



**Interim Report 2003**  
for the period from 1 April, 2003 to 30 September, 2003

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

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*This report, for which the directors (the “Directors”) of Soluteck Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



## HIGHLIGHTS

- The net profit of the Group during the six months ended 30 September, 2003 was approximately HK\$1.6 million, representing a decrease of approximately 26 per cent. as compared with the corresponding period in 2002.
- Earnings per Share during the six months ended 30 September, 2003 was approximately HK0.36 cents.
- The turnover of the Group during the six months ended 30 September, 2003 was approximately HK\$54.2 million, representing a decrease of approximately 8 per cent. as compared with the corresponding period in 2002.

## INTERIM RESULTS (UNAUDITED)

The board ("Board") of Directors announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September, 2003 (the "period") as follows:-

### CONSOLIDATED INCOME STATEMENT

		From 1 July, 2003 to 30 September, 2003 (unaudited) HK\$'000	From 1 April, 2003 to 30 September, 2003 (unaudited) HK\$'000	From 1 July, 2002 to 30 September, 2002 (unaudited) HK\$'000	From 1 April, 2002 to 30 September, 2002 (unaudited) HK\$'000
	Notes				
Turnover	2	40,058	54,165	33,878	58,822
Cost of sales		<u>(31,305)</u>	<u>(42,467)</u>	<u>(25,107)</u>	<u>(40,328)</u>
Gross profit		8,753	11,698	8,771	18,494
Other income	2	36	83	92	169
Selling expenses		(1,231)	(2,126)	(2,105)	(4,524)
Administrative expenses		<u>(4,050)</u>	<u>(7,584)</u>	<u>(5,275)</u>	<u>(11,489)</u>
Profit from operations	5	3,508	2,071	1,483	2,650
Finance costs		<u>(97)</u>	<u>(148)</u>	<u>(32)</u>	<u>(88)</u>
Operating profit		3,411	1,923	1,451	2,562
Taxation	4	<u>(283)</u>	<u>(283)</u>	<u>(345)</u>	<u>(350)</u>
Net profit attributable to shareholders		<u>3,128</u>	<u>1,640</u>	<u>1,106</u>	<u>2,212</u>
Earnings per share	6	<u>HK0.69 cents</u>	<u>HK0.36 cents</u>	<u>HK0.24 cents</u>	<u>HK0.49 cents</u>

CONSOLIDATED BALANCE SHEET

		As at 30 September, 2003 (unaudited) HK\$'000	As at 31 March, 2003 (audited) HK\$'000
	<i>Notes</i>		
Intangible assets	8	749	822
Fixed assets	7	1,098	1,363
Investment securities		-	-
Current assets			
Inventories	12	14,382	10,462
Accounts receivable	9	35,798	19,929
Other receivables, deposits and prepayments		16,028	12,049
Prepaid taxation		850	850
Pledged bank deposits		9,000	7,000
Bank balances and cash	11	12,452	21,959
		<u>88,510</u>	<u>72,249</u>
Current liabilities			
Bank overdraft, secured		3,995	-
Bills payable		2,996	-
Accounts payable	10	21,199	6,630
Other payables and accrued charges		3,213	5,884
Receipt in advance		7,273	7,308
Taxation payable		270	157
Short-term bank loans, secured		3,746	3,769
		<u>42,692</u>	<u>23,748</u>
Net current assets		<u>45,818</u>	<u>48,501</u>
Total assets less current liabilities		<u>47,665</u>	<u>50,686</u>
Financed by:			
Share capital		45,261	45,261
Reserves		2,404	899
Proposed final dividend		-	4,526
Shareholders' funds		<u>47,665</u>	<u>50,686</u>



## RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Reserve arising from reorganisation* <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April, 2002	1,194	2,228	(24,317)	-	19,784	(1,111)
Exchange difference	-	-	-	(3)	-	(3)
Profit for the period	-	-	-	-	2,212	2,212
	<u>1,194</u>	<u>2,228</u>	<u>(24,317)</u>	<u>(3)</u>	<u>21,996</u>	<u>1,098</u>
At 1 April, 2003	1,194	-	(24,317)	(4)	24,026	899
Exchange difference	-	-	-	(135)	-	(135)
Profit for the period	-	-	-	-	1,640	1,640
	<u>1,194</u>	<u>-</u>	<u>(24,317)</u>	<u>(139)</u>	<u>25,666</u>	<u>2,404</u>

\* The reserve arising from reorganisation of HK\$24,317,000 represents the difference between the nominal value of the share capital of subsidiaries acquired and the cost of investments in these subsidiaries incurred by the Company in exchange thereof, and has been debited to the reserve of the Group.

