INDEBTEDNESS

Borrowings

As at the close of business on 31st August, 2001, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had unsecured amount due to Mr. Y. S. Lau and Universal Enterprise (HK) Group Limited of approximately HK$20,501,000 and HK$9,986,000 respectively. It is expected that the Group will repay the amount due to Mr. Y. S. Lau after the listing of the Shares on GEM. On 10th October, 2001, the amount due to Universal Enterprise (HK) Group Limited was capitalised by issuing 8,907,926 shares in the capital of UCW to it.

As at the close of business on 31st August, 2001, the Group did not have any banking facilities.

Contingent liabilities

As at 31st August, 2001, the Group and the Company did not have any significant contingent liabilities.

Capital commitments

As at 31st August, 2001, the Group had no outstanding capital commitments in respect of acquisition of property, plant and equipment.

Disclaimers

Save as aforesaid or otherwise disclosed in this prospectus, and apart from intra-group liabilities, the Group did not have outstanding any mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, or hire purchase contracts or any guarantees or other material contingent liabilities outstanding at the close of business on 31st August, 2001.

The Directors have confirmed that, save for the capitalisation of amount due to Universal Enterprise (HK) Group Limited as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the companies comprising the Group since 31st August, 2001.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st August, 2001, the Group had net current assets of approximately HK$14,028,000. Current assets comprised of inventories of approximately HK$490,000, debtors of approximately HK$4,000, deposits, prepayments and other receivables of approximately HK$2,999,000 and cash and bank balances of approximately HK$41,679,000. Current liabilities comprised deposits received, accruals and other payables of approximately HK$399,000, amount due to Mr. Y. S. Lau of approximately HK$20,501,000, amount due to Universal Enterprise (HK) Group Limited of approximately HK$9,986,000 and Mainland China taxes payable of approximately HK$258,000.

Financial resources

Since its inception, the Group has funded its operations through equity fundings, cash from operations and financing from Universal Enterprise (HK) Group Limited.

The Directors expect that the Group will continue to fund its foreseeable expenditures through cash flow from operations and the net proceeds from the Placing.

FINANCIAL INFORMATION

According to Rule 11.11 of the GEM Listing Rules, the latest financial period reported on by the reporting accountants must not have ended more than 6 months before the date of the prospectus. The latest financial period reported on the Accountants' Report set out in Appendix I to this prospectus is for the year ended 31st March, 2001, which is more than six months from the date of this prospectus. The Company has applied for and has been granted a waiver from compliance with Rule 11.11 of the GEM Listing Rules by the Stock Exchange. The Directors have confirmed that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of this prospectus, there has been no material adverse change in the financial position or prospects of the Group since 31st March, 2001 and there is no event which would materially affect the information shown in the Accountants' Report of the Group.

TRADING RECORDS

The following is a summary of the combined results and the pro forma combined results of the Group for the two years ended 31st March, 2001, which are extracted from the Accountants' Report set out in Appendix I to this prospectus and the additional financial information on the Group set out in Appendix II to this prospectus, respectively. The combined results are prepared on the basis of presentation set out in note 1 of the Accountants' Report. The pro forma combined results are prepared on the basis of presentation set out in note 1 of Appendix II to this prospectus.

Combined results

	Year ended 31st March, 2000	Year ended 31st March, 2001
	HK$'000	*HK$'000*
Turnover *(Note 1)*		
Enterprise solutions	521	120
Trading of computer products *(Note 2)*	–	1,191
	521	1,311
Other revenue	5	200
	526	1,511
Cost of computer hardware	(202)	(876)
Staff costs	(1,068)	(1,453)
Goodwill written off	–	(63)
Depreciation	(146)	(89)
Operating lease rental	(319)	(362)
Other operating expenses	(717)	(1,191)
Loss from operations	(1,926)	(2,523)
Profits on Reorganisation	–	497
Profit on disposal of a subsidiary	1,903	–
Operating loss	(23)	(2,026)
Share of results of a former jointly controlled entity *(Note 3)*	(–)	(369)
Loss from ordinary activities before taxation	(23)	(2,395)
Taxation	–	–
Loss for the year	(23)	(2,395)
Minority interests	203	117
Profit/(loss) attributable to shareholders	180	(2,278)
Earnings/(loss) per Share (cents)		
– Basic *(Note 4)*	0.04	(0.51)
– Diluted *(Note 5)*	0.037	N/A

Notes:

1. Turnover represents revenue recognised from the provision of enterprise solutions services and sale of computer products, net of value-added tax and business tax.

