



**Jian ePayment Systems Limited**

**華普智通系統有限公司**

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



**FIRST QUARTERLY REPORT 2003**

## **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 Jian ePayment Systems Limited (the “Company”) collectively and individually accept responsibility includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Turnover for the three months ended 31 March 2003 was approximately RMB1,613,000, representing a decrease of approximately 82% as compared to that for the corresponding period in 2002.
- Loss attributable to shareholders amounted to approximately RMB3,121,000 for the three months ended 31 March 2003.
- Basic losses per share amounted to RMB0.008 for the three months ended 31 March 2003.

## RESULTS

The Board of Directors (the "Board") of Jian ePayment Systems Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2003 and the comparative figures for the corresponding period in 2002.

		<b>For the three months ended 31 March</b>	
		<b>2003</b>	<b>2002</b>
	<i>Notes</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Turnover and revenue	3	1,613	8,824
Cost of sales		(664)	(930)
Gross profit		949	7,894
Distribution expenses		(553)	(424)
Research and development costs		(634)	(262)
General and administration expenses		(3,912)	(2,884)
(Loss)/profit from operations		(4,150)	4,324
Subsidy income		1,416	410
Interest income		4	15
Interest expense		(391)	(140)
(Loss)/profit before taxation		(3,121)	4,609
Taxation	4	–	–
(Loss)/profit after taxation but before minority interests		(3,121)	4,609
Minority interests		–	(57)
(Loss)/profit attributable to shareholders		<u>(3,121)</u>	<u>4,552</u>
(Losses)/earnings per share – basic	5	<u>RMB(0.008)</u>	<u>RMB0.011</u>
– diluted		<u>N/A</u>	<u>N/A</u>

## **1. GROUP'S OPERATION AND BASIS OF CONSOLIDATION**

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

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

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

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

## **2. PRINCIPAL ACCOUNTING POLICIES**

The unaudited quarterly financial statements have been prepared on a basis consistent with the accounting policies adopted by the Group in preparation of its financial statements for the year ended 31 December 2002.

The financial statements are prepared on historical cost convention and in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong ("HK GAAP"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

### 3. TURNOVER AND REVENUE

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

Turnover consisted of:

	<b>For the three months ended 31 March</b>	
	<b>2003</b>	<b>2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of hardware and software	1,309	1,290
Provision of systems integration services	–	7,076
Transaction levies	304	458
	<hr/>	<hr/>
	1,613	8,824
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### 4. TAXATION

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

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided for as the Group has no assessable profit arising in or derived from those jurisdictions during the three months ended 31 March 2003 (2002: Nil).

The Group's subsidiary, Zhengzhou Jian-O'Yuan ITS Systems Co., Ltd. ("Jian-O'Yuan"), was incorporated in the PRC as a privately owned limited liability company on 26 April 1999. In July 2001, Jian-O'Yuan obtained the tax registration as an enterprise with foreign investment. Pursuant to the PRC laws of Enterprise Income Tax ("EIT") for Enterprises with Foreign Investment and Foreign Enterprises, as a manufacturing enterprise with foreign investment, Jian-O'Yuan is entitled to full exemption from EIT for two years and a 50% reduction in the next three years. In accordance with the approval document from Zhengzhou State Tax Bureau, Jian-O'Yuan is entitled to the EIT exemption from year 2001 as an enterprise with foreign investment. Jian O'Yuan is fully exempted from EIT in year 2002. No EIT provision was made for Jian-O'Yuan, as it has no assessable profit during the three months ended 31 March 2003.

No EIT provision for the other two subsidiaries incorporated in the PRC, namely Beijing Jian ePayment Science and Technology Co., Ltd. and Wuhan Jian ePayment Science and Technology Co., Ltd. as there had been no assessable profit during the three months ended 31 March 2003.

There was no significant unprovided deferred taxation for the three months ended 31 March 2003 (2002: Nil).

## 5. (LOSSES)/EARNINGS PER SHARE

The calculation of basic (losses) per share for the three months ended 31 March 2003 is based on the (loss) attributable to shareholders of approximately RMB(3,121,000) (2002: profit attributable to shareholder RMB4,552,000) and the weighted average number of 400,000,000 shares (2002: 400,000,000 shares) deemed to be in issue during the period.

