



**SOLUTECK** Holdings Limited  
一創科技集團有限公司

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

## **Interim Report 2001**

**for the period from 1 April, 2001 to 30 September, 2001**

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*This report, for which the directors (the “Directors”) of Soluteck Holdings Limited (the “Company”) collectively and individually accept full 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.*

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

## HIGHLIGHTS

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- The turnover of the Group during the six months ended 30 September, 2001 was approximately HK\$91 million representing a decrease of approximately 38 per cent. as compared with the corresponding period in 2000.
- The net profit of the Group during the six months ended 30 September, 2001 was approximately HK\$1 million representing a decrease of approximately 95 per cent. as compared with the corresponding period in 2000.
- Earnings per Share during the six months ended 30 September, 2001 was approximately HK0.22 cent.
- Despite the worldwide economic downturn that affects the information technology business, the Directors believe that the Group is well-prepared to capture additional business opportunities in the PRC and to face the challenges ahead.
- As a result of the PRC's accession to the World Trade Organisation, the Group will focus on devoting additional marketing efforts on future business opportunities.



## RESULTS

The board (the "Board") of Directors announces the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the periods of three months and six months ended 30 September, 2001 (the "Periods") together with the comparative unaudited consolidated results of the Group for the corresponding periods in 2000 as follows:

		From 1 July, 2001 to 30 September, 2001 HK\$	From 1 April, 2001 to 30 September, 2001 HK\$	From 1 July, 2000 to 30 September, 2000 HK\$	From 1 April, 2000 to 30 September, 2000 HK\$
	<i>Notes</i>				
Turnover	3	49,240,647	91,341,198	51,146,796	147,208,717
Cost of sales		<u>(37,894,497)</u>	<u>(66,356,020)</u>	<u>(36,028,221)</u>	<u>(111,018,822)</u>
Gross profit		11,346,150	24,985,178	15,118,575	36,189,895
Other income		177,850	490,699	903,572	1,961,746
Selling expenses		(3,618,079)	(6,971,821)	(1,178,526)	(2,253,922)
Administrative expenses		<u>(8,077,659)</u>	<u>(16,387,008)</u>	<u>(7,313,256)</u>	<u>(10,681,418)</u>
(Loss)/Profit from operations		(171,738)	2,117,048	7,530,365	25,216,301
Finance costs		(18,631)	(18,631)	(46,006)	(46,006)
Share of results of an Associated Company		<u>(2,224)</u>	<u>(164,600)</u>	<u>-</u>	<u>-</u>
(Loss)/Profit before taxation		(192,593)	1,933,817	7,484,359	25,170,295
Taxation	4	<u>(301,313)</u>	<u>(931,313)</u>	<u>(1,723,822)</u>	<u>(4,129,255)</u>
Net (Loss)/Profit attributable to shareholders		<u>(493,906)</u>	<u>1,002,504</u>	<u>5,760,537</u>	<u>21,041,040</u>
(Loss)/Earnings per share	5	<u>(0.11 cents)</u>	<u>0.22 cents</u>	<u>1.48 cents</u>	<u>5.40 cents</u>

*Notes:*

### 1. Group reorganisation

- (a) The Company was incorporated in the Cayman Islands on 10 August, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands.
- (b) On 13 December, 2000, pursuant to a Group reorganisation ("Reorganisation") in preparation for the listing of the shares (the "Shares") of the Company on GEM, the Company acquired the entire issued share capital of Soluteck (BVI) Holdings Limited ("Soluteck (BVI)") through a share swap and became the holding company of the Group. Details of the Reorganisation are set out in the prospectus (the "Prospectus") of the Company dated 22 December, 2000.

