

NET 1 UEPS TECHNOLOGIES INC  
Form 10-K/A  
May 07, 2004

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K/A**

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER

**000-31203**

**NET 1 UEPS TECHNOLOGIES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**FLORIDA**

(State or Other Jurisdiction of  
Incorporation or Organization)

**65-0903895**

(I.R.S. Employer  
Identification No.)

**325-744 WEST HASTINGS STREET**

**VANCOUVER B.C., CANADA V6C 1A5**

(Address of Principal Executive Offices)(Zip Code)

**(888) 796-2233**

(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Securities Exchange Act of 1934:

Title of Each Class

Name of Each Exchange on Which Registered

**NONE**

**NONE**

Securities registered under Section 12(g) of the Securities Exchange Act of 1934:

**COMMON STOCK, PAR VALUE \$.001 PER SHARE**

(Title of Class)

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Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)

Yes  No

State registrant's revenues for the year ended December 31, 2003: \$41,017

State the aggregate market value of the voting stock held by non-affiliates of the registrant computed by reference to the closing bid price of its Common Stock as reported on the OTC Bulletin Board on March 5, 2004 (\$9.90):  
\$72,589,552

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares outstanding of the registrant's Common Stock, par value \$.001 per share (the "Common Stock"), as of March 5, 2004, was 15,852,856.

DOCUMENTS INCORPORATED BY REFERENCE

Our registration statement on Form S-4 (File No. 333-112463).

THIS ANNUAL REPORT FORM 10-K CONTAINS "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. ALL STATEMENTS, OTHER THAN STATEMENTS OF HISTORICAL FACTS, INCLUDED IN OR INCORPORATED BY REFERENCE INTO THIS FORM 10-K, ARE FORWARD-LOOKING STATEMENTS. IN ADDITION, WHEN USED IN THIS DOCUMENT THE WORDS "ANTICIPATE," "ESTIMATE," "INTENDS," "PROJECT" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS, UNCERTAINTIES AND ASSUMPTIONS. SHOULD ONE OR MORE OF THESE RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE ANTICIPATED, ESTIMATED OR PROJECTED.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Vancouver, B.C., Canada, on May 7, 2004.

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Claude Guerard

Claude Guerard  
Chief Executive Officer, (Principal Executive Officer) and Director

In accordance with the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Serge Belamant</u> Serge Belamant	Non-Executive Chairman	May 7, 2004
<u>/s/ Claude Guerard</u> Claude Guerard	Chief Executive Officer and Director (Principal Executive Officer)	May 7, 2004
<u>/s/ David Anthony</u> David Anthony	Secretary and Treasurer (Principal Financial and Accounting Officer)	May 7, 2004

Financial Statements	
<u>Independent Auditors Report</u>	<u>F1</u>
<u>Balance Sheet</u>	<u>F2</u>
<u>Statements of Operations</u>	<u>F3</u>
<u>Statements of Cash Flows</u>	<u>F4</u>
<u>Statements of Stockholders Equity</u>	<u>F5</u>
<u>Notes to the Financial Statements</u>	<u>F6 F10</u>

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Independent Auditors Report

To the Stockholders and Board of Directors  
of Net 1 UEPS Technologies, Inc.  
(A Development Stage Company)

We have audited the accompanying balance sheets of Net 1 UEPS Technologies, Inc. (A Development Stage Company) as of December 31, 2003 and 2002 and the related statements of operations, shareholders equity and cash flows for the period from May 8, 1997 (Inception) to December 31, 2003 and the years ended December 31, 2003, 2002 and 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Net 1 UEPS Technologies, Inc. (A Development Stage Company), as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the period from May 8, 1997 (Inception) to December 31, 2003 and the years ended December 31, 2003, 2002 and 2001, in conformity with generally accepted accounting principles in the United States.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has not generated any revenues or profitable operations since inception. Although the initial absence of revenues or profitable operations is normal for companies in the development stage, these factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result due to going concern uncertainties.

