



SINO STRIDE TECHNOLOGY (HOLDINGS) LIMITED
中程科技集團有限公司*
(Incorporated in the Cayman Islands with limited liability)

Interim Report 2003

* *For identification purpose only*

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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.

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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.



SINOSTRIDE

SINO STRIDE TECHNOLOGY (HOLDINGS) LIMITED

中程科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003 (UNAUDITED)

The board of directors (the "Board") of Sino Stride Technology (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2003, together with the comparative figures for the six months ended 30 June 2002 (the "Relevant Period") as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2003	2002	2003	2002
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	47,485	25,638	74,489	44,789
Cost of sales		(37,279)	(17,760)	(55,313)	(30,156)
Gross profit		10,206	7,878	19,176	14,633
Other revenue	2	291	99	646	179
Selling and distribution costs		(2,576)	(1,004)	(5,787)	(2,899)
Administrative costs		(4,059)	(3,168)	(7,277)	(5,570)
Other operating costs		(33)	(176)	(33)	(118)
Profit from operating activities	4	3,829	3,629	6,725	6,225
Finance costs	5	(598)	(463)	(1,069)	(717)
Share loss of an associate		(248)	—	(248)	—
Profit before tax and minority interests		2,983	3,166	5,408	5,508
Tax	6	(670)	(503)	(1,105)	(1,006)
Minority interests, net of tax		(42)	(419)	(118)	(496)
Net profit from ordinary activities attributable to shareholders		2,271	2,244	4,185	4,006
Earnings per share					
– Basic and diluted	7	RMB0.002	RMB0.003	RMB0.004	RMB0.005

* For identification purpose only

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2003

		(Unaudited) 30 June 2003 RMB'000	(Audited) 31 December 2002 RMB'000
	Notes		
Non-current assets			
Property, plant and equipment	10	8,448	7,643
Intangible assets	11	1,340	1,400
Interest in an associate	12	1,752	–
Long term investments		2,500	2,500
Negative goodwill		(762)	(938)
Total non-current assets		13,278	10,605
Current assets			
Cash and cash equivalents		53,380	96,176
Pledged deposits with financial institutions		3,087	2,107
Trade receivables	13	17,639	27,674
Prepayments, deposits and other receivables		45,196	18,459
Unbilled amount due from customers for contract works		87,123	88,507
Inventories		12,077	6,586
Total current assets		218,502	239,509
Current liabilities			
Bank loans	14	49,870	38,000
Trade and notes payable	15	38,398	41,456
Accrued liabilities and other payables		13,951	29,109
Tax payable		4,446	6,732
Total current liabilities		106,665	115,297
Net current assets		111,837	124,212
Total assets less current liabilities		125,115	134,817
Non-current liabilities			
Minority interest		2,759	2,856
Net assets		122,356	131,961
Represented by:			
Capital and reserves			
Issued capital	16	11,491	11,491
Reserves	16	110,865	120,470
Shareholders' equity		122,356	131,961

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Net cash outflow from operating activities	(35,395)	(19,697)
Net cash outflow from investing activities	(4,491)	(922)
Net cash outflow before financing	(39,886)	(20,619)
Net cash (outflow)/inflow from financing	(2,910)	15,472
Decrease in cash and cash equivalents	(42,796)	(5,147)
Cash and cash equivalents at the beginning of period	96,176	12,863
Cash and cash equivalents at the end of period	53,380	7,716
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	53,380	7,716

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Share capital	Share premium	Contribution surplus	Statutory reserve	Enterprise expansion fund	Retained profits	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>
As at 1 January 2002	—	—	13,499	1,149	315	9,657	24,620
Dividends	—	—	—	—	—	(7,370)	(7,370)
Transfer to reserve	—	—	—	37	37	(74)	—
Net profit for the period	—	—	—	—	—	4,006	4,006
As at 30 June 2002	<u>—</u>	<u>—</u>	<u>13,499</u>	<u>1,186</u>	<u>352</u>	<u>6,219</u>	<u>21,256</u>
As at 1 January 2003	11,491	69,800	13,499	1,785	951	34,435	131,961
Final dividends declared	—	—	—	—	—	(13,790)	(13,790)
Transfer to reserves	—	—	—	644	644	(1,288)	—
Net profit for the period	—	—	—	—	—	4,185	4,185
As at 30 June 2003	<u>11,491</u>	<u>69,800</u>	<u>13,499</u>	<u>2,429</u>	<u>1,595</u>	<u>23,542</u>	<u>122,356</u>

NOTES TO THE CONDENSED CONSOLIDATED RESULTS

1. Group reorganization and basis of preparation

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.

