



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)*

**First Quarterly Report 2003**

\* *For identification purpose only*

## **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 websites in order to obtain up-to-date information on GEM-listed issuers.**

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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 (the “GEM Listing Rule”) 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.*



**SINO STRIDE TECHNOLOGY (HOLDINGS) LIMITED**  
**中程科技集團有限公司\***

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

**FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2003  
(UNAUDITED)**

The board of directors (the “Board”) of Sino Stride Technology (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2003, together with the comparative figures for the three months ended 31 March 2002 (the “Relevant Period”) as follows:

**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

		<b>(Unaudited)</b>	
		<b>For three months</b>	
		<b>ended 31 March</b>	
		<b>2003</b>	2002
	<i>Notes</i>	<b>RMB'000</b>	<i>RMB'000</i>
Turnover	2	<b>27,004</b>	19,151
Cost of sales		<b>(18,034)</b>	(12,396)
		<hr/>	<hr/>
Gross profit		<b>8,970</b>	6,755
Other revenue	2	<b>355</b>	138
Selling and distribution costs		<b>(3,211)</b>	(1,895)
Administrative costs		<b>(3,218)</b>	(2,402)
		<hr/>	<hr/>
Profit from operating activities	3	<b>2,896</b>	2,596
Finance costs	4	<b>(471)</b>	(254)
		<hr/>	<hr/>
Profit before tax and minority interests		<b>2,425</b>	2,342
Tax	5	<b>(435)</b>	(503)
Minority interests, net of taxes		<b>(76)</b>	(77)
		<hr/>	<hr/>
Net profit from ordinary activities attributable to shareholders		<b>1,914</b>	1,762
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share			
– Basic and diluted	6	<b>RMB0.002</b>	RMB0.002
		<hr/> <hr/>	<hr/> <hr/>

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## NOTES TO THE UNAUDITED CONSOLIDATED RESULTS

### 1. Group reorganization and basis of preparation

#### *The Company*

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 December 2001 under the Companies Law (2001 Second Revision) of the Cayman Islands. As at the date of incorporation of the Company, its authorised share capital was HK\$300,000, divided into 30,000,000 shares, of which one share credited as fully paid was issued to Mega Start Limited, the holding company of the Company. Apart from the aforesaid share issue, no other transactions were carried out by the Company for the period from 12 December 2001 to 31 December 2001. Accordingly, the Company did not have any results for the period from 12 December 2001 (date of incorporation) to 31 December 2001 and did not have any assets, liabilities and shareholders' equity as at 31 December 2001.

#### *Group Reorganisation*

Pursuant to a Group Reorganisation completed on 16 January 2002 (the "Group Reorganisation") to rationalise the Group's structure in preparation for the public listing of the Company's share on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Sino Stride (BVI) Limited, a company incorporated in the British Virgin Islands, which is, as at 16 January 2002, the immediate holding company of the then subsidiaries of the Company.

Further details of the Group Reorganisation are set in the prospectus (the "Prospectus") issued by the Company dated 23 July 2002. The shares of the Company were listed on the GEM of the Stock Exchange of Hong Kong Limited with effect from 29 July 2002.

#### *Basis of presentation*

The consolidated results are presented on the following bases:

- (i) The Group Reorganisation involved companies under common control. The consolidated results have been prepared on merger basis of accounting in accordance with International Accounting Standards 22 "Business Combination". On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation, rather than from the date of their acquisitions on 16 January 2002. In the opinion of the directors, the consolidated results prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.
- (ii) The consolidated results are prepared under the historical cost convention in accordance with International Accounting Standards and Interpretations of the Standing Interpretations Committee as adopted by International Accounting Standards Board (Collectively as "IAS") and the disclosure requirements of the Hong Kong Companies Ordinance. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002.

## 2. Turnover and revenue

Turnover represents the net invoice value of goods sold and contract revenue on the rendering of installation, system development, system integration, system design and related services, net of value-added tax, after allowances for returns, trade discounts and various types of revenue taxes where applicable. All significant intra-group transactions are eliminated on consolidation.