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	From 1 April, 2003 to 30 September, 2003 <i>HK\$'000</i>	From 1 April, 2002 to 30 September, 2002 <i>HK\$'000</i>
Total equity as at 1 April	50,686	46,413
Exchange differences arising on translation of the financial statements of foreign subsidiaries	(135)	(3)
Profit for the period	1,640	2,212
Dividends	(4,526)	(2,263)
Total equity as at 30 September	<u>47,665</u>	<u>46,359</u>



CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September,	
	2003	2002
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operations	(6,385)	(680)
Interest paid	(148)	(88)
Overseas taxation paid	(170)	(201)
Net cash outflow from operating activities	<u>(6,703)</u>	<u>(969)</u>
Investing activities		
Purchase of fixed assets	(198)	(156)
Payment for software development costs	-	(103)
Increase in pledged bank deposits	(2,000)	-
Interest received	83	169
Net cash outflow from investing activities	<u>(2,115)</u>	<u>(90)</u>
Net cash outflow before financing	<u>(8,818)</u>	<u>(1,059)</u>
Financing activities		
New bank loan payable	3,746	-
Repayment of amounts borrowed	(3,769)	(222)
Dividends paid	(4,526)	(2,263)
Net cash outflow from financing	<u>(4,549)</u>	<u>(2,485)</u>
Decrease in cash and cash equivalents	(13,367)	(3,544)
Cash and cash equivalents at the beginning of the period	21,959	32,792
Effect of foreign exchange rate change	(135)	-
Cash and cash equivalents at the end of the period	<u>8,457</u>	<u>29,248</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	12,452	29,248
Bank overdraft, secured	(3,995)	-
	<u>8,457</u>	<u>29,248</u>

Notes: –

## 1. Basis of preparation

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

The unaudited consolidated accounts include the accounts of the Company and its subsidiaries made up to 30 September.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

## 2. Revenue, turnover and segment information

The Group is principally engaged in the sales of electronic banking systems, other banking equipment and mailing systems, and the provision of hardware and software technical support services. Revenues recognised during the period are as follows:–

	From 1 July, 2003 to 30 September, 2003 HK\$'000	From 1 April, 2003 to 30 September, 2003 HK\$'000	From 1 July, 2002 to 30 September, 2002 HK\$'000	From 1 April, 2002 to 30 September, 2002 HK\$'000
Turnover				
Sale of goods	35,692	46,315	25,932	41,872
Rendering of services	4,366	7,850	7,946	16,950
	<u>40,058</u>	<u>54,165</u>	<u>33,878</u>	<u>58,822</u>
Other revenue				
Interest income	36	83	92	169
	<u>40,094</u>	<u>54,248</u>	<u>33,970</u>	<u>58,991</u>

### Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets (note 8) and fixed assets (note 7).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

No geographical analysis is provided as less than 10 per cent. of the consolidated turnover and less than 10 per cent. of the profit from the operation of the Group are attributable to markets outside the People's Republic of China (the "PRC").

2. Revenue, turnover and segment information (continued)

Primary reporting format – business segments

The Group is organised into two main business segments:-

Sales of goods – sale of electronic banking systems, other banking equipment and mailing systems.

Rendering of service – provision of hardware and software technical support services.

On 10 January, 2003, a subsidiary which was a component of the rendering of service segment was disposed of to an independent third party (Note 3).