No diluted earnings per share for the three months ended 31 March 2003 is presented because the exercise price of the Company's options was higher than the average market price of the Company's shares after the options were granted.

No diluted earnings per share for the three months ended 31 March 2002 is presented as there were no dilutive potential ordinary shares in issue during the three months ended 31 March 2002.

## 6. DIVIDEND

The directors do not recommend the payment of any dividend for the period from 1 January 2003 to 31 March 2003 (2002: Nil).

## 7. RESERVES

	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	General reserve fund <i>RMB'000</i>	Enterprise expansion fund <i>RMB'000</i>	Cumulative translation adjustment <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Consolidated (unaudited)</b>							
Balances, as at							
1 January 2003	1,476	6,304	2,870	1,435	(8)	43,939	56,016
Foreign exchange adjustment	-	-	-	-	1	-	1
(Loss) attributed to shareholders	-	-	-	-	-	(3,121)	(3,121)
	<u>1,476</u>	<u>6,304</u>	<u>2,870</u>	<u>1,435</u>	<u>(7)</u>	<u>40,818</u>	<u>52,896</u>
Balances, as at							
31 March 2003	<u>1,476</u>	<u>6,304</u>	<u>2,870</u>	<u>1,435</u>	<u>(7)</u>	<u>40,818</u>	<u>52,896</u>
Balances, as at							
1 January 2002	1,476	6,304	1,362	681	5	21,865	31,693
Foreign exchange adjustment	-	-	-	-	50	-	50
Profit attributed to shareholders	-	-	-	-	-	4,552	4,552
	<u>1,476</u>	<u>6,304</u>	<u>1,362</u>	<u>681</u>	<u>55</u>	<u>26,417</u>	<u>36,295</u>
Balances, as at							
31 March 2002	<u>1,476</u>	<u>6,304</u>	<u>1,362</u>	<u>681</u>	<u>55</u>	<u>26,417</u>	<u>36,295</u>

## **FINANCIAL REVIEW**

The Group's turnover for the three months ended 31 March 2003 amounted to approximately RMB1,613,000 and its loss attributable to shareholders was approximately RMB3,121,000.

Income for the first quarter of 2003 was mainly generated from the sale of Jian ePayment hardware and software amounting to approximately RMB1,309,000 and transaction levies amounting to approximately RMB304,000. As no new roadside parking fee collection system was established in any city during the first quarter of 2003, there was no income from roadside parking meter and system integration services. In the previous periods, such income was the main source of income for the Group.

The Group incurred a loss for the first quarter of 2003 mainly due to a sharp drop of revenue as compared to the corresponding period last year and the increase in cost such as general and administration expenses resulting from the Group's expansion. According to the business plan set out in the Company's prospectus dated 27 November 2001, it was expected that for the second half year of 2002 and the first half year of 2003, total contracted amount for the construction of roadside car parking fee collection system in Beijing, Guangzhou, Nanchang, and Qingdao would be approximately RMB73,000,000. However, as the business progress of the respective parking project companies, which are the Company's clients, were delayed to a certain extent by slow government planning process, the Group's operating income was affected accordingly. Revenue on the construction of roadside car parking fee collection system in the above four cities totaled approximately RMB20,000,000 up to 31st December, 2002. There has been no sales revenue for the sale of car parking fee collection system software and hardware in the first quarter of 2003. The Group's main focus in the quarter was to establish a complete "One Card Multiple Uses" system in Wuhan and achieve a significant growth in the number of transactions and the amount of transaction levies. However, the progress was slower than expected. Accordingly, income decreased with an increase in expenditure, resulting in a loss for the quarter.