	<b>(Unaudited)</b>	
	<b>For three months ended 31 March</b>	
	<b>2003</b>	<b>2002</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Turnover	<b>27,004</b>	19,151
Amortisation of negative goodwill	<b>88</b>	–
Interest income	<b>195</b>	13
Government grants	<b>70</b>	–
Others	<b>2</b>	125
	<hr/>	<hr/>
Other revenue	<b>355</b>	138
	<hr/>	<hr/>
Total revenue	<b>27,359</b>	19,289
	<hr/> <hr/>	<hr/> <hr/>

## 3. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	<b>(Unaudited)</b>	
	<b>For three months ended 31 March</b>	
	<b>2003</b>	<b>2002</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Auditors' remuneration	<b>114</b>	10
Amortisation of intangible assets	<b>82</b>	30
Amortisation of (negative goodwill)/goodwill	<b>(88)</b>	2
Interest income	<b>(195)</b>	(13)
Depreciation	<b>357</b>	319
Interest on bank loans repayable within one year	<b>443</b>	253
Minimum lease payments under operating leases for buildings	<b>244</b>	60
Staff costs:		
Retirement benefits	<b>152</b>	65
Accommodation benefits	<b>89</b>	40
Other staff costs	<b>2,423</b>	1,296
	<hr/>	<hr/>
	<b>2,664</b>	1,401
	<hr/> <hr/>	<hr/> <hr/>

#### 4. Finance costs

	<b>(Unaudited)</b>	
	<b>For three months ended 31 March</b>	
	<b>2003</b>	<b>2002</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Interest on bank loans repayable within one year	<b>443</b>	253
Bank charges and commissions	<b>28</b>	1
	<b><u>471</u></b>	<b><u>254</u></b>

#### 5. Tax

	<b>(Unaudited)</b>	
	<b>For three months ended 31 March</b>	
	<b>2003</b>	<b>2002</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Provision for PRC income tax	<b>435</b>	503

No provision for Hong Kong profit has been made, as the Group had no assessable profits arising in Hong Kong during the Relevant Period. Taxes on profits assessable elsewhere has been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

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 PRC subsidiary of the Company, is qualified as an advanced technology enterprise and operates in one of the approved high and new technology industrial development zones of the PRC, and is subject to a corporate tax rate of 15%, being preferential tax rate applicable to companies operating in approved high and new technology industrial development zones of the PRC.

Hangzhou Sino Stride Xingda Computer System Co., Ltd. ("Xingda Computer"), a PRC subsidiary of the Company, 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, was exempted from corporate income tax of the PRC for the two years starting from its first year of operation, i.e. 1 January 2000 to 31 December 2001.

As of 31 March 2003, Xingda Computer is subject to an income tax rate of 33%.

The applicable corporate income tax rate of Hangzhou Sino Stride Yida System Technology Co., Ltd. (“Yida System”), a PRC subsidiary of the Company, 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. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the three months ended 31 March 2003 of approximately RMB1,914,000 (2002: RMB1,762,000) and the weighted average of 1,084,090,000 ordinary shares in issue for the three months ended 31 March 2003 (2002: 810,000,000 ordinary shares on the assumption that the Group Reorganisation was completed on 1 January 2001).

Diluted earnings per share equals basic earnings per share because there were no potential dilutive ordinary shares outstanding during the three months ended 31 March 2003 and 2002.