- (c) The Shares have been listed on GEM since 3 January, 2001.
- (d) The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.127 "Accounting for group reconstructions", except for Task Consultants Limited ("Task Consultants") which was acquired by the Group on 1 September, 2000 and was accounted for using acquisition accounting. The consolidated accounts of the Group for the period from 1 April, 2001 to 30 September, 2001, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

## 2. Basis of preparation

The unaudited consolidated accounts include the accounts of the Company and its subsidiaries made up to 30 September. The Reorganisation referred to in note I above has been accounted for using merger accounting, except for Task Consultants which was acquired by the Group on 1 September, 2000 and was accounted for using acquisition accounting, by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

## 3. Turnover and revenue

The Group is principally engaged in the sales of self-service automated teller machine systems and postal automation systems, and the provision of hardware and software technical support services. Revenues recognised during the period are as follows:

	From 1 July, 2001 to 30 September, 2001 HK\$	From 1 April, 2001 to 30 September, 2001 HK\$	From 1 July, 2000 to 30 September, 2000 HK\$	From 1 April, 2000 to 30 September, 2000 HK\$
Turnover				
Sale of goods	42,805,754	74,374,356	39,353,739	124,729,115
Rendering of services	<u>6,434,893</u>	<u>16,966,842</u>	<u>11,793,057</u>	<u>22,479,602</u>
	49,240,647	91,341,198	51,146,796	147,208,717
Other revenue				
Interest income	<u>177,850</u>	<u>490,699</u>	<u>903,572</u>	<u>1,961,746</u>
Total revenue	<u><u>49,418,497</u></u>	<u><u>91,831,897</u></u>	<u><u>52,050,368</u></u>	<u><u>149,170,463</u></u>

## 4. Taxation

- (a) Hong Kong profits tax has been provided for at the rate of 16 per cent. on the respective estimated assessable profits of companies within the Group operating in Hong Kong during the period.
- (b) Overseas taxation represented tax charge on the assessable profits of subsidiaries operating in the PRC calculated at the applicable rates.
- (c) There was no material unprovided deferred taxation assets/liabilities for the period (2000: Nil).

## 5. (Loss)/Earnings per Share

The calculation of the basic (loss)/earnings per Share for the three months and six months ended 30 September, 2001 is based on the unaudited consolidated net (loss)/profit attributable to shareholders of approximately HK\$(493,906) and HK\$1,002,504 (2000: HK\$5,760,537 and HK\$21,041,040) and the weighted averaged number of 450,000,000 and 450,000,000 Shares in issue throughout the relevant accounting periods, respectively (2000: 390,000,000 and 390,000,000 Shares deemed to be issued on 1 April 1999, after taking into consideration of the 2,000,000 Shares issued arising from the Reorganisation and the capitalisation issue of 388,000,000 Shares are deemed to have been in issue throughout the accounting periods presented).

Diluted earnings per Share for the period is not presented as there is no material dilution effect arising from the outstanding options issued by the Company.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### RESULTS

For the six months ended 30 September, 2001, the Group's turnover was approximately HK\$91 million, of which approximately 90 per cent. was derived from the sales and implementation and upgrade of automated teller machine ("ATM") systems and postal automation systems with the remaining of 10 per cent. was derived from sales and installation of other machines. During the six months ended 30 September, 2001, the sales and implementation of self-service ATM systems remained its core business and accounted for approximately HK\$77 million including the turnover derived from the provision of technical consultancy and support services. The Group's other business activities included the provision of banking solutions technology and the distribution and installation of cash management systems. The turnover derived from the Group's software of "E-banking" was approximately HK\$8 million which included provisions for technical consultancy and support services. For the Group's postal information technology solution business, approximately HK\$5 million turnover was generated which included the turnover derived from the provision of technical consultation and support. As a result of the Group's continuous efforts to increase the market recognition of the Group's products and services, together with the continuous developments and marketing of the Group's core businesses, a net profit of approximately HK\$1 million was achieved during the six months ended 30 September, 2001.

### REVIEW OF OPERATIONS

The Group is one of the leading banking and postal information technology solution providers in the People's Republic of China (the "PRC").