/s/ "Manning Elliott"

CHARTERED ACCOUNTANTS

Vancouver, Canada

February 18, 2004

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**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Balance Sheets**

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 11,457	\$ 20,054
Due from related party (Note 6(d))	-	91,703
<b>Total Current Assets</b>	<b>11,457</b>	<b>111,757</b>
Property, Plant and Equipment (Note 3)	-	9
Intangible Assets (Note 4)	1,327	2,273
<b>Total Assets</b>	<b>\$ 12,784</b>	<b>\$ 114,039</b>
<b>Liabilities and Stockholders Deficit</b>		
<b>Current Liabilities</b>		
Accounts payable (Note 6(b))	\$ 488,321	\$ 337,503
Accrued liabilities	4,500	10,803
Due to related party (Note 6(e))	36,099	-
<b>Total Current Liabilities</b>	<b>528,920</b>	<b>348,306</b>
<b>Stockholders Deficit</b>		
<b>Share capital</b>		
<b>Authorized</b>		
3,000,000 preferred shares with \$0.10 par value		
100,000,000 common shares with \$0.001 par value		
<b>Issued</b>		
15,852,856 common shares	15,853	15,853
Additional paid-in capital	1,991,519	1,991,519
Deficit accumulated during the development stage	(2,523,508)	(2,241,639)
<b>Total Stockholders Deficit</b>	<b>(516,136)</b>	<b>(234,267)</b>
<b>Total Liabilities and Stockholders Deficit</b>	<b>\$ 12,784</b>	<b>\$ 114,039</b>
(See accompanying notes)		

**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Statements of Operations**

	<b>Years ended December 31,</b>			<b>Accumulation from May 8, 1997 (Inception) to December 31, 2003</b>
	<b>2003</b>	<b>2002</b>	<b>2001</b>	
Revenue from a Related Party (Note 6(d))	\$ 41,017	\$ 157,565	\$ -	\$ 198,582
<b>Expenses</b>				
Amortization	955	1,331	2,396	10,155
Bank charges	1,644	822	2,906	9,325
Consulting (Note 6(a))	186,000	191,000	186,000	1,206,433
Foreign exchange	-	-	-	8,098
Investor relations	-	-	612	61,093
Office, rent and telephone	9,764	6,880	4,514	145,923
Professional fees	125,561	23,929	49,148	497,469
Subcontract (Note 6(c))	-	75,047	356,938	455,972
Transfer agent and regulatory fees	(2,093)	-	378	23,014
Travel	1,076	25,606	74,987	305,496
Less interest income	(21)	(108)	(284)	(888)
<b>Total Expenses</b>	<b>322,886</b>	<b>324,507</b>	<b>677,595</b>	<b>2,722,090</b>
<b>Net Loss</b>	<b>\$ (281,869)</b>	<b>\$ (166,942)</b>	<b>\$ (677,595)</b>	<b>\$ (2,523,508)</b>
<b>Net Loss Per Share</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	
<b>Weighted Average Shares Outstanding</b>	<b>15,853,000</b>	<b>15,853,000</b>	<b>15,853,000</b>	
(Diluted loss per share has not been presented as the result is anti-dilutive)				

(See accompanying notes)

**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Statements of Stockholders' Equity**

	Common Stock		Additional	Deficit	
	Number of	Amount	Paid-in	Accumulated	Total
	Shares		Capital	During	
				the	
				Development	
				Stage	
Initial capitalization (May 8, 1997)					
Stock issued for license to specific technology (Notes 1 & 4)	2,706,122	\$ 2,706	\$ -	\$ -	\$ 2,706
Stock issued to change license to exclusive (Note 1 & 4)	2,364,806	2,365	-	-	2,365
Less cancelled in a subsequent year	(438,694)	(439)	-	-	(439)
Stock issued for cash:					
at \$0.0576 per share	2,600,000	2,600	147,160	-	149,760
at \$6.50 per share	130,500	131	848,119	-	848,250
Net (loss) for the period	-	-	-	(134,729)	(134,729)
Balance - December 31, 1997	7,362,734	7,363	995,279	(134,729)	867,913
Stock issued for stock split net of shares cancelled	3,510,510	3,510	(3,510)	-	-
Net (loss) for the year	-	-	-	(659,002)	(659,002)
Balance - December 31, 1998	10,873,244	10,873	991,769	(793,731)	208,911
Net (loss) for the year	-	-	-	(267,161)	(267,161)
Balance - December 31, 1999	10,873,244	10,873	991,769	(1,060,892)	(58,250)
Stock issued for cash:					
at \$4.00 per share	250,000	250	999,750	-	1,000,000
Stock issued for license (Notes 1 and 4)	4,729,612	4,730	-	-	4,730



