



SINO STRIDE

SINO STRIDE TECHNOLOGY (HOLDINGS) LIMITED

中程科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2002

* *For identification purpose only*

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This report, for which the Directors of Sino Stride Technology (Holdings) Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Sino Stride Technology (Holdings) Limited. 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.



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QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of Sino Stride Technology (Holdings) Limited (the "Company") presents the consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2002 and the comparative figures for the corresponding periods in 2001 as follows:

	Notes	(Unaudited)		(Unaudited)	
		Three months ended 30 September		Nine months ended 30 September	
		2002	2001	2002	2001
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	62,944	40,253	107,733	62,519
Cost of sales		(44,527)	(29,339)	(74,683)	(44,266)
Gross profit		18,417	10,914	33,050	18,253
Other revenue	2	64	36	243	75
Selling and distribution costs		(2,058)	(1,338)	(4,957)	(2,953)
Administrative costs		(3,054)	(2,943)	(8,624)	(6,667)
Other operating costs		-	(1,113)	(118)	(1,132)
Profit from operating activities	3	13,369	5,556	19,594	7,576
Finance costs	4	(415)	(192)	(1,132)	(503)
Share of losses of an associate		-	(28)	-	(43)
Profit before taxes and minority interests		12,954	5,336	18,462	7,030
Taxation	5	(2,087)	(567)	(3,093)	(738)
Minority interests, net of taxes		(813)	(652)	(1,309)	(720)
Net profit from ordinary activities attributable to shareholders	6	10,054	4,117	14,060	5,572
Earnings per share-Basic	8	RMB0.011	RMB0.005	RMB0.016	RMB0.007

* For identification purpose only

NOTES TO CONSOLIDATED QUARTERLY RESULTS REPORT

1. Corporate reorganisation, basis of preparation and principal accounting policies

The Company was incorporated in the Cayman Islands as an exempted company under the Companies Law (2001 Second Revision) of the Cayman Islands on 12 December 2001. Pursuant to a corporate reorganisation (the “Reorganisation”) in preparation for the listing of the Company’s shares on GEM, the Company became the ultimate holding company of the Group on 16 January 2002. Details of the Reorganisation are set out in the Company’s Prospectus dated 23 July 2002 (the “Prospectus”). The Company’s shares have been listed on GEM since 29 July 2002.

The consolidated quarterly results report set out above has been prepared as if the Reorganisation has been effective on 1 January 2001 rather than from the date on which the Reorganisation was completed. The results of subsidiaries or an associate acquired or disposed of during the periods under review are consolidated from or to their effective dates of acquisition or disposal, respectively. For the purpose of presenting the consolidated results of the Group during the periods under review, the results of Hangzhou Vico Software Engineering Co., Ltd. and Hangzhou Sino Stride Xingda Intelligent Information Technology Co., Ltd., former subsidiaries of the Company (hereinafter referred to as the “Disposed Operations”), which the Group had effective equity interests of 44.5% and 63%, respectively, and were disposed of to independent third parties in the second half of the year 2001, have been excluded and presented separately. Further details of the Disposed Operations are set out in note (6) of Notes to this consolidated quarterly results report below. All material intra-Group transactions and balances are eliminated on consolidation.

The principal accounting policies adopted by the Group in arriving at the financial information described in this quarterly results report are set out below:

- (a) This consolidated quarterly results report has been prepared under the historical cost convention in accordance with International Accounting Standards and Interpretations of the Standing Interpretations Committee (collectively as “IAS”).
- (b) This consolidated quarterly results report has been complied with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”).
- (c) The accounting policies and basis of preparation used in the preparation of the consolidated quarterly results report are consistent with those used in the Company’s Accountants’ Report set out in the Prospectus.

2. Turnover and revenue

Turnover represents the net invoiced value of system hardware sold, net of value-added tax, after allowances for returns, trade discounts and various types of revenue taxes where applicable, and system services rendered. All significant intra-group transactions are eliminated on consolidation.