During the six months ended 30 September, 2001, the Group's core business, namely sales, implementation and upgrading of self-service ATM systems, contributed approximately 84 per cent. of the total turnover of the Group, as compared with approximately 77 per cent. in the corresponding period in 2000. However, the actual sales amount of ATM systems of the Group saw a decline of approximately 32 per cent., as compared with the corresponding period in 2000. The principal reason for the decline was due to keen market competition in the PRC market amongst different suppliers of ATM systems. The Group's electronic postal automation systems amounted for approximately 6 per cent. of the Group's turnover, as compared to approximately 1 per cent. for the corresponding period in 2000. Actual sales amount for this sector increased by approximately 161 per cent., as compared with the corresponding period in 2000. The Group also developed and implemented e-banking application software built on a standard architectural platform for commercial banks and financial institutions, and the sales of which represented approximately 8 per cent. of the Group's turnover as compared to approximately 3 per cent. for the corresponding period in 2000 in Hong Kong, Macau and the PRC. Actual sales amount increased by approximately 52 per cent. as compared with the corresponding period in 2000.





The Internet industry has suffered a downturn. The Directors, however, consider that this time is an opportunity for consolidation and planning for future expansion. It was with this view that in June 2001, the Group established its sixth subsidiary in Shenzhen. Its main function is to act as a strategic center to liaise with local and overseas commercial banks for conducting outsourced software development activities. Moreover, the Board is committed to further enhance the Group's core businesses and improve its e-banking facilities to existing and future banking clients. It is also developing all six subsidiaries so that the Group will form a solid network spanning the important regions in the PRC. Tighter directions have been implemented in the management of all six subsidiaries and the level of their operating expenses is under strict control.

The Directors believe that the Group is one of the first companies engaged in the implementation of self-service ATM systems to commercial banks in the PRC. Its outstanding track record has already earned "The Best ATM Reseller" award from NCR (Hong Kong) Limited every year since 1996. Also, the Group was presented with the "Top Performance Award for Production Mail and Mailing Products" by Pitney Bowes Asian Operations in April 2000. Building on this excellent experience, together with its extensive client database, the Group remains optimistic that it will be able to capture the additional business opportunities following the accession of the PRC to the World Trade Organisation.

### **BUSINESS PROSPECTS**

The fact that PRC economy continues to grow gives some positive developments to the regional economy, albeit that the worldwide economic downturn seems to continue. The Group's core business is expected to make progress providing a solid foundation for its future growth.

While remaining optimistic on a continuous growth in the PRC market, the Directors are also confident on a bright future, especially with regard to the PRC being widely expected to achieve the best economic growth worldwide. The ATM systems and postal automation systems in the PRC, at their developing stage, have ample room for expansion. Also, with PRC's accession to the World Trade Organisation, it is imperative that the Group retains its stronghold there. Domestic banks in the PRC, which represent potential business opportunities for the Group, are gearing up for the surge of activities ahead. The Board expects that all these form a solid basis for genuine business prospects for information technology solution providers.

### **FUTURE PLANS AND DEVELOPMENTS**

During the coming months, the Group will continue to focus a significant amount of its efforts and resources on the following areas:-

- (i) continue with the implementation and upgrading of self-service ATM systems and related application hardware and software for commercial banks and postal savings bureaus in the PRC;
- (ii) implement and upgrade the electronic postal automation systems, such as volume mailing systems, mail handling systems and related application hardware and software, for postal bureaus in the PRC;
- (iii) provide hardware and software technical support and consultancy services to its customers in respect of self-service ATM systems and electronic postal automation systems in the PRC;

- (iv) develop and implement e-banking application software for commercial banks in Hong Kong, Macau and the PRC;
- (v) continue to boost its marketing efforts in Hong Kong, Macau and the PRC to bring in new customers and enhance revenue on a continuous basis; and
- (vi) the Group will continue to keep abreast of the latest development in the industry so as to consolidate existing activities and be prepared to diversify into new areas for the ultimate objective of enhancing shareholders' value.

## COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

The following is a progress report of the business objectives of the Group up to 30 September, 2001 as set out in the Prospectus:

<b>Business objectives as stated in the Prospectus</b>	<b>Actual business progress in respect of the period from 1 April, 2001 to 30 September, 2001</b>
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### Sales and Revenue

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| <ol style="list-style-type: none"> <li>1. Expand the revenue source of the Group through sales and marketing of the BANK24 platform as well as complimentary e-banking applications software to prospective banks and financial institutions in Hong Kong, Macau and the PRC.</li> </ol> | <p>The Group continues promoting BANK24 platform with strategic partners. Part of the efforts was to set up the Group's sixth subsidiary in Shenzhen with the specific purpose of liaising with local and overseas banks for this purpose.</p>  |
| <ol style="list-style-type: none"> <li>2. Expand the revenue source of the Group by promoting electronic postal automation systems to banks and other corporations in the PRC.</li> </ol>  | <p>The turnover of the postal automation systems during the six months ended 30 September 2001 was approximately HK\$5 million representing an increase of approximately 161 per cent. as compared with the corresponding period in 2000. Nevertheless, the Group will accelerate its marketing efforts to improve the performance.</p> |

### Research and Development

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|---|--|
| <ol style="list-style-type: none"> <li>1. Continue the customisation and localisation of ATM software and upgrade the proprietary software developed by the Group system applications.</li> </ol> | <p>The Group remains the leading "Total Solutionist" in the provision, implementation and upgrading of self-service ATM systems in China. Since 1996, the Group has been granted "The Best ATM Reseller" award from NCR every year since 1996.</p> |
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| 2. | Develop the electronic bill presentation and payment system which enables banks to present bills to customers through the Internet supported by electronic autopay systems. | The Group is actively engaged in the development and implementation of the electronic bill presentation and payment system.  |
| 3. | Collaborate with ACW Consulting Pty Ltd. ("ACW") to develop a Chinese version of the Datawarehouse and Business Intelligence System.  | After detailed analysis of the current market condition, the Directors consider that it may not be in the interest of the Group to continue the development with ACW of the Chinese version of the Datawarehouse and Business Intelligence System. Instead, the Group will collaborate with other business partners to develop the logistic software system for postal bureaus in the PRC. |

### Marketing

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| 1. | Promote the Group's products and services through a series of marketing and promotion programs.   | The Group held a series of conferences, seminars and exhibitions in the PRC during the six months ended 30 September, 2001 for its existing and prospective customers.  |
| 2. | Explore the feasibility of expanding the Group's business in respect of implementation of self-service ATM systems, electronic postal automation systems and provision of e-banking applications to other Asian regions such as Taiwan. | The Group has appointed a Taiwan local partner to promote its e-banking products in the banking industry in Taiwan and has started the discussion with two banks in Taiwan for e-banking projects. Also, the Group has started its feasibility study in expanding its business to Indonesia and has appointed a local partner to promote its e-banking products in the country. |
| 3. | Appoint local distributors in the PRC to further expand the sales and distribution capability of the Group.   | The Group has appointed some local distributors in the PRC to promote and distribute the Group's products and services.   |

### Resources employment

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| 1. | Setting up two customer service centers in the PRC.  | The Group has established two customer service centers in Wenzhou and Qingdao in the PRC during the six months ended 30 September, 2001.   |
| 2. | Establish a research and development centre in Guangdong province, the PRC.  | The Group has established its research and development centre – Soluteck Technology (Shenzhen) Co. Ltd., in Guangdong province in June, 2001.  |
| 3. | Recruit additional qualified staff and system engineers to strengthen the Group's capability in sales and marketing, research and development, business development and general administration | In keeping with the Group's tight control on expenditure, the Group did not recruit any additional staff during the six months ended 30 September, 2001. Instead, the Group focused on enhancing its in-house training, team-building and upgrading its existing staff. As such, the Group's team of dedicated professionals is committed to serving existing and prospective clients. |