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Net (loss) for the year	-	-	-	(336,210)	(336,210)
Balance - December 31, 2000	15,852,856	15,853	1,991,519	(1,397,102)	610,270
Net (loss) for the year	-	-	-	(677,595)	(677,595)
Balance - December 31, 2001	15,852,856	15,853	1,991,519	(2,074,697)	(67,325)
Net (loss) for the year	-	-	-	(166,942)	(166,942)
Balance - December 31, 2002	15,852,856	15,853	1,991,519	(2,241,639)	(234,267)
Net (loss) for the year	-	-	-	(281,869)	(281,869)
Balance - December 31, 2003 (See accompanying notes)	15,852,856	\$ 15,853	\$ 1,991,519	\$ (2,523,508)	\$ (516,136)

**F4**

**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Statements of Cash Flows**

	Years ended December 31,			Accumulation from May 8, 1997 (Inception) to December 31, 2003
	2003	2002	2001	
<b>Cash Flows From Operating Activities</b>				
Net Loss	\$ (281,869)	\$ (166,942)	\$ (677,595)	\$ (2,523,508)
Adjustments to reconcile net loss to cash				
Amortization	955	1,331	2,396	10,155
Changes in non-cash working capital items				
Increase in accounts payable and accrued liabilities	144,515	190,079	(27,125)	492,823
Decrease in prepaid expenses	-	30,000	(30,000)	-
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>(136,399)</b>	<b>(54,468)</b>	<b>(732,324)</b>	<b>(2,020,530)</b>
<b>Cash Flows from Financing Activities</b>				
Proceeds from issuance of common stock	-	-	-	1,998,010
Advances to (from) related party	127,802	(91,703)	-	36,099
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>127,802</b>	<b>(91,703)</b>	<b>-</b>	<b>2,034,109</b>
<b>Cash Flows to Investing Activities</b>				
(Increase) in property, plant and equipment	-	-	-	(2,122)
<b>Net Cash Used in Investing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,122)</b>
<b>Increase (Decrease) in Cash in the Period</b>	<b>(8,597)</b>	<b>(37,235)</b>	<b>(732,324)</b>	<b>11,457</b>
Cash - Beginning of Period	20,054	57,289	789,613	-
Cash - End of Period	\$ 11,457	\$ 20,054	\$ 57,289	\$ 11,457
<b>Non-Cash Financing Activities</b>				

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9,361,846 shares issued for  
a license (Note 4)

\$	-	\$	-	\$	-	\$	9,362
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**Supplementary Disclosure**

Interest paid	\$	-	\$	-	\$	-	\$	-
Income tax paid		-		-		-		-

(See accompanying notes)

**F5**

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**Net 1 UEPS Technologies, Inc.**  
*(A Development Stage Company)*  
*Notes to the Financial Statements*

**1. Development Stage Company**

Net 1 UEPS Technologies, Inc. herein (the Company) was incorporated in the State of Florida on May 8, 1997. The Company is a development stage company engaged in the business of commercializing the smart card technology based Universal Electronic Payment System (UEPS) and Funds Transfer System (FTS) through the development of strategic alliances with national and international bank and card service organizations. The FTS patents were first filed by Serge Belamant and the late Andre Mansvelt in 1989. The patents in South Africa and surrounding territories were subsequently assigned to Net 1 Investment Holdings (Pty) Ltd. or Net 1 (Pty), a company which was acquired by Aplitec in July 2000. The patents in Europe and the United States were assigned to Net 1 Holdings S.a.r.l. or Net 1 Holdings. See Note 4 for a discussion on the FTS European patent being revoked.