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	62,944	40,253	107,733	62,519
Interest income	55	13	80	22
Other revenue	9	23	163	53
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	63,008	40,289	107,976	62,594
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

3. Profit from operating activities

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
This is arrived at after charging/(crediting):				
Auditors' remuneration	–	–	17	10
Amortisation of intangible assets	30	30	90	50
Amortisation of goodwill	2	10	7	21
Bank interest income	(55)	(13)	(80)	(22)
Depreciation	439	128	1,090	666
Operating lease rentals in respect of buildings	182	16	429	91
Staff costs:				
Retirement costs	183	83	338	148
Accommodation benefits	76	14	169	59
Other staff costs	2,972	1,812	5,416	3,627
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	3,231	1,909	5,923	3,834
Research and development costs	100	522	150	725
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4. Finance costs

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Interest on bank loans repayable within one year	380	186	908	451
Bank charges and commissions	35	6	224	52
	<u>415</u>	<u>192</u>	<u>1,132</u>	<u>503</u>

5. Taxation

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Hong Kong profits tax:	500	–	500	–
PRC income tax:				
– Group	1,587	567	2,593	738
– Associate	–	–	–	–
	<u>2,087</u>	<u>567</u>	<u>3,093</u>	<u>738</u>

The provision for Hong Kong profits tax is calculated at a statutory rate of 16% of the estimated assessable income for the periods under review.

No provision for deferred tax has been made, as the net effect of all temporary timing differences is immaterial.

According to the Income Tax Law of the People's Republic of China (the "PRC"), Zhejiang Sino Stride Technology Co., Ltd. ("Zhejiang Sino Stride"), a sino-foreign equity joint venture subsidiary, which is qualified as an advanced technology enterprise and operates in one of the approved high and new technology industrial development zones of the PRC, was granted a 3 years extension of tax relief from 1 January 1999 to 31 December 2001 and was subject to a corporate tax rate of 10% during the extended period. From 2002 onwards, Zhejiang Sino Stride is to be taxed at the rate of 15% as the preferential income tax treatment was expired.

Hangzhou Sino Stride Xingda Computer System Co., Ltd. ("Xingda Computer"), a PRC subsidiary, which is also qualified as an advanced technology enterprise and operates in one of the approved high and new technology industrial development zones of the PRC, is to be taxed at a corporate tax rate of 15% from 2002 onwards. In 2001, Xingda Computer was exempted from corporate income tax of the PRC under the relevant tax relief policy.

The applicable corporate income tax rate of Hangzhou Sino Stride Yida System Technology Co., Ltd. (“Yida System”), a PRC subsidiary, is 33% based on existing legislation, interpretations and practices in respect thereof.

There are no significant potential deferred tax liabilities for which provision has not been made.

6. Net profit from ordinary activities attributable to shareholders

The consolidated results of the Group during the periods ended 30 September 2001 and 2002 are presented by excluding the results of the Disposed Operations. Had the results of the Disposed Operations been included in the Group’s results during the periods under review, the Group’s consolidated net profit from ordinary activities attributable to shareholders would have been as follows:

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Consolidated net profit from ordinary activities attributable to shareholders	10,054	4,117	14,060	5,572
Net profit/(loss) of the Disposed Operations attributable to the Group*	<u>—</u>	<u>83</u>	<u>—</u>	<u>(239)</u>
Consolidated net profit from ordinary activities attributable to shareholders, including the financial results of the Disposed Operations	<u>10,054</u>	<u>4,200</u>	<u>14,060</u>	<u>5,333</u>

* The net profit/(loss) of the Disposed Operations throughout the periods under review from 1 January 2001 or the respective dates of their incorporation/establishment, where this is a shorter period, to 30 September 2001 is further analyzed as follows:

	(Unaudited) Three months ended 30 September 2001 <i>RMB'000</i>	(Unaudited) Nine months ended 30 September 2001 <i>RMB'000</i>
Turnover	433	523
Cost of sales	(118)	(124)
Gross profit	315	399
Other revenue	1	3
Selling and distribution costs	(72)	(252)
Administrative costs	(116)	(579)
Other operating costs	—	—
Profit/(loss) from operating activities	128	(429)
Finance costs	—	—
Profit/(loss) before tax	128	(429)
Taxation	—	—
Profit/(loss) before minority interests	128	(429)
Minority interests	(45)	190
Net profit/(loss) of the Disposed Operations	<u>83</u>	<u>(239)</u>

7. Dividends

The dividends declared by a subsidiary of the Company to its then shareholders during the periods under review were as follows:

	(Unaudited) Three months period ended 30 September 2002 <i>RMB\$'000</i>		(Unaudited) Nine months period ended 30 September 2002 <i>RMB\$'000</i>	
	2001 <i>RMB\$'000</i>	2002 <i>RMB\$'000</i>	2001 <i>RMB\$'000</i>	2002 <i>RMB\$'000</i>
Sino Stride (BVI) Limited	—	—	—	<u>6,633</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>559</u>

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (2001: Nil).

8. Earnings per share

Earnings per share for the three months and nine months ended 30 September 2002 have been computed by dividing unaudited net profit from ordinary activities attributable to shareholders of approximately RMB10,054,000 and RMB14,060,000 respectively (Three months and nine months ended 30 September 2001: approximately RMB4,117,000 and RMB5,572,000 respectively) to the weighted average number of approximately 876,863,004 and 876,863,004 (2001: 810,000,000 and 810,000,000) ordinary shares in issue throughout the relevant accounting periods respectively, after taking into consideration of the capitalization issue, as described in the paragraph headed “Written resolutions of all shareholders of the Company passed on 16 July 2002” in Appendix V to the Prospectus. Diluted earnings per share was not presented because there were no dilutive potential ordinary shares in existence during the periods ended 30 September 2002 (2001: Nil).

9. Share capital and reserves

	(Unaudited) three months ended 30 September								
	2002							2001	
	Share capital	Share premium	Contribution surplus	Capital reserve	Statutory surplus reserve	Enterprise expansion fund	Retained profits	Total	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As beginning of period	-	-	13,499	-	1,186	352	6,956	21,993	12,040
Net profit for the period	-	-	-	-	-	-	10,054	10,054	4,200
Premium from issue of shares	-	92,971	-	-	-	-	92,971	-	-
Share issue expenses	-	(14,586)	-	-	-	-	(14,586)	-	-
Capitalisation	8,586	(8,586)	-	-	-	-	-	-	-
New issues	2,905	-	-	-	-	-	2,905	-	-
Additional acquisition on shareholding of a subsidiary	-	-	-	1,355	-	-	-	1,355	-
As end of period	<u>11,491</u>	<u>69,799</u>	<u>13,499</u>	<u>1,355</u>	<u>1,186</u>	<u>352</u>	<u>17,010</u>	<u>114,692</u>	<u>16,240</u>

(Unaudited) nine months ended 30 September

	2002							2001	
	Share capital	Share premium	Contribution surplus	Capital reserve	Statutory surplus reserve	Enterprise expansion fund	Retained profits	Total	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As beginning of period	-	-	13,499	-	1,149	315	9,657	24,620	11,466
Net profit for the period	-	-	-	-	-	-	14,060	14,060	5,333
Premium from issue of shares	-	92,971	-	-	-	-	-	92,971	-
Share issue expenses	-	(14,586)	-	-	-	-	-	(14,586)	-
Capitalisation	8,586	(8,586)	-	-	-	-	-	-	-
New issues	2,905	-	-	-	-	-	-	2,905	-
Transfer to reserves	-	-	-	-	37	37	(74)	-	-
Dividends	-	-	-	-	-	-	(6,633)	(6,633)	(559)
Additional acquisition on shareholding of a subsidiary	-	-	-	1,355	-	-	-	1,355	-
As end of period	<u>11,491</u>	<u>69,799</u>	<u>13,499</u>	<u>1,355</u>	<u>1,186</u>	<u>352</u>	<u>17,010</u>	<u>114,692</u>	<u>16,240</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the nine months ended 30 September 2002, the turnover of the Group amounted to approximately RMB107.7 million, representing an increase of approximately 72 per cent over the corresponding period in 2001. The growth in the turnover of the Group for the period ended 30 September 2002 was mainly attributed by the increase in the Group's contract size and number of clients resulting from the growing demand of intelligent building system integration solutions in the PRC.