	Sales of goods From 1 April, 2003 to 30 September, 2003 (unaudited) HK\$'000	Rendering of service From 1 April, 2003 to 30 September, 2003 (unaudited) HK\$'000	Group From 1 April, 2003 to 30 September, 2003 (unaudited) HK\$'000
Turnover	46,315	7,850	54,165
Segment results	4,598	4,902	9,500
Other revenue			83
Unallocated costs			(7,512)
Profit from operations			2,071
Finance costs			(148)
Profit before taxation			1,923
Taxation			(283)
Profit attributable to shareholders			1,640
Segment assets	42,979	14,538	57,517
Unallocated assets			32,840
Total assets			90,357
Segment liabilities	19,148	6,310	25,458
Unallocated liabilities			17,234
Total liabilities			42,692
Capital expenditure	–	16	16
Unallocated capital expenditure			182
			198
Depreciation	–	69	69
Unallocated depreciation			394
			463
Other non-cash expenses			73



## 2. Revenue, turnover and segment information (continued)

Primary reporting format – business segments

	Sales of goods From 1 April, 2002 to 30 September, 2002 (unaudited) HK\$'000	Rendering of service From 1 April, 2002 to 30 September, 2002 (unaudited) HK\$'000	Group From 1 April, 2002 to 30 September, 2002 (unaudited) HK\$'000
Turnover	<u>41,872</u>	<u>16,950</u>	<u>58,822</u>
Segment results	<u>837</u>	<u>12,964</u>	<u>13,801</u>
Other revenue			169
Unallocated costs			<u>(11,320)</u>
Profit from operations			2,650
Finance costs			<u>(88)</u>
Profit before taxation			2,562
Taxation			<u>(350)</u>
Profit attributable to shareholders			<u>2,212</u>
Segment assets	36,031	12,932	48,963
Unallocated assets			<u>41,398</u>
Total assets			<u>90,361</u>
Segment liabilities	19,365	12,918	32,283
Unallocated liabilities			<u>11,719</u>
Total liabilities			<u>44,002</u>
Capital expenditure	-	163	163
Unallocated capital expenditure			<u>96</u>
			<u>259</u>
Depreciation	-	169	169
Unallocated depreciation			<u>301</u>
			<u>470</u>
Other non-cash expenses			<u>2</u>

### 3. Discontinuing operation

On 10 January, 2003, the board of directors of Soluteck (BVI) Holdings Limited, a wholly-owned subsidiary of the Company, resolved to dispose of the entire interest in Task Consultants Limited, a then wholly-owned subsidiary of the Group. The results of this subsidiary was included in the turnover of rendering of service. The unaudited sales and results of this subsidiary were as follows:-

	From 1 April, 2003 to 30 September, 2003 HK\$'000	From 1 April, 2002 to 30 September, 2002 HK\$'000
Turnover	-	5,504
Cost of sales	-	(814)
Gross profit	-	4,690
Operating costs	-	(6,369)
Operating loss	-	(1,679)
Finance costs	-	(8)
Loss before taxation	-	(1,687)
Taxation	-	-
Loss after taxation	-	(1,687)

### 4. Taxation

	From 1 July, 2003 to 30 September, 2003 HK\$'000	From 1 April, 2003 to 30 September, 2003 HK\$'000	From 1 July, 2002 to 30 September, 2002 HK\$'000	From 1 April, 2002 to 30 September, 2002 HK\$'000
Hong Kong profits tax (a)				
- current	-	-	(250)	(390)
- over provision in prior year	-	17	120	390
Overseas taxation (b)	(283)	(300)	(215)	(350)
	(283)	(283)	(345)	(350)

Notes: -

- (a) No provision for Hong Kong profits tax has been made as the Group has no estimated assessable Hong Kong profits for the six months ended 30 September, 2003.
- (b) Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC in which the subsidiaries of the Group operates.



## 5. Profit from Operations

The Group's profit from operations is arrived at after charging:-

	From 1 July, 2003 to 30 September, 2003 HK\$'000	From 1 April, 2003 to 30 September, 2003 HK\$'000	From 1 July, 2002 to 30 September, 2002 HK\$'000	From 1 April, 2002 to 30 September, 2002 HK\$'000
Cost of inventories sold	29,852	38,953	22,042	35,340
Depreciation	231	463	234	470
Amortisation of intangible assets	48	73	2	2
	<u>48</u>	<u>73</u>	<u>2</u>	<u>2</u>

## 6. Earnings per Share

The calculation of the basic earnings per Share for the three months and six months ended 30 September, 2003 is based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$3,128,000 and HK\$1,640,000 (2002: HK\$1,106,000 and HK\$2,212,000) and the weighted averaged number of 452,612,072 and 452,612,072 Shares (2002: 452,612,072 and 452,612,072 Shares) in issue throughout the relevant accounting periods, respectively.