The Company entered into a license agreement, dated May 19, 1997 (the License Agreement), with Net 1 Holdings, Net 1 Operations S.a.r.l. and Net 1 Pty (collectively, the Licensors), where the licensors granted a non-exclusive license to the Company for the UEPS technology for the issuance of 5,412,244 shares at a fair market value of \$0.001 per share. On October 1, 1997 an Amendment to the License Agreement was signed that provided for the transfer of the ownership of the UEPS technology and FTS and for the assignment of the Technology License Agreement between VISA International Service Association and Net 1 Holdings, dated July 31, 1997 (the Visa Agreement) to the Company in consideration of 4,729,612 shares. The assignment of the Visa Agreement and the transfer of the ownership of the UEPS technology and FTS patents to the Company were never consummated because certain conditions precedent were never satisfied.

On May 3, 2000 an agreement entitled Patent and Technology Agreement was entered into between the Company and Net 1 Holdings that granted the Company licensing rights in respect of the U.S. and European patents. No conditions precedent were stipulated. The 4,729,612 shares of the Company previously issued into trust in consideration for the Amendment to the License Agreement were thus released to Net 1 Holdings. Effective July 1, 2002, the Company entered into a distribution agreement with Net 1 (Pty), which replaced the previous Outsourcing Agreement. As a condition of this agreement, Net 1 (Pty) received \$50,000 in full settlement of \$154,953 of fees due as at June 30, 2002. The Company wrote off the remaining \$104,953 of the debt as a reduction of subcontract costs in that year.

Net 1 Holdings as at December 31, 2003 owns 8,520,578 common shares of 15,852,856 issued and outstanding common shares, or 53.75%. The Company is a subsidiary of Net 1 Holdings.

In a development stage company, management devotes most of its activities to establishing a new business primarily, the development of a detailed business plan, marketing strategy and the raising of funds required to develop and operate the business successfully. Planned principal activities have not yet produced revenues and the Company has suffered recurring operating losses as is normal in development stage companies. These factors raise doubt about the Company's ability to continue as a going concern. The ability of the Company to emerge from the development stage with respect to its planned principal business activity is dependent upon its successful efforts to raise additional equity financing, receive funding from affiliates and controlling shareholders, and develop a market for its products.

In order to meet expenses over the next twelve months the Company is actively searching for additional equity financing. For fiscal 2003, the Company recorded as revenues \$41,017 from sales of licenses (2002 - \$157,565) in accordance with the Company's revenue recognition policy. For fiscal 2004, the Company will be recording as

revenues and receiving \$18,612 from sales of licenses during 2003, in accordance with the Company's revenue recognition policy.

See Note 5 regarding future financing and related acquisition of Net 1 Applied Technology Holdings Limited.

## **2. Summary of Significant Accounting Policies**

### **(a) Comprehensive Income**

SFAS No. 130, Reporting Comprehensive Income, establishes standards for the reporting and display of comprehensive income and its components in the financial statements. As at October 31, 2002, the Company has no items that represent comprehensive income and, therefore, has not included a schedule of comprehensive income in the financial statements.

**F6**

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**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Notes to the Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

(b) Recent Accounting Pronouncements

FASB has issued SFAS No. 147, 148 and 149 but they will not have any relationship to the operations of the Company therefore a description of each and their respective impact on the Company's operations have not been disclosed.

In May 2003, the FASB issued SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The requirements of SFAS No. 150 apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of non-public entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principal for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

(c) Property, Plant and Equipment

Computer equipment is amortized over five years on a straight-line basis.

(d) Long-Lived Assets

Costs to acquire exclusive license rights to specific technology are considered Long-Lived assets and are capitalized as incurred. These costs are being amortized on a straight line basis over five years. Intangible assets are evaluated in each reporting period to determine if there were events or circumstances which would indicate a possible inability to recover the carrying amount. Such evaluation is based on various analyses including assessing the Company's ability to bring the commercial applications to market, related profitability projections and undiscounted cash flows relating to each application which necessarily involves significant management judgment.