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.

The unaudited condensed consolidated interim financial statements 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 have been prepared in accordance with IAS 34 "Interim Financial Reporting" and the disclosure requirements set out in Chapter 18 of the Rule Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"). 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.

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	47,485	25,638	74,489	44,789
Amortisation of negative goodwill	88	—	176	—
Interest income	29	12	224	25
Government grants	90	—	160	—
Others	84	87	86	154
Other revenue	291	99	646	179
Total revenue	47,776	25,737	75,135	44,968

3. Segment information

(a) Business segment

The Group is principally engaged in the development and provision of system integration solutions. The products and services of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment.

(b) *Geographical segment*

The following table present revenue, results and expenditure information for the Group's geographical segments for the six months ended 30 June 2003.

	Unaudited six months ended		
	30 June 2003		
	Hong Kong	PRC	Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	2,823	71,666	74,489
Segment results	(61)	7,833	7,772
Unallocated corporate expenses			(1,869)
Amortisation of negative goodwill			176
Other revenue			646
Profit from operating activities			6,725
Finance costs			(1,069)
Share loss of an associate			(248)
Profit before tax and minority interests			5,408
Tax			(1,105)
Profit before Minority interests			4,303
Minority interests, net of tax			(118)
Net profit attributable to shareholders			4,185

For the six months ended 30 June 2002, no segmental analysis by geographical segment is provided as the Group's turnover and profits were mainly derived from the provision of system integration and development services provided to domestic customers in PRC.

4. Profit from operating activities

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

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Auditors' remuneration	131	7	245	17
Amortisation of intangible assets	30	30	60	60
Amortisation of (negative goodwill)/goodwill	(88)	3	(176)	5
Interest income	(29)	(12)	(224)	(25)
Depreciation	573	332	930	651
Interest on bank loans repayable within one year	547	275	990	528
Minimum lease payment under operating leases for buildings	222	187	466	247
Staff costs:				
Retirement benefits	286	90	438	155
Accommodation benefits	101	53	190	93
Other staff costs	2,762	1,148	5,185	2,444
	<u>3,149</u>	<u>1,291</u>	<u>5,813</u>	<u>2,692</u>

5. Finance costs

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Interest on bank loans repayable within one year	547	275	990	528
Bank charges and commissions	51	188	79	189
	<u>598</u>	<u>463</u>	<u>1,069</u>	<u>717</u>

6. Tax

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Provision for PRC income tax	670	503	1,105	1,006

No provision for Hong Kong profit tax 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.

According to the Income Tax Law of the People's Republic of China (the "PRC"), Sino Stride Technology Co., Ltd. ("PRC Sino Stride") (formerly know as Zhejiang Sino Stride Technology Co., Ltd.), 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 30 June 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") and Hangzhou Sino Stride Hospital Yida System Technology Co., Ltd ("Yida Equipment") are 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.

7. Earnings per share

The calculation of basic earnings per share for the three months and six months periods ended 30 June 2003 is based on the net profit attributable to shareholders of approximately RMB2,271,000 and RMB4,185,000 (2002: RMB2,244,000 and RMB4,006,000) and the weighted average of approximately 1,084,090,000 ordinary shares in issue for the three months and six months ended 30 June 2003 (2002: approximately 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 and six months periods ended 30 June 2003 and 2002.

8. Interim dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

9. Related party transactions

On 19 April 2002, Sino Stride Holdings Limited (the “HKSS”), a company beneficially owned by Mr. Chau Chit, a director, Ms Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively, as landlords, entered into two leases with the Company as tenant in respect of (i) the premises located at Rooms 3113, 3115 and 3116, 31/F., New Tech Plaza, 34 Tai Yau Street, San Po Kong, Kowloon Hong Kong for use as its Hong Kong office and (ii) an apartment located at Flat F, 22/F., Tower One Park Tower, 1 King’s Road, Causeway Bay, Hong Kong, for use as living quarter for the directors for a term of five years each commencing from 19 April 2002, at monthly rent of HK\$21,000 and HK\$26,000, respectively, as determined based on approximate prevailing market prices. The corresponding rental expenses of the Group for the six months ended 30 June 2003 amounted to RMB298,920 (2002: RMB127,200).