2. The trading of computer products has been discontinued during the year ended 31st March, 2001.

3. The former jointly controlled entity was Synenet Limited.

4. The calculation of the basic earnings/(loss) per Share for each of the two years ended 31st March, 2001 is presented here for information purposes only and is based on the profit or loss attributable to shareholders during the respective periods and the assumption that 450,000,000 Shares had been in issue throughout the periods under review.

5. Diluted earnings per Share for the year ended 31st March, 2000 is presented here for information purposes only and is based on the profit attributable to shareholders during the year and the assumption that 481,840,000 Shares had been in issue during the year. The number of Shares used for the calculation comprised 450,000,000 Shares referred to in note 4 above and 31,840,000 Shares to be issued upon exercise in full of the outstanding options granted under the Pre-IPO Share Option Schemes. No diluted loss per Share for the year ended 31st March, 2001 has been presented as the potential Shares to be issued upon exercise of the outstanding options under Pre-IPO Share Option Schemes are anti-dilutive.

Further details about the combined results of the Group are as follows:

Overview

For the year ended 31st March, 2001, the Group commenced deriving revenue from the provision of enterprise solutions with a focus on online payment and logistics and the trading of computer products.

Taxation

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during each of the two years ended 31st March, 2001. The Company's subsidiaries operating in the PRC did not generate any profits assessable to Mainland China enterprise income tax during each of the two years ended 31st March, 2001.

Financial year ended 31st March, 2000

For the year ended 31st March, 2000, the Group recorded a turnover of approximately HK$521,000 representing revenue generated from the provision of Internet enabling solutions to enterprises by LinuxTimes Company Limited, which was then a 71% owned subsidiary of UCW. LinuxTimes Company Limited was sold to independent third parties at HK$3,300,000 and the disposal generated a profit therefrom of approximately HK$1,903,000.

Cost of staff engaged in research and development and in implementing system integration projects are recorded as "staff costs" for the year and are expensed in the period incurred.

Other revenue for the year ended 31st March, 2000 represented interest income from bank deposits.

Other operating expenses mainly included travelling, telephone and telex and building management fee.

The Group recorded a profit attributable to shareholders of approximately HK$180,000.

Financial year ended 31st March, 2001

During the year ended 31st March, 2001, the Group also derived turnover of approximately HK$1,191,000 from the trading of computer products carried out by Webtek Limited which became a member of the Group on 1st April, 2000.

During the year, the Group recorded approximately twofold increase in turnover as compared to the previous year. The increase was principally due to the turnover of approximately HK$1,191,000 derived from the trading of computer products carried on by a subsidiary whose activities ceased after 30th March, 2001 upon disposal of the subsidiary as part of the pre-listing exercise.

Other revenue for the year ended 31st March, 2001 of HK$200,000 comprised of principally interest income from bank deposits of HK$32,000 and management fee received from Synenet Limited of HK$144,000.

Staff costs increased by approximately 36% as compared to the previous financial year, which is principally due to the expansion of operation and increase in the number of staff members recruited. During the year, 12 additional staff members were recruited as compared to 10 staff members being recruited during the preceding year.

Other operating expenses increased by approximately 66% as compared to the previous financial year, which is principally due to the increase in travelling, telephone and telex, entertainment and legal and professional fees as four subsidiaries and one associate was acquired/ established during the year.

Profits on Reorganisation of approximately HK$497,000 were principally resulted from the disposal of Synenet Limited and Jiangxi Universal Online Information & Technology Limited, the operations of which were not related to the core business of the Group. Details of the Reorganisation are described in the section headed “Corporate reorganisation” in Appendix V to this prospectus.

During the year, the Group recorded a loss attributable to shareholders of approximately HK$2,278,000.