No diluted earnings per share for the six months ended 30 September, 2003 and 2002 are presented as the exercise of the outstanding options of the Company would have an anti-dilutive effect.

## 7. Fixed assets

During the period, the Group spent approximately HK\$198,000 (six months ended 30 September, 2002: HK\$156,000) on the acquisition of fixed assets.

## 8. Intangible assets

*Software development costs*

	As at 30 September, 2003 (unaudited) HK\$'000	As at 31 March, 2003 (audited) HK\$'000
At the beginning of the period	822	404
Addition	-	470
Amortisation	(73)	(52)
	<u>749</u>	<u>822</u>
At the end of the period	<u>749</u>	<u>822</u>

## 9. Accounts receivables

The majority of the Group's turnover is on credit terms ranging from sixty to ninety days. As at 30 September, 2003, the ageing analysis of the accounts receivable was as follows:-

	As at 30 September, 2003 (unaudited) HK\$'000	As at 31 March, 2003 (audited) HK\$'000
Current to 60 days	24,977	12,515
61 - 90 days	2,011	1,621
Over 90 days	8,810	5,793
	<u>35,798</u>	<u>19,929</u>

**10. Accounts payable**

As at 30 September, 2003, the ageing analysis of the accounts payable was as follows:-

	As at 30 September, 2003 (unaudited) HK\$'000	As at 31 March, 2003 (audited) HK\$'000
Current to 60 days	18,112	3,538
61 – 90 days	–	287
Over 90 days	3,087	2,805
	<u>21,199</u>	<u>6,630</u>

**11. Bank balances and cash**

Included in the balance is approximately HK\$10,682,000 (31 March, 2003: HK\$8,969,000), representing Renminbi deposits placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

**12. Inventories**

	As at 30 September, 2003 (unaudited) HK\$'000	As at 31 March, 2003 (audited) HK\$'000
Merchandise for re-sale	10,291	6,481
Spare parts	4,091	3,981
	<u>14,382</u>	<u>10,462</u>

**13. Commitments under operating leases – land and building**

At 30 September, 2003, the Group had future aggregate minimum lease payments under operating leases as follows: –

	As at 30 September, 2003 (unaudited) HK\$'000	As at 31 March, 2003 (audited) HK\$'000
Within one year	801	761
In the second to fifth year inclusive	434	34
	<u>1,235</u>	<u>795</u>



## MANAGEMENT DISCUSSIONS AND ANALYSIS

### Business Review

The Group specializes in the provision of implementation and upgrading of self-service automatic teller machine (“ATM”) systems, related application hardware and software, technical support and consultancy services to commercial banks and postal bureaus in the People’s Republic of China (the “PRC” or China). During the six months ended 30 September, 2003, the provision of technical and value-added services to the banking and finance sectors in China remained as the Group’s primary strategic development focus to capitalize on its higher yield potential.

The Group was pleased to report an improvement in the second-quarter performance as the first-quarter result was inevitably under the influence of the outbreak of the Severe Acute Respiratory Syndrome (“SARS”) that led to a slowdown in new customer orders.

For the six months ended 30 September, 2003, the Group recorded a drop of approximately 8 per cent. in turnover to approximately HK\$54.2 million, compared with HK\$58.8 million the corresponding period in 2002. The turnover decrease was largely a result of the negative impact from SARS.

For the six months ended 30 September, 2003, the Group reported profit attributable to shareholders of approximately HK\$1.6 million, representing a decrease of approximately 26 per cent. compared with the same period last year. Earnings per share during the six months ended 30 September, 2003 was approximately HK0.36 cents, compared with HK0.49 cents for the same period last year.

The Group continued to improve cost controls on all aspects of operations and corporate management. Selling and administrative expenses were down by approximately 53 per cent. and approximately 34 per cent. respectively for the six months ended 30 September, 2003, compared to the corresponding period in 2002. Overall gross profit margin was approximately 22 per cent. for the period under review, compared with 31 per cent. for the same period last year.