10. Property, plant and equipment

	(Unaudited) At 30 June 2003 RMB'000	(Audited) At 31 December 2002 RMB'000
Net booked value, beginning of period/year	7,643	4,970
Additions	1,735	3,933
Depreciation	(930)	(1,260)
Net book value, end of period/year	<u>8,448</u>	<u>7,643</u>

11. Intangible assets

	Deferred development costs (Unaudited) At 30 June 2003 RMB'000	(Audited) At 31 December 2002 RMB'000
Net booked value, beginning of period/year	1,400	520
Additions	—	1,000
Amortisation charge	(60)	(120)
Net book value, end of period/year	<u>1,340</u>	<u>1,400</u>

12. Interest in an associate

	(Unaudited) At 30 June 2003 RMB '000	(Audited) At 31 December 2002 RMB '000
Share of net asset of an associate	<u>1,752</u>	<u>—</u>

Details of the Group's associate at 30 June 2003 are as follows:

Name of associate	Place and date of incorporation/ establishment	Nominal value of paid up capital	Attributable equity interest to the Group	Principal activities
深圳市法爾勝中程 科技有限公司 (Shenzhen Fastern Sino Stride Technology Co., Ltd.)	PRC 18 Mar 2003	RMB5 million	39% (effective group shareholding)	Research and development system technology, provision of system design, software and hardware

13. Trade receivables

The ages of the trade receivables are analysed as follows:

	(Unaudited) At 30 June 2003 RMB '000	(Audited) At 31 December 2002 RMB '000
Outstanding balance with ages:		
Within 30 days	9,509	21,243
Between 31 to 90 days	4,253	1,887
Between 91 to 180 days	1,476	550
Between 181 to 360 days	1,288	1,382
Between 361 to 540 days	1,113	2,612
	<u>17,639</u>	<u>27,674</u>

The Group generally gives 30 to 120 days' credit terms to its clients for each progress billing based on certain criteria, such as the length of respective business relationship with individual clients and their payments history, background and financial strength. The Group adopts stringent control and supervision over their credit terms granted to clients by reviewing the credit terms for each client periodically by the Directors.

The management of the Group reviews the bad and doubtful debt provision on a regular basis. Provision will be made on a specific basis following the identification of any doubtful debt.

14. Bank loans

	(Unaudited) At 30 June 2003 RMB '000	(Audited) At 31 December 2002 RMB '000
Unsecured (note)	<u>49,870</u>	<u>38,000</u>
Classified as current liabilities repayable within one year	<u>49,870</u>	<u>38,000</u>

Note: The unsecured bank loans bear interest at rates ranging from 2.3% to 4.2% (2002: 3.8% to 4.4%) per annum and are repayable in less than ten months.

15. Trade and notes payable

The ages of the trade and notes payable are analysed as follows:

	(Unaudited) At 30 June 2003 RMB '000	(Audited) At 31 December 2002 RMB '000
Outstanding balance with ages:		
Within 30 days	18,778	19,886
Between 31 to 90 days	8,288	13,546
Between 91 to 180 days	3,458	5,468
Between 181 to 360 days	7,868	1,218
Between 361 to 540 days	<u>6</u>	<u>1,338</u>
	<u>38,398</u>	<u>41,456</u>

16. Share capital and reserves

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

	Share capital RMB '000	Share premium RMB '000	Contri- bution surplus RMB '000	Statutory surplus reserve RMB '000	Enterprise expansion fund RMB '000	Retained profits RMB '000	Total RMB '000
As at 1 January 2003	11,491	69,800	13,499	1,785	951	34,435	131,961
Final dividends declared	–	–	–	–	–	(13,790)	(13,790)
Transfer to reserves	–	–	–	644	644	(1,288)	–
Net profit for the period	–	–	–	–	–	4,185	4,185
	<u>11,491</u>	<u>69,800</u>	<u>13,499</u>	<u>2,429</u>	<u>1,595</u>	<u>23,542</u>	<u>122,356</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 condensed 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.

17. The Commitments

The Group had the following commitments:

	(Unaudited) At 30 June 2003 RMB '000	(Audited) At 31 December 2002 RMB '000
Future minimum lease rentals payable under Non-cancelable operating lease expiring:		
Within one year	1,145	1,169
In the second to fifth years, inclusive	2,046	2,681
	<u>3,191</u>	<u>3,850</u>
Capital commitments:		
Contracted, but not provided for	<u>8,950</u>	<u>8,950</u>

The Group did not have any other significant capital expenditure and commitments as at 31 December 2002 and 30 June 2003.