(e) Basic and Diluted Net Income (Loss) per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, Earnings per Share (SFAS 128). SFAS 128 requires presentation of both basic and diluted earnings per shares (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using the treasury stock method, and convertible preferred stock, using the if-converted method. In computing Diluted EPS, the average stock price for the

period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential common shares if their effect is antidilutive.

(f) Foreign Currency Transactions/Balances

Transactions in currencies other than the U.S. dollar are translated at the rate in effect on the transaction date. Any balance sheet items denominated in foreign currencies are translated into U.S. dollars using the rate in effect on the balance sheet date.

**F7**

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**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Notes to the Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

(h) Financial Instruments

The Company's financial instruments consist of cash, accounts payable, accrued liabilities and advances from a related party. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of cash, accounts payable and accrued liabilities and advances from a related party approximates their carrying value due to immediate or short-term maturity of these financial instruments.

(i) Tax Accounting

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not.

The Company has adopted Statement of Financial Accounting Standards No. 109 ( SFAS 109 ) as of its inception. The Company has incurred net operating losses as scheduled below:

Year of Loss	Amount	Year of Expiration
1997	\$ 135,000	2012
1998	659,000	2013
1999	267,000	2014
2000	336,000	2015
2001	674,000	2016
2002	166,000	2017
2003	282,000	2018
	\$ 2,519,000	

Pursuant to SFAS 109 the Company is required to compute tax asset benefits for net operating losses carried forward. Potential benefit of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

The components of the net deferred tax asset at the end of December 31, 2003, 2002 and 2001, and the statutory tax rate, the effective tax rate and the elected amount of the valuation allowance are scheduled below:

	2003	2002	2001
	\$	\$	\$
Net Operating Loss	282,000	166,297	673,575
Statutory	34%	34%	34%
Effective Tax Rate	-	-	-
Deferred Tax Asset	95,880	56,541	229,022
Valuation Allowance	(95,880)	(56,541)	(229,022)



Net Deferred Tax Asset	-	-	-
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(j) Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101 ( SAB 101 ), Revenue Recognition in Financial Statements. Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility is reasonably assured.

The Company had applied, up until June 30, 2002, Emerging Issues Task Force Issue 99-19 (EITF 99-19), Reporting Revenue Gross as a Principal versus Net as an Agent . The Company sold licenses on behalf of Net 1 Holdings, and acting as an agent recorded revenue on a net basis in accordance with EITF 99-19. Revenue, up to June 30, 2002, was equal to Net 1 Holdings prior year annual after tax net profit before amortization as certified by its independent auditors.

**F8**

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**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Notes to the Financial Statements**

**3. Property, Plant and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization.

			December 31, 2003		December 31, 2002
	Cost		Accumulated Depreciation	Net Book Value	Net Book Value
Computer equipment and software	\$ 2,181	\$	2,181	\$ -	\$ 9

**4. Intangible Assets**

			December 31, 2003		December 31, 2002
	Cost		Accumulated Depreciation	Net Book Value	Net Book Value
Exclusive License	\$ 9,361	\$	8,034	\$ 1,327	\$ 2,273

See Note 1 for description of the license.

The Funds Transfer System patents were first filed in 1989. The European patent was granted on December 28, 1994, with effect in Austria, Belgium, Switzerland, Germany, Denmark, Spain, France, Great Britain, Greece, Italy, Liechtenstein, Luxembourg, Netherlands and Sweden. The European Patent Convention provides for an opposition period immediately following the grant of a European patent, and six parties filed an opposition to the grant of the patent on the grounds that the invention was not patentable. The case was heard before a Board of the Opposition Division in March 1998, when the patent was upheld. Following the issue of the formal decision, a number of the original opponents filed an appeal. The appeal proceedings were heard on October 10, 2002 and the appeal board reversed its earlier decision. Consequently, the European patent has been revoked and there is no possibility of any further appeal. As a result, the Company will be unable to collect royalties or fees for patent infringement in Europe.

The U.S. patent was first issued on May 17, 1991, and it is set to expire on May 11, 2011.