## **BUSINESS DEVELOPMENT**

The Group has consistently aimed to establish Jian ePayment System as the leading electronic payment system in the PRC. This year's objectives were to establish a mature "One Card Multiple Uses" system in Wuhan to bring economies of scale to the number of transactions and amount of levies of the Jian ePayment System, and to launch the multiple applications of the Jian ePayment System in other cities such as Beijing and Haikou based on the experience gained from Wuhan. In the first quarter of 2003, the Group focused on the establishment of "One Card Multiple Uses" system in Wuhan. In addition to applications in roadside parking, supermarkets, pharmaceutical chain stores and convenient stores developed in the previous year, the Group actively explored new applications and successfully launched the Jian ePayment System in public utilities such as parks for trial operation which would be followed by extensive marketing. The channels and methods for applying the Jian ePayment System to large scale chain book stores and other retail outlets were also being explored. In the light of the disadvantages such as scattered points of service, relatively high transaction costs and low economies of scale, the marketing strategy in Wuhan would be adjusted to intensive marketing on streets and in small residential districts. The Group believes that benefits from economies of scale could be realized in the near future.

In the first quarter of 2003, over 3,900 merchant customers in Wuhan have contracted with the Group to adopt Jian Smart Pass readers as a method of payment and over 1,100 sets of such readers for retail and commercial use have been installed.

At the end of last year, the roadside parking fee collection system was in operation in 10 cities. In the first quarter of 2003, the Group focused on the after-sale services and improving the system's performance. Therefore, no new roadside parking fee collection system was established in any city during the quarter and the financial performance of the Group was affected. However, the Group will continue to market its roadside parking fee collection system in other cities. The directors of the Group are actively pursuing to attain the target of increasing the number of cities using the roadside parking fee collection system to 15 in 2003.

Jian Smart Pass automatic vending machines were launched in the market and became the Group's main source of income in the first quarter of 2003. It is anticipated that the number of customers would increase following commencement of operation of the machines.

## **RESEARCH AND DEVELOPMENT**

The Group made sustained efforts in the research and development of commercial applications of the "One Card Multiple Uses" system. The Jian Smart Pass parks fee collection sub-system, school integrated application system and taxi fare collection system developed in the first quarter of 2003 were already in the testing stage. Such systems would substantially complement the marketing of commercial use sub-systems in Wuhan.

With the stable development of the Group's business, the research and development centre also carried out integration and improvement in respect of the existing products in order to meet the demands of various customers and to fully utilize the resources of the Wuhan and Beijing integrated data management systems established in the previous year.

As the development of the PRC IC card payment market has been faster than expected, the Group organized research and development efforts to conduct research on the compatible multiple card system and such work has proceeded to the laboratory testing stage. In line with the development trend of special-shaped cards in the world, the Group has also commenced research on special-shaped Jian Smart Pass such as key holders and personal accessories.

## **SALES AND MARKETING**

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

In the quarter, the Group continued to promote the "One Card Multiple Uses" system in Wuhan and endeavored to extend the application of the system to areas such as parks and integrated management in small residential districts or schools.

Special teams were set up in various places such as Beijing to explore the marketing channels and methods in adopting the "Wuhan model".

As at 31 March, 2003, the circulation number of Jian Smart Pass has reached 420,000, higher than the 400,000 recorded at the end of 2002.



## OUTLOOK

The Group will continue to open up markets for Jian ePayment System in the PRC for continual growth in the number of cities using Jian Smart Pass and expansion in the scope of applications of the Pass in each city, so that the number of cities using the Pass will be increased and the scope of commercial applications will be broadened, finally resulting in significant growth in the number of users, transactions and amount of levies.

Notwithstanding the loss in the first quarter of 2003, the directors of the Group believe that with the solid foundation laid in a number of cities in the PRC and the significant progress achieved in places such as Wuhan, Jian Smart Pass will eventually become a convenient payment card widely owned and used by the people of various cities in the PRC following the increasing popularity of electronic payment, and substantial economic benefits will be realized by the Group with an extended scope of the application of the Pass. However, the performance of the Group in the short term may be adversely affected by the spread of Severe Acute Respiratory Syndrome ("SARS") in the PRC depending on the degree of negative impact of SARS on the overall economic growth in the PRC market.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the three months ended 31 March 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

## DIRECTORS' INTEREST IN SHARES, WARRANTS AND SHARE OPTIONS

As at 31 March 2003, the interests of the directors and chief executive in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI ordinance")), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