18. Subsequent events

During July 2003, the Group entered into an agreement to dispose its entire interest in a subsidiary, Hangzhou Sino Stride Yida System Technology Co., Ltd. (“Yida System”), to an independent third party. The net assets of Yida System as at 30 June 2003 represented approximately 1.6% of the Group’s net assets as at 30 June 2003. The turnover and profits of Yida System for the six months ended 30 June 2003 represent approximately 2.6% and 2.5% respectively of the Group’s turnover and profit for the six months ended 30 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the six months ended 30 June 2003, the Group recorded a turnover of approximately RMB74.5 million, representing an increase of approximately 66% over the six months ended 30 June 2002. The growth in the turnover of the Group for the six months ended 30 June 2003 was mainly attributed to the increase in the Group’s contract value and number of clients resulting from the growing demand of system integration solutions in the PRC. The increase in the turnover of computer networks system integration solutions was encouraging, its percentage to total turnover increased from 9% for the six months ended 30 June 2002 to 29% for the six months ended 30 June 2003 because several computer networks equipment suppliers appointed the Group as distribution agents.

The Sever Acute Respiratory Syndrome (“SARS”) in PRC did not affect the demand of system integration solutions but delay the implementation of projects. Certain projects on hands were delayed and still in the preliminary stage because of SARS in April and May 2003. As the technology involved in the preliminary stage of project was less than that in the middle or final stage of project, the gross profits margin for the Group was decreased during the first half of the year. Besides, there are normally supplementary and modification contracts with higher profit margins in the middle or final stage of projects. Those contracts were also postponed because projects on hands were still in the preliminary stage and SARS affected business negotiations activities during April and May 2003. Furthermore, the profit margins of computer network system integration solution was lower than that of intelligence building system integration solution, the increase in the proportion of computer network system integration solution to the Group’s turnover would resulted in decrease in overall gross profit margin. As explained as above, the Group’s gross profit margin was decreased from 33% for the six months ended 30 June 2002 to 26% for the six months ended 30 June 2003.

The percentage of selling and distribution expenses to turnover increased from 6.5% for the six months ended 30 June 2002 to 7.8% for the six months ended 30 June 2003 because of the establishment of sales branches in different locations. In order to expand the Group’s market coverage outside Zhejiang Province, more recourses were employed in those newly established sales offices. Administrations cost increased by RMB1.7 millions not only because of increase in number of branches and subsidiaries, but also additional expense relating to listing status since the listing of the Company’s share on GEM on 29 July 2002, while the percentage of administrative expense to turnover decreased from 12.4% for the six months ended 30 June 2002 to 9.8% in the six months ended 30 June 2003.

For the six months ended 30 June 2003, the Group’s net profit from ordinary activities attributable to shareholders amounted to approximately RMB4.2 million, representing an increase of approximately 5% over the six months ended 30 June 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 30 June 2003, the Group had outstanding bank borrowings of RMB49.9 million which are unsecured and guaranteed by the PRC Sino Stride or Xingda Computer. For the details of these bank borrowing, please refer to note 14 of Notes to the Condensed Consolidated Results. During the six months ended 30 June 2003, the Group did not create any mortgage.

As at 30 June 2003, the Group's cash and cash equivalents amounted to approximately RMB53.4 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 30 June 2003, the Group's gearing ratio was 22% (as at 31 December 2002: 15%). The increase in gearing ratio was mainly due to the additional borrowings for the purpose of the Group's business expansion.

Significant investments

Save as those disclosed in the paragraph "OPERATIONS REVIEW", the Group did not hold any significant investment as at 30 June 2003.

Material acquisitions and disposals of subsidiaries and affiliated companies

Save as those disclosed in the paragraph "OPERATIONS REVIEW", note 12 "Interest in an associate" and note 18 "Subsequent events" of the Notes to the Condensed Consolidated Results, the Group did not make any material acquisitions or disposals of subsidiaries or affiliated companies during the six months ended 30 June 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 30 June 2003, the Board is not aware of any material contingent liabilities.

Segmental information

Please refer to note 3 “Segments information” of the Notes to the Condensed Consolidated Results for details.

Charge on assets

Other than the Group’s bank deposits of RMB3,087,193 (as at 31 December 2002: RMB2,106,580) which had been pledged to financial institutions for the issuance of letter of credits, as at 30 June 2003, the Group did not have any charge on its assets.