Operating profit before tax and minority interests of the Group as a percentage of turnover increased from 11% to 17%, as compared with the corresponding period in 2001. This is mainly due to that fixed overheads included in selling and distribution expenses and administration expenses did not rise in line with the increase in turnover. In addition, the rise in turnover was far much larger than the additional fixed overheads incurred in the new Hong Kong office.

For the three months ended 30 September 2002, turnover of the Group increased to approximately RMB62.9 million, with a 56% growth rate when comparing to the corresponding period in 2001. Operating profit before tax and minority interests of the Group as a percentage of turnover increased from 13% to 21%, as compared with the corresponding period in 2001.

Liquidity, financial resources and debt ratio

The Group generally finances its operations with internally generated financial resources, short-term bank loans and part of the proceeds from the Placing of the Company's shares on 29 July 2002. As at 30 September 2002, the Group had outstanding bank borrowings of RMB26.9 million which are unsecured and guaranteed by Zhejiang Sino Stride or Xingda Computer. During the periods under review, the Group had not created any mortgage.

As at 30 September 2002, the Group held cash and cash equivalents approximately amounting to RMB79.2 million.

The Group expresses its gearing ratio as a percentage of bank borrowings over total assets. As at 30 September 2002, the Group's gearing ratio was 11% (2001: 16%). The reduction in gearing ratio was mainly due to the fund injection of the proceeds from the Placing of the Company's shares on 29 July 2002.

The Group adopts a conservative treasury policies in cash and financial management. To achieve better risk control and minimize cost of funds, the Group's treasury activities are centralized. Cash is generally placed on deposits, mostly denominated in Renminbi and Hong Kong dollars. The Group's liquidity and financing arrangements are reviewed regularly.

Significant investments

Save as those disclosed in the paragraph “OPERATIONS REVIEW”, the Group did not hold any significant investment as at 30 September 2002.

Material acquisitions and disposals of subsidiaries and affiliated companies

Save as those disclosed in the paragraph “OPERATIONS REVIEW”, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the period ended 30 September 2002.

Foreign currency risk

During the periods under review, the Group did not have significant exposure to market risk for changes in foreign currency exchange rates as a majority of the Group’s monetary assets and liabilities are denominated in Renminbi and Hong Kong dollars.

Contingent liabilities

As of the date of this quarterly results announcement and at 31 December 2001, the Board is not aware of any material contingent liabilities.

Segmental information

The Group’s turnover and profit for the periods ended 30 September 2001 and 2002 were mainly derived from system integration and development services provided to domestic customers. The principal assets employed by the Group are located in the PRC. Accordingly, no segmental analysis by business and geographical segment is provided for the periods ended 30 September 2001 and 2002.

Charge on assets

Other than the Group’s bank deposits of RMB1,443,634 (as at 31 December 2001: RMB2,494,050) had been pledged to financial institutions for the issuance of letter of credits as at 30 September 2002, the Group did not have any charge on its assets.

Employees

As at 30 September 2002, the Group had 321 (2001: 286) employees. Total staff costs amounted to approximately RMB5.9 million for the nine months ended 30 September 2002, representing an 55% increase from approximately RMB3.8 million for the corresponding period of the previous year. The increase in staff costs was mainly due to the employment of more staff to cope with the business expansion of the Group. The Board believes that the quality of its employees is the most important factor in sustaining the Group’s growth and improving its profitability. Employees are remunerated according to their performance and working experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus.