- (a) ordinary shares of HK\$0.05 each in the Company

	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Chin Ying Hoi	–	–	286,800,000 shares representing 71.7% of shares then issued (Note)	–	286,800,000

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

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

<b>Name of Director</b>	<b>Date of grant</b>	<b>Exercise price per share</b>	<b>Outstanding number of share under option as at 31 March 2003</b>
Mr. Chin Ying Hoi	31 May 2002	HK\$2.35	2,000,000
Mr. Liu De Fu	31 May 2002	HK\$2.35	700,000
Mr. Guo Yan Hong	31 May 2002	HK\$2.35	400,000
Mr. Li Sui Yang	31 May 2002	HK\$2.35	1,000,000
Ms. Wang Yan	31 May 2002	HK\$2.35	500,000
			4,600,000

Save as disclosed above, the Company has no notice of any interest to be recorded under Section 29 of the SDI Ordinance as at 31 March 2003.

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

## **SHARE OPTION SCHEME**

Pursuant to the share option scheme of the Company adopted on 19 November 2001 (the "Share Option Scheme"), the Company may grant options to the participants of the Share Option Scheme to subscribe for shares of the Company. The participants include any employees (including directors) and certain consultants, suppliers or customers of the Group who, in the sole discretion of the Company's board of directors (the "Board"), have contributed to the Group. The overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Share Option Scheme and other share option schemes must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. Any option granted under the Share Option Scheme may be exercised at any time during a period which shall not be more than ten years after the date on which the option is granted. The subscription price will be determined by the Board and will not be less than the highest of (i) the closing price of the shares quoted on the GEM on the grant date, (ii) the average closing price of the shares quoted on the GEM for the five business days immediately preceding the grant date and (iii) the nominal value of the shares on the grant date.

Details of the share options outstanding as at 31 March 2003 which have been granted under the scheme are as follows:

	Options held at 1 January 2003	Options granted during the period	Options exercised during the period	Options held at 31 March 2003	Exercise Price	Grant Date	Exercisable from	Exercisable until	Closing price of the Company's share before date of grant
Directors	4,600,000	-	-	4,600,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Employees	14,200,000	-	-	14,200,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Consultants, suppliers or customers	13,200,000	-	-	13,200,000	HK\$2.35	31 May 2002	31 May 2002	31 May 2007	HK\$2.35
Consultants, suppliers or customers	<u>3,000,000</u>	-	-	<u>3,000,000</u>	HK\$2.03	16 Aug 2002	16 Aug 2002	16 Aug 2007	HK\$2.025
	<u><u>35,000,000</u></u>			<u><u>35,000,000</u></u>					

None of the above options were exercised, lapsed or cancelled during the three months ended 31 March 2003.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had a beneficial interest of 10 per cent or more in the issued share capital of the Company:

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

Save as disclosed above, the Company has no notice of any interests to be recorded under Section 16(1) of the SDI ordinance as at 31 March 2003.

## COMPETING INTEREST

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

## **SPONSOR'S INTEREST**

Oriental Patron Asia Limited ("Oriental Patron"), its directors, employee or associates (as referred in note 3 of rule 6.35 of the GEM Listing Rules) are interested in 13,200,000 shares of the Company and outstanding options of 3,000,000 underlying shares of nominal value of HK\$0.05 granted on 16 August 2002 at consideration and at an exercise price of HK\$2.03 per share as at 31 March 2003.

Pursuant to an agreement dated 26 November 2001 entered into between the Company and Oriental Patron, Oriental Patron is entitled to receive a fee in respect of the appointment by the Company as sponsor of the Company as required under the GEM Listing Rules for the period from 10 December 2001 to 31 December 2003.

Save as disclosed above, neither Oriental Patron, its directors, employees or associates (as referred in note 3 of Rule 6.35 of the GEM Listing Rules) has any interest in the Group as at 31 March 2003.

## **AUDIT COMMITTEE**

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Zhang Xiao Jing and Ms. Tong Fung. The Group's unaudited consolidated results for the three months ended 31 March 2003 have been reviewed by the audited committee.

By order of the Board  
**Mr. Chin Ying Hoi**  
*Chairman*

Beijing, 13 May 2003