



SOLUTECK Holdings Limited
一創科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report
for the period from 1 April, 2001 to 31 December, 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.



- The turnover of the Group during the nine months ended 31 December, 2001 was approximately HK\$169 million, representing a decrease of approximately 37 per cent. as compared to the same period in the last year.
- The net profit attributable to shareholders of the Company during the nine months ended 31 December, 2001 was approximately HK\$7 million.
- The Board does not recommend the payment of quarterly dividend for the nine months ended 31 December, 2001.

The board (the "Board") of Directors is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the nine months ended 31 December, 2001.

CHAIRMAN'S STATEMENT

Business review

The nine months ended 31 December, 2001 were profitable for the Group in spite of the global economic contraction. The Group recorded a net profit attributable to shareholders of the Company of approximately HK\$7 million.

During the nine months ended 31 December, 2001, the Group recorded a turnover of approximately HK\$169 million, representing a decrease of approximately 37 per cent. as compared to the same period in the last year. The net profit attributable to shareholders decreased by approximately 77 per cent. to approximately HK\$7 million with earnings per share decreased from approximately 7.73 cents to approximately 1.56 cents, as compared to the same period in the last year. The decline in the net profit was principally due to the performance of the five wholly-owned subsidiaries of the Company in the People's Republic of China (the "PRC") which became operational only towards the end of the last year. These subsidiaries were in their early stage of development and had a high level of operating costs as compared to their sales contributions to the Group. This was coupled with the unexpected slowdown in the demand for automatic teller machines ("ATM") in the PRC. As such, the overall profitability of the Group for the nine months ended 31 December, 2001 was lower as compared to the same period in the last year.

The Group is a "total solutionist" of information technology solutions for banking and postal industries in the PRC focusing on implementation and upgrading ATM systems and the provision of system hardware and software technical support and consultancy services. Sales derived from this sector accounted for approximately 89 per cent. of the total turnover of the Group for the nine months ended 31 December, 2001 with gross profit margin remained at approximately 16 per cent. which was at the same level as compared to the same period in the last year. Two major customers of the Group, namely, Shanghai SITICO International Trading Co., Pudong Inc. ("Shanghai SITICO") and Bank of Communications, had purchased ATM systems from the Group amounting to approximately HK\$12 million and approximately HK\$21 million, respectively. The actual sales volume of ATM systems saw a decline of approximately 42 per cent. as compared to the same period in the last year owing to increasing market competition in the PRC. Nevertheless, the Group will accelerate its marketing efforts to improve the performance.

For the nine months ended 31 December, 2001, the business of implementing and upgrading electronic postal automation systems accounted for approximately 4 per cent. of the total turnover of the Group with gross profit margin increased from approximately 55 per cent. to approximately 66 per cent. as compared to the same period in the last year. The actual sales volume of products

in this sector increased by approximately 69 per cent. as compared to the same period in the last year.

For the nine months ended 31 December, 2001, the Group's business of e-banking application software, which was built on a standard architectural platform, for commercial banks and financial institutions accounted for approximately 7 per cent. of the total turnover of the Group with gross profit margin decreased from 100 per cent. to approximately 96 per cent. as compared to the same period in the last year. The actual sales volume increased by approximately 112 per cent. as compared to the same period in the last year. With the objective of enhancing the competitive edge of the Group, the Board is committed to continue the development and implementation of e-banking application software and further improve its e-banking products for existing and future clients.

With the "Gold Card Project" progressing under the administration of the PRC government, in view of strong demand from commercial banks in the PRC to upgrade their systems to effect real-time transfers and settlement of inter-bank transactions, the Group continues to strengthen its efforts in the research and development of proprietary software applications targeting at the specific needs and requirements of individual customers.

Business prospects

With the anticipated development of domestic market in the PRC, the drive for modernisation and improvement in efficiency, together with the accession of the PRC to the World Trade Organisation, the Directors believe that additional business opportunities will arise to information technology solution providers, particularly, with the gradual opening up of the PRC banking and finance industries.

The Directors also believe that the ATM system and the postal automation system markets in the PRC are at their respective developing stage which still have rooms for further development. Based on the solid presence of the Group in the PRC as one of the first companies engaged in the provision of such services and the track record of the Group, the Directors are confident that the core business of the Group will continue to develop.