### Implementation of self-service ATM systems

This core business segment of the Group accounted for approximately 96 per cent. of the Group’s total turnover for the six months ended 30 September, 2003 (six months ended 30 September, 2002: 85 per cent.). Reinforced by an improvement in market situation and the Group’s enhanced marketing efforts, the business segment’s sales turnover recorded an approximately 4 per cent. increase compared with the same six-month periods in 2002. The Group believes that demand for the implementation of self-service ATM systems will continue to grow in China, especially with China’s fast economic growth and the relaxation of travel restrictions on individual travellers from major cities in China.

New contracts were signed with the Construction Bank of China, Commercial Bank, Shanghai Pudong Development Bank and The Bank of Communication.

The Group continued its network of ATM service centers in China with new openings at Guangxi, Hainan, Kunming, Hangzhou and Jinan. At present, the network covers a total of 28 strategic cities and locations.



### **Implementation of electronic postal automation systems**

Sales of electronic postal automation systems remained insignificant during the six months under review, accounting for just 1 per cent. of the Group's turnover, compared with 4 per cent. for the corresponding period in 2002. The Group will continue to develop innovative strategies to drive market acceptance and penetration of electronic postal automation systems that include mailing finishing systems, volume mailing handling systems and franking machines.

### **Provision of information technology and business solutions**

This business segment contributed approximately 3 per cent. of the Group's turnover for the six-month period under review, compared with 11 per cent. the same period in 2002. Again, the Group believes China's fast economic growth and the relaxation of travel restrictions on individual travelers from major cities in China will fuel economic activities and demand from banking and financial institutions in China for the Group's information technology and business solutions. Meanwhile, the Group will also to explore software applications for converging banking business platforms and other state-of-the-art application software.

### **Provision of technical consultancy and support services**

The provision of technical consultancy and support services, already included in the above-mentioned businesses, is in itself a core growth driver and a stable, recurrent income source of favourably higher margin. This business segment accounted for approximately 14 per cent. of the Group's turnover for the six-month period under review, compared with 29 per cent. the same period in 2002.

### **Gross profit**

During the six months ended 30 September, 2003, the Group reported a gross profit of approximately HK\$11.7 million with a margin of approximately 22 per cent. while the gross profit for the six months ended 30 September, 2002 was around HK\$18.5 million with a margin of 31 per cent.. The decrease in gross profit margin was mainly due to change in turnover mix as 86 per cent. of turnover for the six months ended 30 September, 2003 was composed of sales of goods business segment with lower gross profit margin (six months ended 30 September, 2002: 71 per cent.).

### **Interest income**

As a result of the decline in interest rate and bank balance during the six months ended 30 September, 2003, the interest income of the Group declined by approximately 51 per cent. during the six months ended 30 September, 2003, as compared with the corresponding period in last year.

### **Selling expenses**

Selling expenses incurred by the Group for the six months ended 30 September, 2003 amounted to approximately HK\$2.1 million, representing a decrease of approximately 53 per cent., as compared with the corresponding period in last year due to the successful control of the operating expenses by the Group.

### **Administrative expenses**

Administrative expenses incurred by the Group for the six months ended 30 September, 2003, amounted to approximately HK\$7.6 million, representing a decrease of approximately 34 per cent., as compared with the corresponding period in last year due to the tight control of the operating expenses by the Group.

### **Finance costs**

The finance costs of the Group for the six months ended 30 September, 2003 increased slightly to HK\$148,000 (six months ended 30 September, 2002: HK\$88,000).

### **Liquidity and financial resources**

The Group generally finances its operations with internally generated cash flow. As at 30 September, 2003, the Group had cash and bank balances (including pledged bank deposits) amounting to a total of approximately HK\$21.5 million (31 March, 2003: HK\$29.0 million) and had outstanding bank overdraft of approximately HK\$4.0 million (31 March, 2003: Nil) and short-term bank loan of approximately HK\$3.7 million (31 March, 2003: HK\$3.8 million) which represented the total borrowings of the Group as at that date. The bank overdraft was at 0.75% per annum over Hong Kong Dollar prime rate while the short-term loan was repayable within 1 year and at interest rate of approximately 5 per cent. over the base rate announced by People's Bank of China.

With these resources and the proceeds from the new issue of shares in January 2001, the Board believes that the Group has adequate capital resources to finance its business objectives as stated in the Prospectus.

### **Gearing ratio**

As at 30 September, 2003, the gearing ratio of the Group, based on total liabilities over total assets was approximately 47 per cent. (31 March, 2003: approximately 32 per cent.).