## USE OF PROCEEDS FROM THE PLACING OF SHARES

The Company issued the Prospectus in connection with a placing of an aggregate of 60,000,000 shares (the "Placing"). The net proceeds from the Placing amounted to approximately HK\$17.9 million, of which the Directors have applied, as at 30 September, 2001, in the following manner:

	From the latest practicable date (as defined in the Prospectus) to 31 March, 2001	From 1 April, 2001 to 30 September, 2001
	<i>HK\$ million</i>	<i>HK\$ million</i>
For the research and development of proprietary software for e-banking business	1.0	1.0
For the expansion of distribution and service networks including the expansion of the existing PRC Subsidiaries, recruitment of additional staff and purchase of additional office equipment	1.0	0.6
For establishing additional customer services centres in the PRC as well as recruitment of additional staff and purchase of additional office equipment	0.2	0.2
For establishing a research and development centre	-	0.8
For investing in application hosting service businesses through Supreme Tech Development Limited	-	0.3
	<u>2.2</u>	<u>2.9</u>

There was a short fall of HK\$0.7 million in investing in application hosting service business ("ASP business") as compared with that stated in the Prospectus. The principal reason for such delay in investment was that the Directors believe that, giving the prevailing economic condition, it would not be in the interest of the Group to deploy its management resources to engage in the ASP business. The Company will continue to consider such investment opportunities in the future. The remaining net proceeds of approximately HK\$12.8 million were placed on short term deposits with bank in Hong Kong for future use as identified by the Group's business plans.





## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow. As at 30 September, 2001, the Group had cash and bank balances amounting to a total of HK\$50 million. There were no bank borrowings owed by the Group as at 30 September, 2001. With the above resources and the proceeds from the new issue of shares in January this year, the Board believes that the Group has adequate capital resources to finance its business objectives as stated in the Prospectus.

## MOVEMENT OF RESERVE

Apart from the exchange fluctuation reserve of approximately HK\$11,000, there is no other movement to and from reserve.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period from 1 April, 2001 to 30 September, 2001 (2000: Nil).

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND OPTIONS

### (i) Shares

As at 30 September, 2001, the interests of the Directors and the chief executive of the Company in the share capital of the Company pursuant to section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:-

Name of Director	Personal interests	Family interests	Number of shares		Total interests
			Corporate interests	Other interests	
Mr. Chung Lok Fai ("Mr. Chung")	-	19,500,000 (Note 1)	262,500,000 (Note 2)	-	282,000,000
Ms. Chung Yuk Hung, Yvonne	-	-	- (Note 2)	-	- (Note 2)
Mr. Chung Yuk Man, Kevin	-	-	- (Note 2)	-	- (Note 2)
Mr. Tam Wing Chit, Tom	11,115,000	-	-	-	11,115,000

Notes:

1. These Shares were held by Ms. Tsou Lo Nien, the spouse of Mr. Chung.
2. These Shares were registered in the name of Innovative Tech Worldwide Inc. ("ITW"), a company incorporated in the British Virgin Islands. The issued share capital of ITW is owned by the following persons:

Name of shareholders	Number of shares	Percentage of shareholding
Dynatek Limited ("Dynatek") (a)	25.5	34.0
Mr. Chung (b)	15.3	20.4
Ms. Tsou Lo Nien (b)	12.0	16.0
Mr. Hou Chung (c)	12.0	16.0
Ms. Chung Yuk Hung, Yvonne (d)	5.1	6.8
Mr. Chung Yuk Man, Kevin (e)	5.1	6.8
	<hr/>	<hr/>
Total	75.0	100.0
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- (a) Dynatek is an investment holding company incorporated in Hong Kong with all of its shares held by Mr. Hou Chung and Ms. Chung Po Chu, his spouse, in equal shares. Dynatek Limited holds 25.5 shares issued by ITW, representing 34.0 per cent. of the issued share capital of ITW. Accordingly, Dynatek is deemed, by virtue of the SDI Ordinance, to be interested in the Shares in which ITW is interested, amounting to 262,500,000 Shares. Dynatek, Mr. Hou Chung and Ms. Chung Po Chu are deemed to be initial management shareholders (as defined under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules")). Ms. Chung Po Chu is the sister of Mr. Chung. Ms. Chung Po Chu and Mr. Hou Chung are parents of Mr. Hou Hsiao Bing and Mr. Hou Hsiao Wen, Eddie, both of whom are executive Directors of the Company.
- (b) Mr. Chung and his spouse, Ms. Tsou Lo Nien, own, in aggregate, 36.4 per cent. of the issued share capital of ITW. Accordingly, each of Mr. Chung and Ms. Tsou Lo Nien is deemed, by virtue of the SDI Ordinance, to be interested in the Shares in which ITW is interested, amounting to 262,500,000 Shares. Mr. Chung is also deemed to be interested in the 19,500,000 Shares registered in the name of Ms. Tsou Lo Nien. Mr. Chung is an executive Director and Ms. Tsou Lo Nien is a Director of Truth Honour, a subsidiary of the Company. As a result, each of Mr. Chung and Ms. Tsou Lo Nien is deemed, by virtue of the SDI Ordinance, to be interested in 282,000,000 Shares in aggregate, representing approximately 62.67 per cent. of the Shares in issue. Mr. Chung and Ms. Tsou Lo Nien are deemed to be initial management shareholders (as defined under the GEM Listing Rules) of the Company.
- (c) Mr. Hou Chung, together with Dynatek, a company beneficially owned by him and his spouse, Ms. Chung Po Chu is interested in 50.0 per cent. of the issued share capital of ITW. Accordingly, Mr. Hou Chung is deemed, by virtue of the SDI Ordinance, to be interested in all the Shares in which ITW is interested, amounting to 262,500,000 Shares. Together with the 19,500,000 Shares registered in his own name, Mr. Hou Chung is deemed, by virtue of the SDI Ordinance, to be interested in 282,000,000 Shares in aggregate, representing approximately 62.67 per cent. of the Shares in issue. Mr. Hou Chung is deemed to be an initial management shareholder (as defined under the GEM Listing Rules) of the Company.
- (d) Ms. Chung Yuk Hung, Yvonne is an executive Director. Ms. Chung Yuk Hung, Yvonne holds 5.1 shares, representing 6.8 per cent. of the issued share capital of ITW. Accordingly, Ms. Chung Yuk Hung, Yvonne has an attributable interest in 6.8 per cent. of the Shares in which ITW is interested, amounting to 17,850,000 Shares. She is deemed to be an initial management shareholder (as defined under the GEM Listing Rules) of the Company.



- (e) Mr. Chung Yuk Man, Kevin is an executive Director. Mr. Chung Yuk Man, Kevin holds 5.1 shares, representing 6.8 per cent. of the issued share capital of ITW. Accordingly, Mr. Chung Yuk Man, Kevin has an attributable interest in 6.8 per cent. of the Shares in which ITW is interested, amounting to 17,850,000 Shares. He is deemed to be an initial management shareholder (as defined under the GEM Listing Rules) of the Company.

(ii) **Directors' rights to acquire shares**

On 13 December, 2000, the shareholders of the Company approved and adopted a share option scheme (the "Share Option Scheme"). Under the Share Option Scheme, the Directors of the Company may, at their discretion, grant to any employees of the Group, including executive Directors of the Group, options to subscribe for the Shares. The subscription price for options granted under the Share Option Scheme after the listing of the Shares on GEM is determined by the Directors and will not be less than the higher of the closing price of the Shares on GEM on the date of grant of the options or the average of the closing price of the Shares on GEM for the five trading days immediately preceding the date of grant of the options. As regards the options granted before the listing of the Shares on GEM ("Pre-IPO Share Options"), the subscription price is to be determined by Directors and shall not be less than the nominal value of the Shares. The maximum number of shares in which options may be granted under the Share Option Scheme may not exceed 30 per cent. of the ordinary share capital of the Company in issue from time to time. The maximum option term is ten years from the respective grant dates. Options may be exercised at any time during a period, generally three years but not later than ten years, to be determined and notified to each grantee.