The Group will further focus on exploring market opportunities for e-banking, in particular, the provision of application hosting services and corporate e-banking applications solutions. To this end, the Group will continue to modify existing software products and develop new applications to satisfy the market demand. The Group will also increase investments to enhance the research and development capabilities of its existing business presence in Shanghai, Beijing and Hong Kong. The Group is seeking co-operation opportunities with local universities and research institutions in the PRC on technology research and development. Subsidiaries of the Group located in Beijing, Shanghai, Chengdu and Guangzhou will continue to provide comprehensive banking and postal system integration, pre-sales and after-sales supports, maintenance and enhancement services and technical supports to the Group's clients. In order to further extend its marketing reach, the Group will continue to expand its operations in Hong Kong, Macau and the PRC as and when opportunities arise.

All in all, the Board is confident in the prospects of the information technology market in relation to the banking and postal industries in the PRC. The Group will continue to pursue its growth strategies and keep abreast with the relevant latest developments with the objectives of consolidating its existing business and diversifying into related new businesses so as to enhance the shareholders' value.



RESULTS

The following is the unaudited consolidated results of the Group for the periods of three months and nine months ended 31 December, 2001 (the "Periods") together with the comparative unaudited consolidated results of the Group for the corresponding periods in 2000 as follows:

		From 1 October, 2001 to 31 December, 2001 Notes HK\$	From 1 April, 2001 to 31 December, 2001 HK\$	From 1 October, 2000 to 31 December, 2000 HK\$	From 1 April, 2000 to 31 December, 2000 HK\$
Turnover	3	77,893,349	169,234,547	120,193,548	267,092,792
Cost of sales		<u>(61,977,260)</u>	<u>(128,333,280)</u>	<u>(100,361,407)</u>	<u>(211,060,398)</u>
Gross profit		15,916,089	40,901,267	19,832,141	56,032,394
Other income		105,569	596,268	559,739	2,521,485
Selling expenses		(2,644,639)	(9,616,460)	(2,474,606)	(4,644,632)
Administrative expenses		<u>(7,730,254)</u>	<u>(24,117,262)</u>	<u>(7,216,170)</u>	<u>(17,996,676)</u>
Profit from operations		5,646,765	7,763,813	10,701,104	35,912,571
Finance costs		(24,081)	(42,712)	(51,311)	(92,484)
Share of results of an associated company		-	(164,600)	(5,375)	(5,375)
Profit before taxation		5,622,684	7,556,501	10,644,418	35,814,712
Taxation credit/(charge)	4	<u>408,507</u>	<u>(522,806)</u>	<u>(1,916,722)</u>	<u>(5,605,977)</u>
Net profit attributable to shareholders		<u>6,031,191</u>	<u>7,033,695</u>	<u>8,727,696</u>	<u>30,208,735</u>
Earnings per share	5	<u>1.34 cents</u>	<u>1.56 cents</u>	<u>2.23 cents</u>	<u>7.73 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 forth 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 31 December, 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 all members of the Group made up to 31 December. The Reorganisation referred to in note 1 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 October, 2001 to 31 December, 2001 HK\$	From 1 April, 2001 to 31 December, 2001 HK\$	From 1 October, 2000 to 31 December, 2000 HK\$	From 1 April, 2000 to 31 December, 2000 HK\$
Turnover				
Sale of goods	63,747,762	138,122,118	110,243,437	237,126,255
Rendering of services	14,145,587	31,112,429	9,950,111	29,966,537
	<u>77,893,349</u>	<u>169,234,547</u>	120,193,548	267,092,792
Other revenue				
Interest income	105,569	596,268	559,739	2,521,485
Total revenue	<u>77,998,918</u>	<u>169,830,815</u>	<u>120,753,287</u>	<u>269,614,277</u>



4. Taxation

	From 1 October, 2001 to 31 December, 2001 HK\$	From 1 April, 2001 to 31 December, 2001 HK\$	From 1 October, 2000 to 31 December, 2000 HK\$	From 1 April, 2000 to 31 December, 2000 HK\$
Hong Kong profits tax (a)				
– current	(153,318)	(881,945)	(1,900,000)	(5,300,000)
– over provision in prior year	633,717	633,717	–	–
Overseas taxation (b)	<u>(71,892)</u>	<u>(274,578)</u>	<u>(16,722)</u>	<u>(305,977)</u>
	<u>408,507</u>	<u>(522,806)</u>	<u>(1,916,722)</u>	<u>(5,605,977)</u>