Future plans for material investments or capital assets

The Group intends to pursue strategic acquisitions of and/or investments in system integration business and relevant system software development business to strengthen or complement the Group's existing business. Up to the date of this quarterly results announcement, no such acquisitions and/or investments targets other than those mentioned in the paragraph "OPERATIONS REVIEW" have been located by the Group. Accordingly, the Group did not have any details of future plan for material investments or capital assets as at 30 September 2002.

OPERATIONS REVIEW

During the periods under review, Zhejiang Sino Stride has been assessed as an enterprise with AAA credit rating by the relevant government organization in Zhejiang Province. Zhejiang Sino Stride is the only one enterprise engaging in provision for intelligent building system integration solutions and computer system network integration solutions in Hangzhou are entitled to this credit rating. In addition, Xingda Computer and Yida System have also been assessed as the enterprises with AA credit rating.

In August 2002, the Group participated in Symposium on China Medical Inspection and Investigation organized by China Medical Society-Jiangsu division, displaying and promoting the Group's self-developed e-LIS as well as other related software products. Besides, the Group participated in the "13th China Software Trade Fair" which is renowned as the largest-scale one in the history of software trade fair held within Zhejiang Province in September 2002. The Group took the above opportunities to explore business collaboration with various entities from different provinces in the PRC.

On 13 September 2002, the Company increased its equity interest in Zhejiang Sino Stride from 90 per cent. to 97.5 per cent. by making a further capital contribution through a wholly-owned subsidiary of the Company, Sino Stride (BVI) Limited, in the amount of RMB45 million pursuant to an approval granted by the relevant office of the Ministry of Foreign Trade and Economic Co-operation of the PRC. In doing so, the Group enables to deploy the funds raised from the placing of the Company's shares on 29 July 2002 for implementing its business plan which set out in the Prospectus. Furthermore, from the experiences of Zhejiang Sino Stride, some of its potential customers require that only companies with registered capital over RMB50 million could be bid for and engaged in larger scale projects. As such, the injection of fund into Zhejiang Sino Stride would strategically position the Group to capture the market potential in the field of development and provision of system integration solutions for larger scale projects in the PRC in the coming days.

In addition, in September 2002, Zhejiang Sino Stride invested an amount of RMB2 million into a newly formed company namely "杭州國家軟件產業基地有限公司" and then owns a 10% stake in this company. The principal activities of this company are to plan, develop and minister software enterprise foundation bases and provide related auxiliary services thereto. As at 30 September 2002, this company has not commenced any business.

To realize the synergy effects from a strategic cooperation agreement dated 11 January 2002 entered between Zhejiang Sino Stride and Singapore Technologies Electronics Limited ("ST Elect"), delegation of ST Elect has visited the Group's headquarter in Zhejiang Province to discuss the details of wide-ranging business collaboration issues in September 2002.

For the periods under review, the Group completed 4 projects and was engaged in 72 projects of intelligent building system integration solutions. Meanwhile, the Group completed 29 projects and was engaged in 100 projects of system software. In addition, the Group won the bid for the construction projects of Shaoxing Opera Theatre, Quzhou City People Court of Zhejiang Province, Wuxi 4th People Hospital as well as new campus of Zhejiang University.

PROSPECTS

In light of the 2008 Beijing Summer Olympic Games, PRC's entry to the WTO and PRC's continuous economic growth, the Board is of the opinion that the Group will have a considerable amount of business opportunities in the business sector of the PRC's intelligent building system integration solutions. Moreover, following the accession of the PRC to the WTO as mentioned above, there will be a necessity for the government organisations, public agencies, medical institutions, private enterprises and education institutions to be in line with their counterparts in the rest of the world. Accordingly, there will be a potential growth in the computer network system integration solutions and system software market in the PRC.

In order to capture the potential market growth, the Group will continue to intensify its marketing and promotion efforts, establish branches and/or subsidiaries in various provinces and place more emphasis on the development of its products. The Group also intends to pursue strategic acquisition of and/or investments in system integration business and relevant system software development business in the future if such opportunities arise to strengthen and complement the Group's existing business. Meanwhile, the Group would progressively transform any alliance cooperation plan with ST Elect into action to be benefited from leveraging on the technological know-how of ST Elect in developing new products.