## 7. Interim dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: Nil).

## 8. Share capital and reserves

Movement in the share capital and reserves of the Group were as follows:

	Share capital	Share premium	Contri- bution surplus	Statutory surplus reserve	Enterprise expansion fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2002	–	–	13,499	1,149	315	9,657	24,620
Net profit for the period						1,762	1,762
As at 31 March 2002	<u>–</u>	<u>–</u>	<u>13,499</u>	<u>1,149</u>	<u>315</u>	<u>11,419</u>	<u>26,382</u>
As at 1 January 2003	11,491	69,800	13,499	1,785	951	34,435	131,961
Final dividend declared	–	–	–	–	–	(13,790)	(13,790)
Transfer to reserve	–	–	–	644	644	(1,288)	–
Net profit for the period						1,914	1,914
As at 31 March 2003	<u>11,491</u>	<u>69,800</u>	<u>13,499</u>	<u>2,429</u>	<u>1,595</u>	<u>21,271</u>	<u>120,085</u>

**(a) Contribution surplus**

The contribution surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group Reorganisation as set out in note 1 to the consolidated results, over the nominal value of the Company's shares issued in exchange therefor. The contribution surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

**(b) Statutory surplus reserve**

In accordance with the Company Law of the PRC and the articles of association of the PRC subsidiaries, certain PRC subsidiaries are required to allocate 5% to 10% of its profit after tax, as determined in accordance with the accounting principle generally accepted in the PRC ("PRC GAAP") applicable to the PRC subsidiaries, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the PRC subsidiaries, and part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

**(c) Enterprise expansion fund**

In accordance with the Company Law of the PRC, certain PRC subsidiaries are required to transfer 5% to 10% of its profit after tax, as determined in accordance with PRC GAAP applicable to the PRC subsidiaries, to their enterprise expansion fund ("EEF"), which is a non-distributable reserve other than in the event of the liquidation of these subsidiaries. EEF must be used for production and operation expansion purposes.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Overview**

For the three months ended 31 March 2003, the Group recorded a turnover of approximately RMB27 million, representing an increase of approximately 42% over the three months ended 31 March 2002. The growth in the turnover of the Group for the three months ended 31 March 2003 was mainly attributed to the increase in the Group's contract value and number of clients resulting from the growing demand of intelligence building system solutions in the PRC.

In order to capture the potential market growth, the Group has expanded its market coverage through the establishment of branches and subsidiaries. The percentage of selling and distribution expenses to turnover increased from 10% for the three months ended 31 March 2002 to 12% for the three months ended 31 March 2003 while the percentage of administrative expense to turnover decreased from 13% for the three months ended 31 March 2002 to 12% in the three months ended 31 March 2003.

For the three months ended 31 March 2003, the Group's net profit from ordinary activities attributable to shareholders amounted to approximately RMB1.9 million, representing an increase of approximately 9% over the three months ended 31 March 2002.

#### **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 31 March 2003, the Group had outstanding bank borrowings of RMB46.4 million which are unsecured and guaranteed by Zhejiang Sino Stride or Xingda Computer. During the three months ended 31 March 2003, the Group did not create any mortgage.

As at 31 March 2003, the Group's cash and cash equivalent amounted to approximately RMB66.6 millions.

The Group adopts 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.

#### **Gearing ratio**

The Group expresses its gearing ratio as a percentage of bank borrowings over total assets. As at 31 March 2003, the Group's gearing ratio was 19% (2002: 22%). 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.

#### **Significant investments**

Save as those disclosed in the paragraph "OPERATIONS REVIEW", the Group did not hold any significant investment as at 31 March 2003.

## **Material acquisitions and disposals of subsidiaries and affiliated companies**

Save as those disclosed in the paragraph "OPERATIONS REVIEW", the Group did not make any material acquisitions or disposals of subsidiaries or affiliated companies during the three months ended 31 March 2003.

## **Exchange rate risk**

The Group has foreign currency risk as certain of its payables to suppliers, trade receivables and bank borrowings are denominated in foreign currencies, principally United States dollars. Fluctuations in exchange rates of Hong Kong Dollars and Renminbi against foreign currencies could affect the Group's results of operation.

## **Contingent liabilities**

As of the date of this results announcement and at 31 March 2003, the Board is not aware of any material contingent liabilities.

## **Segmental information**

The Group's turnover and profit for the periods ended 31 March 2003 and 2002 were mainly derived from system integration and development services provided to domestic customers. Accordingly, no segmental analysis by business and geographical segment is provided for the periods ended 31 March 2003 and 2002.