Notes:–

- (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. Earnings per Share

The calculation of the basic earnings per Share for the three months and nine months ended 31 December, 2001 is based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$6,031,191 and HK\$7,033,695 (2000: HK\$8,727,696 and HK\$30,208,735) and the weighted averaged number of 450,113,569 and 450,037,993 (2000: 391,956,522 and 390,654,545) ordinary shares in issue throughout the relevant accounting periods respectively, after taking into consideration of the capitalisation issue in 2000 as described in details in the section headed “Statutory and General Information” in Appendix IV to the Company’s prospectus dated 22 December, 2000 and the issue of new shares in satisfaction of management bonus and performance bonus payable to a director and certain employees of a subsidiary of the Company as set forth in this report and the Company’s announcement dated 28 December, 2001.

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.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow. As at 31 December, 2001, the Group had cash and bank balances amounting to a total of approximately HK\$42 million and had outstanding short-term bank loan of approximately HK\$5 million which represents the total borrowings of the Group as at that date. With these 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\$1,620, there is no other movement to and from reserve.

QUARTERLY DIVIDEND

The Board does not recommend the payment of quarterly dividend for the period from 1 April, 2001 to 31 December, 2001 (2000: Nil).

DISCLOSURE OF TRADING BALANCE ARISING FROM SALES TRANSACTIONS CONDUCTED BY THE GROUP IN ITS ORDINARY COURSE OF BUSINESS

The following disclosure is made in accordance with the requirements under Rules 17.15 and 17.22 of the GEM Listing Rules:-

- (a) As at 15 November, 2001, Shanghai SITICO, a customer of the Group and a third party independent of any of the Directors, the chief executive of the Group, the substantial shareholders (within the meaning of the GEM Listing Rules) of the Company, the management shareholders (within the meaning of the GEM Listing Rules) of the Company and their respective associates (within the meaning of the GEM Listing Rules) (the "Independent Third Party"), had a trading balance with the Group of approximately US\$1.50 million (equivalent to approximately HK\$11.67 million). Such trading balance was resulted from sales to Shanghai SITICO by the Group in its ordinary course of business and on normal commercial terms, and represented more than 25 per cent. of the net tangible assets (within the meaning of note 2 to Rule 17.14 of the GEM Listing Rules) of the Group of approximately HK\$37.41 million as at 31 March, 2001.

The above-mentioned trading balance was unsecured and repayable in accordance with the credit terms as agreed with Shanghai SITICO. As at 31 December, 2001, Shanghai SITICO settled approximately US\$1.05 million (equivalent to approximately HK\$8.17 million) in accordance with the relevant terms of the sales transactions. As at 31 December, 2001, the trading balance with Shanghai SITICO was approximately US\$0.45 million (equivalent to approximately HK\$3.50 million). No collateral is required to be made by Shanghai SITICO and no interest is charged on any of such balances.

- (b) As at 15 November, 2001, Bank of Communications, a customer of the Group and an Independent Third Party, had a trading balance with the Group of approximately RMB12.93 million (equivalent to approximately HK\$12.20 million) representing approximately 32.61 per cent. of the net tangible assets (within the meaning of note 2 to Rule 17.14 of the GEM Listing Rules) of the Group of approximately HK\$37.41 million as at 31 March, 2001. As at 23 November, 2001, the trading balance with Bank of Communications increases to approximately RMB22.42 million (equivalent to approximately HK\$21.15 million) representing approximately 56.54 per cent. of the net tangible assets (within the meaning of note 2 to Rule 17.14 of the GEM Listing Rules) of the Group of approximately HK\$37.41 million as at 31 March, 2001. Such aggregate trading balance was resulted from sales to Bank of Communications by the Group in its ordinary course of business and on normal commercial terms.





The above-mentioned aggregate trading balance is unsecured and repayable in accordance with the credit terms as agreed with the relevant customer. As at 31 December, 2001, Bank of Communications settled approximately RMB15.69 million (equivalent to approximately HK\$14.80 million) in accordance with the relevant terms of the sales transactions. As at 31 December, 2001, the trading balance with Bank of Communications was approximately RMB6.73 million (equivalent to approximately HK\$6.35 million). No collateral is required to be made by Bank of Communications and no interest is charged on the trading balance.