Employees

As at 30 June 2003, the Group had 344 (2002: 295) employees. Total staff costs increased to approximately RMB5.8 million from approximately RMB2.7 million for the six months ended 30 June 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” and note 12 “Interest in an associate” of the Notes to the Condensed Consolidated Results have been located by the Group. Accordingly, the Group did not have intended plans for material investments or capital assets as at 30 June 2003.

OPERATIONS REVIEW

During the period under review, the Group has made a number of achievements in the area of business development. PRC 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. 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 and the committee of High and New Technology Industrial Development Zone of Hangzhou City on 3 March 2003.

During the six months ended 30 June 2003, PRC Sino Stride and Xingda Computer have successfully signed 30 and 22 contracts in respect of system integration or software projects 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).

On 25 May 2003, the business license regarding the change of name from Zhejiang Sino Stride Technology Co., Ltd. to Sino Stride Technology Co., Ltd. (“PRC Sino Stride”) was issued by the Hangzhou Industry and Commerce Administration Bureau. It was a milestone for the company to grow from a Zhejiang system integration solution supplier to a national system integration solution expert. The scope of business of PRC Sino Stride was also extended to include design, testing and implementation of lightning protection projects. In addition, the relevant registrations of the trademarks used by the Group in Hong Kong and PRC was nearly completed.

With the cooperation with Zhejiang University, the Group completed the principal part of medical image network system and the progress of development in EEG Holter was satisfactory. Furthermore, the application of government grant in respect of cooperation between the Group and Zhejiang University in research and development of 數字化內窺鏡影像信息系統 (Digital Endoscope Image Information System) was approved.

During the period under review, the Group has successfully developed several new systems with its own brand name including 中程放射影像診斷工作站 (Sino Stride Medical Radiation Diagnose Workstation), 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) and 中程車輛監控管理系統 (Sino Stride Motor Vehicle Monitoring and Controlling System). The relevant software registrations of Sino Stride Medical Radiation Diagnose Workstation was completed in June 2003 and the registrations of the remaining mentioned products were in progress.

Moreover, the Group has launched its self developed system, namely 智能呼叫和排隊管理系統 (Intelligent Announcement and Queuing Management System “SSQ-mkll”). Unlike other queuing management system, SSQ-mkll not only automatically collected and processed queuing static for potential customers such as bank, hospital, insurance and utility companies, but also has high compatibility with customers’ installed network system. Besides, one of the Group’s self developed system, namely 中程醫院信息系統 (Sino Stride Hospital Information System), was also 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.

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. The Group’s senior management was invited by Enterasys to visit their purchasing centre in Singapore to review distribution partner progress and the result was satisfactory during July 2003.

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.) which is famous in developing and promoting operation system and application software under Linux environment.

In March 2003, PRC Sino Stride invested RMB2,000,000 (representing 40% stake) into a newly formed company namely 深圳市法爾勝中程科技有限公司 (Shenzhen Fasten Sino Stride Technology Co., Ltd.). The principal activities of this company are to research and develop computer relevant technology for software and hardware and provide digital system design and supply and distribute hardware and general merchandise and provide related information and enquiry services thereto.

On 10 June 2003, the Chief Executive Officer and Chief Technology Officer of TMAX group, a Korea famous software company, visited the Group's headquarter in Hangzhou to discuss proposed business collaboration of establishment a software laboratory with Zhejiang University, being distribution partner and promoting TMAX's software in PRC.

During July 2003, the Group entered into an agreement to dispose its entire interest in a subsidiary, Yida System, to an independent third party. As the turnover of Yida System for the six months ended 30 June 2003 represented only 2.6% of the Group's turnover in the same period, the Board believed this would not materially affect the Group's operation and one of the Group's subsidiary, PRC Sino Stride, will continue the development in electronic hospital information system software.

To realize the synergy effect from a strategic cooperation agreement entered between PRC Sino Stride and Singapore Technologies Electronics Ltd ("ST Elect"), the delegation of ST Elect and the Group have held several seminars in Hangzhou to promote the concept of intelligent home and ST Elect's new products in integrated security management system (ST8100 SECURNET), intelligent building management system (ST8800 UNIZON) and intelligent home system (ST900-8X & ST990 SENTINEL). Besides, the senior management of the Group has visited ST Elect headquarter in Singapore to discuss any further business collaboration during July 2003.

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 demand for intelligent building system integration solutions, computer network system integration solutions and system software will continue to grow with the prosperity of PRC property markets, increasing proportion of investments in intelligence buildings and necessity for well developed information network in PRC. Since the application of intelligence building technologies in the PRC is still at early stage, there will be a potential growth in the Group's business.

