests of Mr. Lau Sik Suen and Madam Luan Yumin in underlying shares of the Company represent the interests in share options granted to them 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 September 2006.

Save as disclosed above, as at 30 September 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 September 2006 and for the period ended 30 September 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 September 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	221,340,000	27.09%
Mr. Lau Yeung Sang ( <i>Note 2</i> )	Beneficial owner	221,340,000	27.09%
East Concord ( <i>Note 3</i> )	Beneficial owner	130,000,000	15.91%
Calico Development Limited ( <i>Note 4</i> )	Beneficial owner	106,000,000	12.97%
Anhui Investments Limited ( <i>Note 5</i> )	Beneficial owner	67,540,000	8.26%
Link Silver International Limited ( <i>Note 6</i> )	Beneficial owner	57,160,000	6.99%
Mr. Zheng Quan	Beneficial owner	51,500,000	6.30%

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 221,340,000 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) Calico Development Limited is equally and beneficially owned by Mr. Wen Jin Jian and Madam Liu Qi Lan.
- (5) Anhui Investments Limited is equally and beneficially owned by Mr. Zhou Jian Hui and Mr. Chen Jiu Ming.
- (6) Link Silver International Limited is equally and beneficially owned by Mr. Pan Bin Lin and Madam Zou Yun Yu.

(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 September 2006
Initial management shareholders, executive director 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	-	-	(80,000)	70,000
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, executive director 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	-	-	(150,000)	1,710,000
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
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	-	-	(8,720,000)	33,000,000
					55,580,000	-	-	(8,950,000)	46,630,000





**(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 (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 September 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 September 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 September 2006, the number of shares in respect of which options had been granted under the share option schemes was 54,470,000, representing approximately 6.67% of the issued share capital of the Company.

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

During the nine-month period ended 30 September 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 results for the nine-month period ended 30 September 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 nine-month period ended 30 September 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, 13 November 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