**5. Proposed Business Acquisition**

The Company is completing financial arrangements for the securing of approximately US\$ 150 million through Brait SA ( Brait ) on behalf of funds under its management. The financing, comprising the capital raising of US\$ 53 million and a share exchange of US\$ 97 million, will enable Net 1 to make an offer to acquire Net 1 Applied Technology Holdings Limited ( Aplitec ), a public Johannesburg Stock Exchange (JSE) listed company, as well as providing working capital to enable Net 1 to expand its operations and develop its internal infrastructure on an international basis. The Company, through Brait, will raise the capital through sales of its common stock at US\$ 0.50 per common share.

The Company, through Brait, has provided the Board of Directors of Aplitec with an offer to acquire all the assets and liabilities of Aplitec (excluding approximately ZAR 300 million of cash) for approximately US\$ 129 million through a combination of cash and share exchange offer to Aplitec shareholders also at a purchase price of US\$ 0.50. Aplitec is engaged in the sales, maintenance and development of UEPS smart card based products in South Africa and its surrounding territories with revenues of approximately US\$ 100 million. Aplitec has approximately 2,200 employees. Completion of the financing is subject to compliance with regulatory requirements in South Africa and in the United States, including an increase in the authorized capitalization of the Company to permit the common shares to be issued.

**F9**

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**Net 1 UEPS Technologies, Inc.**  
*(A Development Stage Company)*  
*Notes to the Financial Statements*

**6. Related Party Transactions**

- (a) Consulting fees include \$150,000 (2002 - \$150,000, 2001 - \$150,000) paid or payable to the CEO of the Company.
- (b) Pursuant to a Directors Resolution of January 29, 2002, \$287,500 (2002 - \$137,500) of consulting fees have been postponed until the Company has sufficient funds.
- (c) Pursuant to the distribution section of the previous Patent and Technology Agreement, subcontract costs include \$nil (2002 - \$75,047, 2001 - \$356,938) paid to Net 1 (Pty), a company with a common director.

Effective July 1, 2002, the Company entered into a distribution agreement with Net 1 (Pty), which replaced the previous distribution section contained within the previous Patent and Technology Agreement. Subcontract costs will now be determined based on a fixed rate of 9.5% of the license fees received of which there were none for fiscal 2003. As a condition of this agreement, Net 1 (Pty) received \$50,000 in full settlement of \$154,953 of fees due as at June 30, 2002. The Company wrote off the remaining \$104,953 of the debt as a reduction of subcontract costs in the year.

- (d) Under the terms of the previous distribution agreement with Patent and Technology Agreement dated May 3, 2000, the Company recorded revenues of \$41,017 (2002 - \$157,565, 2001 - \$nil) from Net 1 Holdings for sales made during the previous year. A total of \$nil (2002 - \$91,703, 2001 - \$nil) remains receivable without interest and is due on demand.
- (e) During the year Net 1 Holdings made payments on the Company's behalf. A total of \$36,099 remains outstanding without interest and is due on demand.

**7. Subsequent Events**

On February 3, 2004, the Company initially filed with the U.S. Securities and Exchange Commission (the SEC) a registration statement on Form S-4. In connection with its review of the registration statement, the staff of the SEC advised the Company that certain Aplitec announcements in South Africa in October and November 2003 as well as the Aplitec shareholder vote approving the sale of assets on December 9, 2003, may not have complied with Section 5 under the U.S. Securities Act of 1933. In light of the SEC's position, the Company is offering to all Aplitec shareholders who are shareholders on record at a certain date, the opportunity to rescind any acceptance of Net 1 securities that may have been offered to them on or prior to the December 9 vote (the rescission offer). If the holders of a majority of the outstanding Aplitec ordinary shares accept the rescission offer, the proposed transactions will not be consummated as a result of the failure of certain conditions precedent to the consummation of the Aplitec acquisition is subject.

The staff of the SEC has taken the position that, as a result of the possible failure to comply with Section 5 under the U.S. Securities Act, the right of rescission granted to Aplitec shareholders who affirmatively reject the rescission offer or who make no election in respect of the rescission offer may continue for a period of one year. The SEC staff has also taken the position that any rights of rescission under the U.S. Securities Act of any Aplitec shareholder may survive and not be barred by the Company making the rescission offer.