The Ministry of Construction and Ministry of Information Industry of the PRC promulgated market entry requirements and qualification verification process for intelligent building and computer network system integration solution providers respectively. Leverages on the Group's compliance with the market entry requirements and the prominent market position established, the Group will continues to intensify its marketing efforts, expand its market coverage to various province and place more emphasis in cooperation with reputable enterprise and research institution like Zhejiang University to develop products cater for PRC market. In order to further enhance its competitiveness in the industry, the Group also intends to pursue strategic acquisitions of investments in system integration business and software development business in the future if such opportunities arise to strengthen and complement the Group's existing business.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress in the period from 1 January 2003 to 30 June 2003 (“Review Period”) and the business objectives set out on pages 95 to 98 of the Prospectus. To attain our long-term business goals, the Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

Business objectives for the Review Period up as set out in the Prospectus

Actual business progress in the Review Period

Geographical expansion

Establish branches and/or subsidiaries in Chongqing and Yunnan Province to develop the intelligent building system integration solutions market in southwest China

The Group has established Chongqing and Yunnan branches and successfully participated in the system integration solutions project of Chongqing Police and Legal Court buildings.

Marketing and promotion

Promote digital government system software to all levels of government authorities in Shaoxing and Ningbo

The Group has been continuously promoting the usage and training of digital government system software and document processing system software to municipal authorities in Zhejiang Province including Shaoxing and Ningbo.

Promote BFA, e-HIS and e-LIS to hospitals in Hangzhou

The Group has promoted e-HIS and e-LIS to additional 18 hospitals during six months ended 30 June 2003.

Promote urban traffic system integration to traffic departments in Shaoxing and Ningbo

The Group has been continuously promoting the usage and training of urban traffic system integration to traffic departments in Shaoxing and Ningbo.

Continue to promote traffic management software for light rail in Hangzhou

Although the light rail project in Hangzhou was not yet ready for public bidding, the Group has been actively involved in meetings with the traffic department of Zhejiang Province to discuss about light rail collaboration.

Continue to upgrade the designing capacity of the Group by acquiring relevant equipment, software and facilities

The Group progressively added new features and modifications to the existing equipment, software and facilities so as to enhance the designing capacity of the Group.

Continue to upgrade the communication equipment and facilities between Hangzhou office and various branches and/or subsidiaries

Other than acquiring communication equipment and facilitates, the Group has developed intranet platform and own communication software namely “Sino Stride QQ” with intranet conference function. During June 2003, Sino Stride QQ was implemented which enhance effective communication within the Group.

Business objectives for the Review Period up as set out in the Prospectus

Actual business progress in the Review Period

Research and development

Product Development of the Group

Receive approval for BFA from MOH

The application of BFA software for MOH approval was in progress.

Upgrade SSMIS and complete the development of PACS and conduct clinical testing of SSMIS and PACS

The Group has been continuously upgrading SSMIS and developing PACS. The clinical testing results of SSMIS and PACS were satisfactory.

Upgrade existing digital government system software including the installation of additional new modules and adjusting to new operation system

The Group has been continuously upgrading existing digital government system software.

Continue development of GPS and GIS

Certain phases of GPS and GIS development were completed and the Group has been commissioned by the municipal government of Hangzhou to perform testing on the GPS and GIS project.

Continue development of traffic management software for light rail

The Group and ST Elect, have been actively involved in the development of traffic management software for light rail. Other than previously mentioned potential light rail project in Hangzhou, the Group has been actively involved in the preliminary discussion with Chongqing traffic department in respect of potential light rail projects in Chongqing.

Continue development of electronic hospital information system platform

The Group has been continuously developing electronic hospital information system platform which could integrate different hospital system software (i.e. e-HIS and e-LIS) together. This platform has the potential to link up hospital information systems among majority hospitals in the PRC.

Strengthening of research and development capacity

Continue recruit research and development staff

Other than continuously recruiting research and development staff, Mr. Chen Chih Ching 陳志勤, who has over 25 years experience as senior management in multinational IT companies, was recruited as the Group's Chief Technology Officer to strengthen its research and development capacity.