Pursuant to the Pre-IPO Share Options granted under the above Share Option Scheme, certain Directors have interests in options to subscribe for Shares as set forth below. The options have a duration of 10 years from the date on which the offer of grant was made.

Name of Director	Date of grant	Exercise price HK\$	Number of share options outstanding as at 30.9.2001	Expiry date
Mr. Chung	18/12/2000	0.4	2,000,000	17/12/2010
Ms. Chung Yuk Hung, Yvonne	18/12/2000	0.4	2,000,000	17/12/2010
Mr. Chung Yuk Man, Kevin	18/12/2000	0.4	2,000,000	17/12/2010
Mr. Hou Hsiao Wen, Eddie	18/12/2000	0.4	2,000,000	17/12/2010
Mr. Hou Hsiao Bing	18/12/2000	0.4	2,000,000	17/12/2010

Notes:

- None of the above outstanding options was exercised during the financial period.
- Pursuant to the offer letters in respect of the grant of the Pre-IPO Share Options, the grantees can only exercise the options to the extent of an aggregate total of 25 per cent., 50 per cent., 75 per cent. and 100 per cent. of the Pre-IPO Share Options in each of the first to fourth anniversaries of the commencement of the trading of the Shares on GEM, respectively.

Save as disclosed above, at no time during the period ended 30 September, 2001, was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Save as disclosed above, neither the Directors nor the chief executive, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations (as defined by the SDI Ordinance) as at 30 September, 2001.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY**

As at 30 September, 2001, the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance discloses the following persons as having an interest of 10% or more of the issued Shares:-

<b>Name</b>	<b>Notes</b>	<b>Number of shares</b>	<b>Approximate percentage of issued shares</b>
ITW	1	262,500,000	58.33%
Dynatek	2	262,500,000	58.33%
Mr. Hou Chung	3	282,000,000	62.67%
Ms. Chung Po Chu	4	282,000,000	62.67%
Ms. Tsou Lo Nien	5	282,000,000	62.67%
Mr. Chung	5	282,000,000	62.67%

*Notes:*

1. These Shares were registered in the name of ITW, a company incorporated in the British Virgin Islands. Please refer to note 2 to "Directors' and Chief Executive's Interests in shares and Options" in (i) "Shares" for details of the shareholding of ITW.
2. These Shares are registered in name of ITW of which Dynatek Limited holds 25.5 shares, representing 34.0 per cent. of the issued share capital of ITW. Accordingly, Dynatek Limited is deemed, by virtue of the SDI Ordinance, to be interested in all the Shares in which ITW is interested. On this basis, Dynatek Limited is a substantial shareholder.
3. These Shares comprise 262,500,000 Shares registered in the name of ITW and 19,500,000 Shares registered in his name. Hou Chung, together with Dynatek Limited, a company beneficially owned by him and his spouse, Chung Po Chu, is interested in 50.0 per cent. of the issued share capital of ITW. Accordingly, Hou Chung is deemed, by virtue of the SDI Ordinance, to be interested in all the Shares in which ITW is interested. On this basis, Hou Chung is a substantial shareholder.
4. These Shares comprise 262,500,000 Shares registered in the name of ITW and 19,500,000 Shares registered in the name of Hou Chung. Chung Po Chu is the sister of Mr. Chung. Chung Po Chu and Hou Chung are the parents of Hou Hsiao Bing and Hou Hsiao Wen, Eddie, both of whom are executive Directors. Being the spouse of Hou Chung, Chung Po Chu is deemed, by virtue of the SDI Ordinance, to be interested in all the Shares in which Hou Chung is interested. On this basis, Chung Po Chu is a substantial shareholder.
5. These Shares comprise 262,500,000 Shares registered in the name of ITW and 19,500,000 Shares registered in the name of Tsou Lo Nien. Mr. Chung and his spouse, Tsou Lo Nien, own, in aggregate, 36.4 per cent. of the issued share capital of ITW. Accordingly, each of Mr. Chung and Tsou Lo Nien is deemed, by virtue of the SDI Ordinance, to be interested in the Shares in which ITW is interested. Mr. Chung is an executive Director and Tsou Lo Nien is a Director of Truth Honour. On this basis, each of Mr. Chung and Tsou Lo Nien is a substantial shareholder.
6. Assuming the Pre-IPO Share Options are not exercised.