### **Banking facilities**

As at 30 September, 2003, the Group's banking facilities of approximately HK\$28.0 million (31 March, 2003: HK\$45.2 million) are secured by the followings:-

- (a) pledged deposits of HK\$9.0 million (31 March, 2003: HK\$7.0 million); and
- (b) corporate guarantees by the Company and its subsidiaries of approximately HK\$26.5 million (31 March, 2003: HK\$46.5 million).

### **Treasury policies and capital structure**

The Group's overall treasury and funding policies are prudent, with a focus on risk management, and those transactions which are directly related to the underlying business of the Group. Assets which are denominated in currencies other than Hong Kong and United States dollars, in particular, Renminbi assets, are hedged with the appropriate level of borrowings in Renminbi and bank deposits in Hong Kong and United States dollars. When necessary, forward exchange contracts will be used to hedge against foreign currency exposures. As at 30 September, 2003, the Group had no exposure under foreign exchange contracts.

### **Contingent liabilities**

As at 30 September, 2003, the Group did not have any significant contingent liabilities.

### **Exposure to foreign exchange risk**

In its ordinary course of business, the Group has no significant exposure to foreign exchange fluctuations, as most of its purchases from third party suppliers are settled in United States ("US") dollar which is pegged to the Hong Kong dollar exchange rate, and the Group's revenue from sales of goods and services rendered in Hong Kong and the PRC are collected primarily in US dollar and Renminbi.

Although the Group received Renminbi income from sales in the PRC, the Renminbi income was used to meet working capital commitments in the PRC.

### **Employees**

As at 30 September, 2003, the Group employed 137 and 20 staff in the PRC and Hong Kong, respectively. The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system.

Share options may be granted to Directors and employees of the Group to subscribe for shares in the Company in accordance with the terms and conditions of the Share Option Schemes approved by a resolution in writing passed by all shareholders of the Company on 13 December, 2000.

### **Significant investments held and material acquisitions and disposals of subsidiaries**

There was no significant investments and material acquisitions and disposals of subsidiaries during the period under review.



### **Business prospects**

The economic situation and operating environment in China has been improving since the containment of the SARS outbreak in the beginning of June. The Group benefited directly from this upswing, as reflected in its improved second-quarter performance from 1 July, 2003 to 30 September, 2003. The Directors believe that China's macro-economic fundamentals will continue to strengthen and fuel economic activities and investment confidence. This will set to be translated into a higher demand for the Group's provision of implementation and upgrading of self-service ATM systems, related application hardware and software, technical support and consultancy services to commercial banks and postal bureaus in China. The Group is looking forward to a more robust second half of the year.

### **Future plans and developments**

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

- (1) continue to implement and upgrade the self-service ATM related systems for commercial banks and postal savings bureaus in the PRC;
- (2) continue to provide hardware and software technical support and consultancy services to existing and future customers in respect of ATM systems in the PRC through the Group's subsidiaries and service centers;
- (3) continue to research and develop software for banking and postal applications;
- (4) continue to boost marketing efforts in the PRC to bring in new customers and enhance revenue on a continuous basis; and
- (5) continue to keep abreast of all latest developments in the industry so as to consolidate existing activities and be prepared to diversify into new areas for the ultimate objective of enhancing shareholders' value.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period from 1 April, 2003 to 30 September, 2003 (2002: Nil).

## DISCLOSURE OF INTERESTS

### (i) Interests and short positions of Directors and Chief Executive in the share capital of the Company and its associated corporations

Save as disclosed below and save for the Share Options held by some Directors (details of which are set out under sub-section headed "Details of Share Options granted by the Company" below), as at 30 September, 2003, none of the Directors and Chief Executive of the Company had any interest or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they would be taken or deemed to have under Sections 344 and 345 of the SFO), or which would be required to be entered into the register required to be kept by the Company, pursuant to Section 352 of the SFO, or which would be required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

#### (a) Directors' and Chief Executive's interests in the Shares

Name of Director	Number of Shares in which interested	Capacity	Approximate percentage holding of Shares
Mr. Hou Hsiao Bing (Note 1)	98,460,000	Beneficial owner	21.75%
Ms. Chung Yuk Hung, Yvonne (Note 1)	35,190,000	Beneficial owner	7.77%
Mr. Chung Yuk Man, Kevin (Note 1)	35,190,000	Beneficial owner	7.77%
Mr. Hou Hsiao Wen, Eddie (Notes 1 and 2)	33,160,000	Beneficial owner	7.33%