Business objectives for the Review Period up as set out in the Prospectus

Actual business progress in the Review Period

Strengthening of research and development capacity

Design program to improve the internal structure, the development progress of the Group's software and the training of the staff

After carrying out internal workflow and structure review, workflows were streamlined and new departments such as network products, digital equipment and computer system were established to cope with the growth of the Group. Besides, the Group was in the processes to engage CMM assessment enterprise to enhance overall efficiency

Continue to improve the research and development system

Research and development department of the Group has been continuously figuring out the measures to improve the research and development system including purchase of new computer equipment and software for research and development purpose.

Co-operation with Zhejiang University

For the development of the related technologies for digitized hospital systems and community medical services system

Complete the research and development on Community medical services systems

The research and development on community medical service was in progress.

For the development of the related technologies for medical information technology and system

Upgrade medical image network and continue to develop EEG Holter

The Group has been continuously upgraded the medical image network system and the progress of development in EEG Holter was satisfactory.

Strategic investment and business collaboration

Continue locating and discussing with reputable companies and research institutions

Numerous preliminary discussions with potential companies and research institutions were performed during the period under review. No strategic investment or business collaboration agreement agreements have been signed by the Group except for those already disclosed in the paragraph "OPERATIONS REVIEW".

Continue negotiations and evaluation and enter into agreements if appropriate

The Group invested RMB2,000,000 into a newly formed company namely 深圳市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 system technology, provide system design, software and hardware.

USE OF PROCEEDS

The net proceeds raised from the placing of the Company's shares on 29 July 2002 were approximately HK\$76.6 million. The proceeds have been applied to achieving the business objectives as set out in the Prospectus and detailed below:

	Planned use of proceeds as stated in the Prospectus up to 30 June 2003	Actual amount used up to 30 June 2003
	<i>HK\$ million</i>	<i>HK\$ million</i>
Geographical expansion	2.4	2.2
Marketing and promotion	3.1	2.7
Research and development	8.9	6.9
Strategic investment and business collaboration	5.2	3.8
Repayment of bank loans	10.3	10.3
	<hr/>	<hr/>
Total	29.9	25.9
	<hr/>	<hr/>

The Group placed the unused balance of the proceeds from the placing of the Company's share on 29 July 2002 in short-term deposits which will be applied to the remaining planned projects of the Group as stated in the paragraph under "Statement of Business Objective" in the section headed "Business Objective" in the Prospectus.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30 June 2003, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

(a) Long positions in shares

Name of Director	No. of share	Nature of Interest	Approximate % of interest
Mr. Chau Chit	648,000,000	Corporate (<i>Note</i>)	59.77%
Mr. Wong Wai Tin	129,600,000	Corporate (<i>Note</i>)	11.95%

Note: 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.

(b) Short positions in equity derivatives in , or in respect of, underlying shares

Name	No. and description of equity derivatives	No. of underlying shares	Nature of Interest	Approximate % of interest
Mr. Chau Chit	(Note 1)	108,000,000	Corporate (Note 2)	9.96%
Mr. Wong Wai Tin	(Note 1)	21,600,000	Corporate (Note 2)	1.99%

Notes:

- (1) To further strengthen ST Elect's relationship with the Group, Mega Start Limited granted an option to ST Elect to acquire from Mega Start Limited, at a consideration of HK\$0.264 per share, for a further 108,000,000 shares (9.96%) of the Company's issued share capital. Such option shall expire at 5:00 p.m. on 365th day from the later of (i) the date of the listing of the Shares on GEM and (ii) the date of the expiry of 12 month moratorium period imposed on Mega Start Limited in respect of shares held by it. No new shares will be issued under the option. ST Elect agreed not to exercise the option before the expiry of the said moratorium period.
- (2) 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.

DIRECTORS' RIGHT TO ACQUIRE SHARES

At no time during the six months ended 30 June 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.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDER

So far as is known to any Director or chief executive of the Company, as at 30 June 2003, person who have an interest and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

(a) Long positions in shares

Name	No. of shares	Type of interest	Approximate % of interest
Mega Start Limited	648,000,000	Corporate (note 1)	59.77%
Mr. Chau Chit	648,000,000	Corporate (note 1)	59.77%
Ms. Ting Hiu Wan	648,000,000	Corporate (note 1)	59.77%
Mr. Wong Wai Tin	129,600,000	Corporate (note 1)	11.95%
Singapore Technologies Electronics Ltd.	108,000,000	Corporate (note 2)	9.96%
Singapore Technologies Engineering Ltd.	108,000,000	Corporate (note 2)	9.96%
Singapore Technologies Pte. Ltd.	108,000,000	Corporate (note 2)	9.96%
Temasek Holdings (Private) Ltd	108,000,000	Corporate (note 2)	9.96%

Notes:

- (1) 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.
- (2) Singapore Technologies Electronics Limited (“ST Elect”) is a wholly-owned subsidiary of Singapore Technologies Engineering Ltd (“ST Engg”) whose shares are listed on the Singapore Exchange Securities Trading Limited. Temasek Holdings (Private) Limited (“Temasek Holdings”) hold controlling interest in Singapore Technologies Pte Ltd (“STPL”) which in turn hold controlling interest in ST Engg. Pursuant to Part XV of the SFO, ST Engg, STPL and Temasek Holdings are taken to be interested in the shares held by ST Elect.