Save as disclosed above, the Company had not been notified of any other interests representing 10 per cent. or more of the Company's issued share capital as at 30 September, 2001.

### SPONSOR'S INTEREST

Pursuant to the agreement dated 21 December, 2000 entered into between the Company and DBS Asia Capital Limited ("DBS Asia"), DBS Asia is entitled to receive a fee in respect of the appointment by the Company as the sponsor of the Company as required under GEM Listing Rules for the period from 3 January, 2001 to 31 March, 2003.

As at 30 September, 2001, neither DBS Asia, its directors, employees nor their associates, had any interest in any securities of the Company or any of its associated corporation.

### DETAILS OF SHARE OPTIONS GRANTED BY THE COMPANY

Save as the Pre-IPO Share Options granted under the Share Option Scheme, no other share options have been granted thereunder.

A summary of the principal terms of the Pre-IPO Share Options granted under the Share Option Scheme were disclosed in the Prospectus and the movements thereof are set out below:-

### MOVEMENT OF SHARE OPTIONS

	Number of Options				As at 30 September, 2001	No. of new shares arising therefrom
	As at 1 April, 2001	Movement during the period				
Pre-IPO Share Options		Granted	Exercised	Cancelled		
Exercise price: HK\$0.20						
- Director of a subsidiary:						
Mr. Lam Shut Chun	500,000	Nil	Nil	Nil	500,000	Nil
- Other employees	9,150,000	Nil	Nil	(650,000)	8,500,000	Nil
Exercise price: HK\$0.40						
- Executive Directors						
Mr. Chung	2,000,000	Nil	Nil	Nil	2,000,000	Nil
Mr. Hou Hsiao Wen, Eddie	2,000,000	Nil	Nil	Nil	2,000,000	Nil
Mr. Hou Hsiao Bing	2,000,000	Nil	Nil	Nil	2,000,000	Nil
Ms. Chung Yuk Hung, Yvonne	2,000,000	Nil	Nil	Nil	2,000,000	Nil
Mr. Chung Yuk Man, Kevin	2,000,000	Nil	Nil	Nil	2,000,000	Nil
- Other employees	700,000	Nil	Nil	(200,000)	500,000	Nil
	<u>20,350,000</u>	<u>Nil</u>	<u>Nil</u>	<u>(850,000)</u>	<u>19,500,000</u>	<u>Nil</u>

## YEAR 2000 COMPLIANCE

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In the Prospectus, the Directors reported that the computer hardware and software used by the Group were year 2000 compliant and therefore, the Year 2000 compliance issue had no material adverse impact on the business operations in all functional areas of the Group.

The Group has not experienced to date any significant adverse consequences in connection with the year 2000 issue. However, the Directors will continue their oversight of date change issues during the year 2002.

## AUDIT COMMITTEE OF THE BOARD

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The audit committee of the Board was formed on 13 December, 2000 comprising the independent non-executive Directors, Ms. Lui Ming, Rosita and Mr. Ho Wai Wing, Raymond. The terms of reference of the audit committee of the Board have been established with regard to Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report, financial statements, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee of the Board has convened four meetings since its establishment.

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

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None of the members of the Group purchased, sold or redeemed any of the Group's listed securities during the period from 1 April, 2001 to 30 September, 2001.

## COMPETING INTERESTS

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None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company has an interest in a business which competes or may compete with the business of the Group.

By order of the Board  
**Soluteck Holdings Limited**  
**Chung Lok Fai**  
*Chairman*

Hong Kong, 12 November, 2001