OTHER INFORMATION

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30 September 2002, the interests of the Directors in the shares of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of Directors	Corporate Interests	Personal/ Family/Other Interests	Total	Percentage of issued Shares
Mr. Chau Chit (<i>Note 1</i>)	648,000,000	–	648,000,000	59.77%
Mr. Wong Wai Tin (<i>Note 2</i>)	129,600,000	–	129,600,000	11.95%

Notes:

- These shares are held by Mega Start Limited, 50% and 30% of the issued share capital of which are owned by Mr. Chau Chit and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, respectively.
- These shares are held by Mega Start Limited, 20% of the issued share capital of which is owned by Mr. Wong Wai Tin.

DIRECTORS' RIGHT TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

Save as disclosed above, none of the Directors or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any body corporate, or had exercised any such right as at 30 September 2002.

SUBSTANTIAL SHARHOLDERS' INTERESTS

At 30 September 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows the Company had been notified of the following substantial shareholders' interests, being interest in 10% or more of the Company's issued share capital.

Name of shareholders	Number of ordinary shares held	Percentage of issued share capital
Mega Start Limited (<i>Note 1</i>)	648,000,000	59.77%
ST Elect (<i>Note 2</i>)	108,000,000	9.96%

Notes:

1. Mega Start Limited is an investment holding company incorporated in the BVI, the issued share capital of which is beneficially owned as to 50%, 30% and 20%, by Mr. Chau Chit, Ms. Ting Hiu Wan and Mr. Wong Wai Tin, respectively. Pursuant to the GEM Listing Rules, Mega Start Limited, Mr. Chau Chit, Ms. Ting Hiu Wan and Mr. Wong Wai Tin are also regarded as initial management shareholders.
2. ST Elect is a wholly-owned subsidiary of Singapore Technologies Engineering Limited whose shares are listed on the Singapore Exchange Securities Trading Limited. As disclosed in the annual report of Singapore Technologies Engineering Limited for the year ended 31 December 2001 and published in March 2002, its single largest shareholder at that time was Singapore Technologies Pte Ltd. ST Elect is principally engaged in the system integration, core product design and development and maintenance operations in industrial automation, simulation and defence electronics. Pursuant to the GEM Listing Rules, ST Elect and Singapore Technologies Engineering Limited are also regarded as initial management shareholders. Pursuant to the ST Elect Share Purchase Agreement, ST Elect is entitled to appoint at least one but not more than such number of Director(s) that would be proportional to the shareholding of ST Elect in the Company at any time (and from time to time) prior to the listing of the Company's shares on GEM. Mr. Ng Chong Khim of ST Elect has been appointed on 15 March 2002 as a non-executive Director. Mega Start Limited and ST Elect currently have no intention for ST Elect to be involved in any management function of the Company.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance as at 30 September 2002.

MANAGEMENT SHAREHOLDERS' INTERESTS

As at 30 September 2002, the following shareholders entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company and is able, as a practical matter, to direct or influence the management of the Company:

Name of shareholders	Number of ordinary shares held	Percentage of issued share capital
Mega Start Limited (<i>Note 1</i>)	648,000,000	59.77%
ST Elect (<i>Note 2</i>)	108,000,000	9.96%

Notes:

1. Mega Start Limited is an investment holding company incorporated in the BVI, the issued share capital of which is beneficially owned as to 50%, 30% and 20%, by Mr. Chau Chit, Ms. Ting Hiu Wan and Mr. Wong Wai Tin, respectively. Pursuant to the GEM Listing Rules, Mega Start Limited, Mr. Chau Chit, Ms. Ting Hiu Wan and Mr. Wong Wai Tin are also regarded as the substantial shareholders to whom the moratorium period applies. Each of Mr. Chau Chit, Ms. Ting Hiu Wan and Mr. Wong Wai Tin has undertaken with the Company, South China Capital Limited (as the sponsor), Partners Capital International Limited (on behalf of the underwriters) and the Stock Exchange that he/she will not dispose of (nor enter into any agreement to dispose of) any of his/her direct or indirect interest in the share capital of Mega Start Limited for a period of 12 months from the date on which dealings in the Company's shares on GEM commence.
2. ST Elect is a wholly-owned subsidiary of Singapore Technologies Engineering Limited whose shares are listed on the Singapore Exchange Securities Trading Limited. As disclosed in the annual report of Singapore Technologies Engineering Limited for the year ended 31 December 2001 and published in March 2002, its single largest shareholder at that time was Singapore Technologies Pte Ltd. ST Elect is principally engaged in the system integration, core product design and development and maintenance operations in industrial automation, simulation and defence electronics. Pursuant to the GEM Listing Rules, ST Elect and Singapore Technologies Engineering Limited are also regarded as substantial shareholders. Pursuant to the ST Elect Share Purchase Agreement, ST Elect is entitled to appoint at least one but not more than such number of Director(s) that would be proportional to the shareholding of ST Elect in the Company at any time (and from time to time) prior to the listing of the Company's shares on GEM. Mr. Ng Chong Khim of ST Elect has been appointed on 15 March 2002 as a non-executive Director. Mega Start Limited and ST Elect currently have no intention for ST Elect to be involved in any management function of the Company. Singapore Technologies Engineering Limited has undertaken with the Company, South China Capital Limited (as the sponsor), Partners Capital International Limited (on behalf of the underwriters) and the Stock Exchange that, for a period of 12 months following the date on which dealings in the Company's shares on GEM commence, it will not sell, transfer or otherwise dispose of (nor enter into any agreement to sell, transfer or otherwise dispose of) such number of shares in the capital of ST Elect that would render its direct or indirect interests in the capital of ST Elect after such disposal to fall below 35 per cent. of its issued share capital.

OUTSTANDING SHARE OPTIONS

On 16 July 2002, the Company conditionally adopted a share option scheme (the "Share Option Scheme"), the principal terms of which are set out in the section headed "Share Option Scheme" in appendix V to the Prospectus. Since the adoption of the Share Option Scheme, the Company has not granted any option under the Share Option Scheme to its Directors and employees.

SPONSOR'S INTEREST

As at 30 September 2002, neither South China Capital Limited (the "Sponsor") nor its Directors or employees or associates, had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the Sponsor Agreement dated 23 July 2002, entered into between the Company and the Sponsor, the Sponsor has agreed to act as a sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the date on which dealings in shares on GEM commence (i.e. 29 July 2002) to 31 December 2004 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein.

DIRECTORS' INTEREST IN COMPETING BUSINESS

ST Electronics (Shanghai) Co., Ltd. ("STE Shanghai"), a wholly foreign-owned enterprise established by ST Elect, is also engaged in the business of intelligent building management systems and home automation systems in the PRC.

Save as disclosed above, none of the Directors or the substantial shareholders or the management shareholders of the Company or their respective associates had an interest in a business that competed with or might compete with the business of the Group as at 30 September 2002.

AUDIT COMMITTEE

Pursuant to the GEM Listing Rules, an audit committee, comprising two independent non-executive Directors, namely Messrs. Cai Xiao Fu and Wu Ming Dong, was established on 16 July 2002.

The written terms of reference which describe the authorities and duties of the audit committee were prepared in compliance with 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 reports and accounts, half-year reports and quarterly reports and to provide advice and comments thereon on the Board.

The audit committee has reviewed the unaudited consolidated quarterly results report for the nine months ended 30 September 2002.

BOARD PRACTICES AND PROCEDURES

During the period from the date of listing of the Company's shares on 29 July 2002 to 30 September 2002, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the date of listing of the Company's shares on 29 July 2002 to 30 September 2002, there had been no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

By order of the Board
Chau Chit
Chairman

Hong Kong, 8 November 2002