Pro forma combined results

	Year ended 31st March, 2000 *HK$'000*	Year ended 31st March, 2001 *HK$'000*
Turnover *(Note 1)*		
Enterprise solutions	–	120
Other revenue	5	190
	5	310
Staff costs	(594)	(1,253)
Depreciation	(1)	(88)
Operating lease rental	(319)	(321)
Other operating expenses	(435)	(977)
Loss from ordinary activities before taxation	(1,344)	(2,329)
Taxation	–	–
Loss for the year	(1,344)	(2,329)
Minority interests	–	50
Loss attributable to shareholders	(1,344)	(2,279)
Loss per Share (cents) *(Note 2)*	(0.30)	(0.51)

Notes:

1. Turnover represents revenue recognised from the provision of enterprise solutions services, net of business tax.

2. The calculation of the basic loss per Share for each of the two years ended 31st March, 2001 is presented here for information purposes only and is based on the loss attributable to shareholders during the respective periods and the assumption that 450,000,000 Shares had been in issue throughout the periods under review.

3. No diluted loss per Share for each of the two years ended 31st March, 2001 has been presented as the potential Shares to be issued upon exercise of the outstanding options under the Pre-IPO Share Option Schemes are anti-dilutive.

Further details about the pro forma combined results of the Group are as follows:

Financial year ended 31st March, 2000

For the year ended 31st March, 2000, the Group did not record any turnover.

Other revenue for the year ended 31st March, 2000 represented interest income from bank deposits. Other operating expenses mainly included travelling, telephone and telex and building management fee.

The Group recorded a loss attributable to shareholders of approximately HK$1,344,000.

Financial year ended 31st March, 2001

For the year ended 31st March, 2001, the Group recorded a turnover of approximately HK$120,000. The turnover was derived from the provision of enterprise solutions with focus on online payment and logistics.

Other revenue for the year ended 31st March, 2001 of HK$190,000 comprised principally interest income from bank deposits of HK$31,000 and management fee received from Synenet Limited of HK$144,000.

During the year, the Group recorded a loss attributable to shareholders of approximately HK$2,279,000, which was principally due to the increase in staff costs and other operating expenses. Staff costs increased approximately 111% as compared to the previous financial year, which was principally due to an increase in number of staff to support expansion in operation. During the period, staff members in the area of marketing, information system, finance and accounting and general administration increased. As at 31st March, 2001, the Group had 36 staff members, representing an increase of approximately 414% from 7 staff members as at 31st March, 2000. Other operating expenses increased by approximately 125% as compared to the previous financial year, which was principally due to the expansion in operation.

Taxation

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during each of the two years ended 31st March, 2001. The Company's subsidiaries operating in the PRC did not generate any profits assessable to Mainland China enterprise income tax during each of the two years ended 31st March, 2001.

DIVIDEND POLICY

The Directors currently do not propose to recommend payment of any dividends for the year ending 31st March, 2002. The amount of any dividends to be declared in future will depend on, inter alia, the Company's results from operations, cash flows and financial condition, operating and capital requirements. The Directors expect that interim and final dividends will be paid in around November and July of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

PROPERTY INTERESTS

At present, the Group leased the following premises in Hong Kong and the PRC from independent third parties.

Address	Type and date of Agreement	Term	Monthly rental	Approximate gross floor area (sq.m.)	Usage
Units 1713-1716 Technology Park No. 18 On Lai Street Shatin New Territories Hong Kong	Tenancy Agreement 15th June, 2001	1st April, 2001 to 31st March, 2003	HK$20,000	354	Office
Units A-G 10th Floor Shenya Plaza No. 895 Yan An Xi Road Shanghai The PRC	Tenancy Agreement 28th March, 2001	1st April, 2001 to 31st March, 2003	Rmb6,000	835.65	Office
Flat 10F Wenyi Ge Zhongshan Plaza No. 977 Hongqiao Road Shanghai The PRC	Tenancy Agreement 16th March, 2001	17th March, 2001 to 16th March, 2002	Rmb5,400	100.5	Staff Quarter

Pursuant to a tenancy agreement ("Tenancy Agreement") dated 28th March, 2001, iPayment China leases certain office premises ("Premises") from Shanghai Gao Yuan Group which has mortgaged the Premises. Since Shanghai Gao Yuan Group has not obtained the prior written consent from the mortgagee in leasing the Premises, Shanghai Gao Yuan Group is in breach of the relevant mortgage contract. By a tenancy agreement dated 30th March, 2001, the Group sub-leased part of the Premises to iLogistics Shanghai ("Sub-Tenancy Agreement"). Details of the Tenancy Agreement and the Sub-Tenancy Agreement are more particularly described in the property valuation report, the text of which is set out in Appendix III of this prospectus.