The Directors confirm that apart from the amount disclosed herein, the Group does not make any advancement to any entity that required to be disclosed under Rules 17.15 and 17.22 of the GEM Listing Rules.

ISSUE OF NEW SHARES IN SATISFACTION OF MANAGEMENT BONUS AND PERFORMANCE BONUS PAYABLE TO A DIRECTOR AND CERTAIN EMPLOYEES OF TASK CONSULTANTS

Introduction

The Board approved on 28 December, 2001 an issue of an aggregate of 2,612,072 new shares, representing approximately 0.58 per cent. of the enlarged issued share capital of the Company, by way of exercising a specific mandate given to the Directors as disclosed in the Prospectus. Such issue of new shares was used in satisfaction of the management bonus and the performance bonus payable to Mr. Tam Wing Chit, Tom ("Mr. Tam"), an executive Director, and certain employees of Task Consultants. Details of the number of shares and the basis of calculation were set forth in the Company's announcement dated 28 December, 2001.

Total number of new shares issued in satisfaction of the management bonus and the performance bonus

The total number of new shares issued by the Company in satisfaction of the management bonus and the performance bonus are set forth below:-

Name	Management bonus (Number of new shares)	Performance bonus (Number of new shares)	Total number of new shares issued
Mr. Tam	500,000 Shares	153,018 Shares	653,018 Shares
Chan Shu Tak, Alex	500,000 Shares	153,018 Shares	653,018 Shares
Shiu Chi Shing, Kelvin	500,000 Shares	153,018 Shares	653,018 Shares
Yu Chak Fai, Stanley	500,000 Shares	153,018 Shares	653,018 Shares
Total	2,000,000 Shares	612,072 Shares	2,612,072 Shares

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

(i) Shares

As at 31 December, 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	Number of shares				Total interests
	Personal interests	Family 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	11,768,018 (Note 3)	-	-	-	11,768,018 (Note 3)

Notes:-

- These Shares were held by Ms. Tsou Lo Nien, the spouse of Mr. Chung.
- 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
Total	<u>75.0</u>	<u>100.0</u>

- 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 62.31 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 8,000,000 Shares registered in his own name, Mr. Hou Chung is deemed, by virtue of the SDI Ordinance, to be interested in 270,500,000 Shares in aggregate, representing approximately 59.76 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.
3. Mr. Tam's shareholding in the Company as at 30 September, 2001 (being the date of the Group's previous interim report) was 11,115,000 shares. Pursuant to the new shares issued by the Company to Mr. Tam for payment of the management bonus and the performance bonus, particulars of which are set forth in this report and the Company's announcement dated 28 December, 2001, Mr. Tam's shareholding in the Company has been increased to 11,768,018 shares.

(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 (the "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 31.12.2001	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:-

1. None of the above outstanding options was exercised during the financial period.
2. 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 31 December, 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 31 December, 2001.



SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December, 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:-

Name	Notes	Number of Shares	Approximate percentage of issued Shares
ITW	1	262,500,000	58.00%
Dynatek	2	262,500,000	58.00%
Mr. Hou Chung	3	270,500,000	59.76%
Ms. Chung Po Chu	4	270,500,000	59.76%
Ms. Tsou Lo Nien	5	282,000,000	62.31%
Mr. Chung	5	282,000,000	62.31%

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 8,000,000 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 8,000,000 Shares registered in the name of Hou Chung (following his disposal of 11,500,000 Shares in November, 2001). 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 31 December, 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 31 December, 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

Pre-IPO Share Options	Number of Options			As at 31 December, 2001	No. of new shares arising therefrom
	As at 1 April, 2001	Granted	Movement during the period 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 (1,050,000)	8,100,000	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>(1,250,000)</u>	<u>19,100,000</u>	<u>Nil</u>

YEAR 2000 COMPLIANCE

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.

Up to 31 December, 2001 and the date of this report, the Group had not experienced 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

The audit committee (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 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 has convened five meetings since its establishment. This report has been reviewed and approved by the Audit Committee.

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

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 31 December, 2001.

COMPETING INTERESTS

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, 6 February, 2002