(b) Long positions in equity derivatives in, or in respect of, underlying shares

Name	No. and description of equity derivatives	No. of underlying shares	Nature of interest	Approximate % of interest
Singapore Technologies Electronics Ltd.	<i>(Note 1)</i>	108,000,000	Corporate <i>(Note 2)</i>	9.96%
Singapore Technologies Engineering Ltd.	<i>(Note 1)</i>	108,000,000	Corporate <i>(Note 2)</i>	9.96%
Temasek Holdings (Private) Ltd	<i>(Note 1)</i>	108,000,000	Corporate <i>(Note 2)</i>	9.96%

Notes:

- (1) To further strengthen ST Elect’s relationship with the Group, Mega Start Limited granted an option to ST Elect to acquire from Mega Start Limited, at a consideration of HK\$0.264 per share, for a further 108,000,000 shares (9.96%) of the Company’s issued share capital. Such option shall expire at 5:00 p.m. on 365th day from the later of (i) the date of the listing of the Shares on GEM and (ii) the date of the expiry of 12 month moratorium period imposed on Mega Start Limited in respect of shares held by it. No new shares will be issued under the option. ST Elect agreed not to exercise the option before the expiry of the said moratorium period.
- (2) ST Elect is a wholly-owned subsidiary of ST Engg whose shares are listed on the Singapore Exchange Securities Trading Limited. Temasek Holdings hold controlling interest in STPL which in turn hold controlling interest in ST Engg. Pursuant to Part XV of the SFO, ST Engg, STPL and Temasek Holdings are taken to be interested in the long positions in underlying shares held by ST Elect.

(c) Short positions in equity derivatives in, or in respect of, underlying shares

Name	No. and description of equity derivatives	No. of underlying shares	Nature of interest	Approximate % of interest
Mega Start Limited	<i>(Note 1)</i>	108,000,000	Corporate <i>(Note 2)</i>	9.96%
Mr. Chau Chit	<i>(Note 1)</i>	108,000,000	Corporate <i>(Note 2)</i>	9.96%
Ms. Ting Hui Wan	<i>(Note 1)</i>	108,000,000	Corporate <i>(Note 2)</i>	9.96%
Mr. Wong Wai Tin	<i>(Note 1)</i>	21,600,000	Corporate <i>(Note 2)</i>	1.99%

Notes:

- (1) To further strengthen ST Elect's relationship with the Group, Mega Start Limited granted an option to ST Elect to acquire from Mega Start Limited, at a consideration of HK\$0.264 per share, for a further 108,000,000 shares (9.96%) of the Company's issued share capital. Such option shall expire at 5:00 p.m. on 365th day from the later of (i) the date of the listing of the Shares on GEM and (ii) the date of the expiry of 12 month moratorium period imposed on Mega Start Limited in respect of shares held by it. No new shares will be issued under the option. ST Elect agreed not to exercise the option before the expiry of the said moratorium period.
- (2) Mega Start Limited, the ultimate holding company of the Company, is held by Mr. Chau Chit, a director, and Ms. Ting Hui Wan, the spouse of Mr. Chau Chit, and Mr. Wang Wai Tin, a director, in the proportions of 50%, 30% and 20%, respectively.

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 30 June 2003.

SPONSOR'S INTEREST

As at 30 June 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 PRC. Mr. Ng Chong Khim, a senior management of ST Elect, was appointed as a non-executive director of the Company on 15 March 2002. Through the share options scheme in Singapore Technologies Engineering (which owns 100% of ST Elect), Mr. Ng Chong Khim may from time to time owns shares or share options in Singapore Technologies Engineering. 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 June 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 six months ended 30 June 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 two meeting in this period and five 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 six months ended 30 June 2003.

By order of the Board
Chau Chit
Chairman

Hangzhou, the PRC
8 August 2003