Notes: -

- (1) Innovative Tech Worldwide Inc. ("ITW"), a company incorporated in the British Virgin Islands, was previously the registered shareholder of 262,500,000 Shares. On 10 July, 2002, ITW transferred the 262,500,000 Shares to various persons as directed by the shareholders of ITW pursuant to a distribution in specie ("Distribution"). Under the Distribution, 98,460,000 Shares were transferred to Mr. Hou Hsiao Bing (representing approximately 21.75 per cent. of the Shares in issue), 35,190,000 Shares were transferred to Ms. Chung Yuk Hung, Yvonne (representing approximately 7.77 per cent. of the Shares in issue), 35,190,000 Shares were transferred to Mr. Chung Yuk Man, Kevin (representing approximately 7.77 per cent. of the Shares in issue) and 32,790,000 Shares were transferred to Mr. Hou Hsiao Wen, Eddie (representing approximately 7.24 per cent. of the Shares in issue).
- (2) In addition to his 32,790,000 Shares transferred to him on 10 July, 2002 pursuant to the Distribution as referred to in Note 1 above, Mr. Hou Hsiao Wen, Eddie further acquired 370,000 Shares in August 2002. His shareholding accordingly increased to 33,160,000 Shares (representing approximately 7.33 per cent. of the Shares in issue).



(b) *Directors' and Chief Executive's interests/short positions in the share capital of the Company's associated corporations*

Name of Director	Associated Corporations	Number of shares in which interested	Nature of Interest	Approximate percentage holding of shares
Ms. Chung Yuk Hung, Yvonne	Truth Honour Electronic Limited	200,000 non-voting deferred shares	Beneficial owner	6.67% of the non-voting deferred shares
Mr. Chung Yuk Man, Kevin	Truth Honour Electronic Limited	200,000 non-voting deferred shares	Beneficial owner	6.67% of the non-voting deferred shares

(ii) **Notifiable interests and short positions in Shares of persons under the provisions of Divisions 2 and 3 of Part XV of the SFO and persons who are "substantial shareholders" in the Company for the purposes of the Listing Rules**

Save as disclosed below and save for the share option granted to certain substantial shareholder of the Company (details of which are set out under sub-section headed "Details of Share Options granted by the Company" below), as at 30 September, 2003, none of the Directors or Chief Executive are aware of any other person who had interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly, or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group.

**Notifiable interests in Shares**

Name of Shareholder	Number of Shares in which interested	Capacity	Approximate percentage holding of Shares
Mr. Hou Hsiao Bing <i>(Executive Director)</i> <i>(Note 1)</i>	98,460,000	Beneficial owner	21.75%
Mr. Chung Lok Fai <i>(Note 2)</i>	80,370,000	Beneficial owner and family interest	17.76%
Ms. Tsou Lo Nien <i>(Note 3)</i>	80,370,000	Beneficial owner and family interest	17.76%
Ms. Chung Yuk Hung, Yvonne <i>(Executive Director)</i> <i>(Note 1)</i>	35,190,000	Beneficial owner	7.77%
Mr. Chung Yuk Man, Kevin <i>(Executive Director)</i> <i>(Note 1)</i>	35,190,000	Beneficial owner	7.77%
Mr. Hou Hsiao Wen, Eddie <i>(Executive Director)</i> <i>(Notes 1 and 4)</i>	33,160,000	Beneficial owner	7.33%