The Directors have been advised by the Company's PRC legal advisers that the rights of iPayment China and iLogistics Shanghai under the Tenancy Agreement and Sub-Tenancy Agreement respectively are not affected by such breach and that such breach does not itself constitute a ground for realisation of the security by the mortgagee which has no right of action or claim against iPayment China and/or iLogistics Shanghai (including without limitation the right to evict iPayment China and/or iLogistics Shanghai from the Premises) or to realise the security given under the relevant mortgage contract. In addition, the Company's PRC legal advisers have further advised that iPayment China, being the tenant of the mortgaged premises, is entitled to a prior right to purchase the Premises in the event of realisation of security by the mortgagee. In any event, the Directors are of the view that there is an abundant supply of alternative premises in Shanghai which are readily available in case the Group is required to move out of the Premises and that the Group will be able to find alternative premises at no less favourable terms than the current terms under the Tenancy Agreement within 2 to 3 weeks' time.

PROPERTY VALUATION

Greater China Appraisal Limited, an independent property valuation firm, has valued the properties leased by the Group and is of the opinion that such properties have no commercial value as at 31st August, 2001. The text of its letter, summary of valuation and valuation certificate are set out in Appendix III to this prospectus.

DISTRIBUTABLE RESERVES

As at 31st March, 2001, the Company had no reserves available for distribution to the shareholders of the Company as at that date.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the internally generated resources of the Group and the estimated net proceeds from the issue of Shares under the Placing, the Group has sufficient working capital for its present requirements.

FOREIGN EXCHANGE RISK

The Group earns part of its revenue and incurs part of its costs and expenses in Renminbi. This will continue to be the case following the listing of the Shares on GEM. After listing of its shares on GEM, the Company's accounts will be stated in Hong Kong dollars and the payment of dividend will also be in Hong Kong dollars. The Directors believe that having regard to the working capital position of the Group and the convertibility of Renminbi to foreign currency in respect of current account items, the Group is able to meet its foreign exchange liabilities as they become due.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net liabilities of the Group as at 31st March, 2001, as shown in the Accountants' Report set out in Appendix I to this prospectus, adjusted as described below:

	HK$'000
Audited combined net liabilities of the Group as at 31st March, 2001	(1,382)
Capitalisation of amount due to Universal Enterprise (HK) Group Limited	9,984
Unaudited combined loss after taxation of the Group for the five months ended 31st August, 2001, as extracted from the unaudited management accounts	(1,753)
Net proceeds from investors *(Note 1)*	1,354
Estimated net proceeds from the Placing *(Note 2)*	23,800
Adjusted net tangible assets	32,003
Adjusted net tangible asset value per Share *(Note 3)*	5.33 cents

Notes:

1. These investors include Mr. Lim, Mr. Kim Hyung Tae and Mr. Lee Jeong Hoon. They became investors in the Group on 11th June, 2001 by subscribing for 223, 94 and 47 shares in UCW respectively at approximately HK$3,534, HK$4,021 and HK$4,000 per share in UCW. Further details are set out in sub-paragraph (c) of the paragraph headed "Changes in the share capital of subsidiaries" in Appendix V to this prospectus.

2. The calculation of net proceeds of the Placing is based on an Issue Price of HK$0.21 per Share (being the mid-point of the stated price range of the Issue Price) and 150,000,000 Shares to be offered under the Placing but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and options granted under the Pre-IPO Share Option Schemes. If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately HK$4.6 million based on the mid-point of the stated price range of HK$0.21 per share.

3. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 600,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option or any options granted or which may be granted under the Pre-IPO Share Option Schemes and the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the mandates described in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 12th October, 2001" in Appendix V to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Group since 31st March, 2001, being the date to which the latest audited financial statements of the Group were made up.