## **Charge on assets**

Other than the Group's bank deposits of RMB2,605,938 (2002: RMB2,359,900) which had been pledged to financial institutions for the issuance of letter of credits, as at 31 March 2003, the Group did not have any charge on its assets.

## **Employees**

As at 31 March 2003, the Group had 337 (2002: 280) employees. Total staff costs increase to approximately RMB2.7 million for the three months ended 31 March 2003 from approximately RMB1.4 million for the three months ended 31 March 2002. The increase in staff costs was mainly due to the employment of more staff to cope with the expansion of the Group's business. The Board believes that the quality of its employees is the most important factor in sustaining the Group's growth and enhancing 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 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 intended plans for material investments or capital assets as at 31 March 2003.

## OPERATIONS REVIEW

In February 2003, Zhejiang Sino Stride successfully obtained the certificate of conformity of ISO 9001: 2000 and was awarded as one of the Top Ten Software Enterprises of Zhejiang Province in 2003 by the Zhejiang Province Department of Information Industry.

On 3 March 2003, our Chairman, Mr. Chau Chit, was awarded the 2002 年度管理創新獎 (Business Innovation and Management Awards in year 2002) by the government of Hangzhou City and the committee of High and New Technology Industrial Development zone of Hangzhou City.

During the three months ended 31 March 2003, Zhejiang Sino Stride, Xingda Computer and Yida System have successfully signed 20, 15 and 11 contracts respectively with various organizations including 浙江省煙草公司東陽市分公司 (Zhejiang Provincial Tobacco Company, Dongang City branch), 杭州師範學院 (Hangzhou Teachers and Education College), 紹興市公共衛生服務中心 (Zhaqoching Shaxing City Public Health Service Center), 溫州市黃龍康城 (Wenzhou City Huanglong Kang Area) and 寧波水利局 (Ningbo City Water Conservancy Bureau).

With the cooperation with Zhejiang University, the Group completed the principal part of medical image network system and has started the development of EEG Holter. On 30 January 2003, one of the Group's developed system, namely 中程醫院信息系統 (Sino Stride Hospital Information System), was approved by the 浙江省科技廳 (Technology Department of Zhejiang Province) and was commented as successfully developed products which have high standard in artificial intelligence application and standardization.

During March 2003, the Group has applied various registrations for its newly developed products including 中程政府機關公文處理系統 (Sino Stride Government Documents and Administration System), 中程政府辦公信息採編系統 (Sino Stride Government Information System), 中程自助網站管理系統 (Sino Stride DIY Web Page Administration System), 中程車輛監控管理系統 (Sino Stride Motor Vehicle Monitoring and Controlling System) and 中程放射影像診斷工作站 (Sino Stride Medical Radiation Diagnose Workstation). Beside, the Group successfully obtained the approval for the registration of the trademarks used by the Group in Hong Kong till 2 March 2009.

Yida System has signed a master distribution agreement with 北京福愛樂科技發展有限公司 (Beijing FuAiLe Technology Co., Ltd, ("Beijing FuAiLe")) on 1 January 2003. Under this agreement, the Group will be the master distributor of Beijing FuAiLe's medical plastic products including bio-medical syndicated organic materials.

On 3 January 2003, the Group has signed a distribution partner agreement with Enterasys Networks Singapore Pte Ltd. ("Enterasys"), which enable the Group to obtain system hardware and licensed software from Enterasys with more favorable terms.

On 1 March 2003, the Group was appointed as the master distributor of 北京中科紅旗軟件技術有限公司 (Beijing Red Flag Software Co., Ltd ("Bejing Red Flag")). Beijing Red Flag is famous in developing and promoting operation system and application software under Linux environment.

In March 2003, Zhejiang Sino Stride invested the sum of RMB2,000,000 (representing 40% stake) into a newly formed company namely 深圳法爾勝中程科技有限公司 (Shenzhen Fasten Sino Stride Technology Limited). The principal activities of this company are to research and develop relevant technology for computer software and hardware and provide digital system design and supply and distribute hardware and general merchandise and provide related information and enquiry services thereto. As at 31 March 2003, this company has not commenced any business.

The Group will continue to explore the possibility of various forms of alliance with reputable enterprises and research institution to further complement its existing business and to enhance its competitiveness in the industry.

## **PROSPECTS**

In light of the 2008 Beijing Summer Olympic Games, PRC's entry to the WTO and PRC's continuous economic growth, the Board believes that the Group will have a considerable amount of business opportunities in PRC's intelligent building system integration solutions industry. Through its Beijing branch, the Group is actively exploring business collaboration opportunities in relation to the Beijing 2008 Summer Olympic Games. 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 the system software markets 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 continue to explore the possibility of various forms of alliance with reputable enterprises and research institutions in order to further enhance its competitiveness in the industry.

## **DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES**

As at 31 March 2003, 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:

<b>Name of Directors</b>	<b>Corporate Interests</b>	<b>Percentage of the Company's issued Shares</b>
Mr. Chau Chit	648,000,000	59.77%
Mr. Wong Wai Tin	129,600,000	11.95%

Mega Start Limited, the ultimate holding company of the Company, is held by Mr. Chau Chit, a director, and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wang Wai Tin, a director, in the proportions of 50%, 30% and 20%, respectively.

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 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 31 March 2003.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES**

At no time during the three months ended 31 March 2003 was the Company, its holding company, or any of its subsidiary and fellow subsidiaries a party to any arrangement enabling any directors of the Company to acquire benefits by means of acquiring of shares in the Company or any other body corporate.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31 March 2003, the following interests, being interest of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name of shareholders</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's share capital</b>
Mega Start Limited	648,000,000	59.77%
Singapore Technologies Electrics Limited ("ST Elect")	108,000,000	9.96%

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

## **SHARE OPTIONS SCHEME**

Pursuant to written resolutions of the shareholders of the Company dated 16 July 2002, a share option scheme (the "Scheme") was approved and adopted. A summary of the terms of the Scheme is set out in Appendix V of the Prospectus.

Under the Scheme, the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The subscription price for share under the Scheme will be determined by the directors, which shall be calculated with reference to the higher of (i) the closing price of the shares on GEM of the Stock Exchange of Hong Kong Limited on the date of grant of the option; (ii) the average closing price of the share on the GEM of the Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant of option; and (iii) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the share capital of the Company in issue and may not exceed in nominal value 30% of the issued share capital of the Company in issue for a period of 10 consecutive years. The Scheme will remain in force for a period of 10 years commencing on 16 July 2002. No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and which may fall to, be issued to him under all the options previously granted to him pursuant to the Scheme in any 12 month's period up to the date of grant to such person exceeding 1% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Scheme. No share options had been granted under the Scheme as at 31 March 2003.

## **SPONSOR'S INTEREST**

As at 31 March 2003, 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 an agreement (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., 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 People's Republic of China (the "PRC"). Mr. Ng Chong Khim, a senior management of ST Elect, was appointed as a non-executive director of the Company on 15 Mar 2002. Mr. Ng Chong Khim owns investment interests in the securities of ST Elect. 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 31 March 2003.

## **AUDIT COMMITTEE**

The Company established an audit committee on 16 July 2002 with written terms of reference 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 report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon the board of Directors. The audit committee is also responsible for reviewing the financial reporting process and internal control system of the Group. The Group's unaudited quarterly consolidated results for the three months ended 31 March 2003 have been reviewed by the audit committee, the members of which were of the opinion that such quarterly results comply with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

The audit committee has two members comprising the two independent non-executive directors, Mr. Cai Xiao Fu and Mr. Wu Ming Dong. The audit committee held one meeting in this quarter and four meetings since the committee was established and performed the functions specified in the GEM listing Rules.

## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

In the opinions of the Directors, the Company had complied with the code of best practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 29 July 2002.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company, nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 31 March 2003.

By order of the Board  
**Chau Chit**  
*Chairman*

Hangzhou, the PRC  
9 May 2003