Notes: –

- (1) Innovative Tech Worldwide Inc. (“ITW”), a company incorporated in the British Virgin Islands, was previously the registered shareholder of 262,500,000 Shares. On 10 July, 2002, ITW transferred the 262,500,000 Shares to various persons as directed by the shareholders of ITW pursuant to a distribution in specie (“Distribution”). Under the Distribution, 98,460,000 Shares were transferred to Mr. Hou Hsiao Bing (representing approximately 21.75 per cent. of the Shares in issue), 35,190,000 Shares were transferred to Ms. Chung Yuk Hung, Yvonne (representing approximately 7.77 per cent. of the Shares in issue), 35,190,000 Shares were transferred to Mr. Chung Yuk Man, Kevin (representing approximately 7.77 per cent. of the Shares in issue) and 32,790,000 Shares were transferred to Mr. Hou Hsiao Wen, Eddie (representing approximately 7.24 per cent. of the Shares in issue).
- (2) Mr. Chung Lok Fai is the spouse of Ms. Tsou Lo Nien. Accordingly, Mr. Chung Lok Fai is deemed, by virtue of the SFO to be interested in all the Shares in which Ms. Tsou Lo Nien is interested. Together with the 45,125,000 Shares registered in his own name, Mr. Chung Lok Fai is deemed, by virtue of the SFO, to be interested in 80,370,000 Shares, representing approximately 17.76 per cent. of the Shares in issue.
- (3) Ms. Tsou Lo Nien is the spouse of Mr. Chung Lok Fai. Accordingly, Ms. Tsou Lo Nien is deemed, by virtue of the SFO to be interested in all the Shares in which Mr. Chung Lok Fai is interested. Together with the 35,245,000 Shares registered in her own name, Ms. Tsou Lo Nien is deemed, by virtue of the SFO, to be interested in 80,370,000 Shares, representing approximately 17.76 per cent. of the Shares in issue.
- (4) In addition to his 32,790,000 Shares transferred to him on 10 July, 2002 pursuant to the Distribution as referred to in Note 1 above, Mr. Hou Hsiao Wen, Eddie further acquired 370,000 Shares in August 2002. His shareholding accordingly increased to 33,160,000 Shares (representing approximately 7.33 per cent. of the Shares in issue).



## DETAILS OF SHARE OPTIONS GRANTED BY THE COMPANY

### (i) Directors' rights to acquire Shares

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

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

Name of Director	Date of grant	Exercise price HK\$	Number of share options outstanding as at 30.9.2003	Expiry date
Ms. Chung Yuk Hung, Yvonne	18/12/2000	0.4	2,000,000	17/12/2010
Mr. Chung Yuk Man, Kevin	18/12/2000	0.4	2,000,000	17/12/2010
Mr. Hou Hsiao Wen, Eddie	18/12/2000	0.4	2,000,000	17/12/2010
Mr. Hou Hsiao Bing	18/12/2000	0.4	2,000,000	17/12/2010

Notes: –

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

**(ii) Long positions in underlying shares of equity derivatives of the Company**

Mr. Chung Lok Fai, a substantial shareholder, had personal interests in the Pre-IPO share options granted by the Company. The principal terms of the Pre-IPO share options scheme were disclosed in the prospectus dated 22 December, 2000 (the "Prospectus").

Pursuant to the Pre-IPO share options scheme, the Company has granted 2,000,000 options to Mr. Chung Lok Fai to subscribe for shares in the Company at any time from 18 December, 2000 to and including 17 December, 2010 at an exercise price of HK\$0.4 per share. These share options has not yet been exercised.

Ms. Tsou Lo Nien is the spouse of Mr. Chung Lok Fai. Accordingly, Ms. Tsou Lo Nien is deemed, by virtue of the SFO to be interested in all the Pre-IPO share options in which Mr. Chung Lok Fai is interested.

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



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

### Movement of Share Options

Pre-IPO Share Options	As at 1 April, 2003	Number of Options			As at 30 September, 2003	No. of new shares arising therefrom
		Granted	Exercised	Cancelled		
Exercise price: HK\$0.20						
- Director of a subsidiary:						
Mr. Lam Shut Chun	500,000	Nil	Nil	Nil	500,000	Nil
- Other employees	6,900,000	Nil	Nil	(1,500,000)	5,400,000	Nil
Exercise price: HK\$0.40						
- Executive Directors						
Mr. Hou Hsiao Wen, Eddie	2,000,000	Nil	Nil	Nil	2,000,000	Nil
Mr. Hou Hsiao Bing	2,000,000	Nil	Nil	Nil	2,000,000	Nil
Ms. Chung Yuk Hung, Yvonne	2,000,000	Nil	Nil	Nil	2,000,000	Nil
Mr. Chung Yuk Man, Kevin	2,000,000	Nil	Nil	Nil	2,000,000	Nil
- Other employees (note 2)	2,500,000	Nil	Nil	(100,000)	2,400,000	Nil
	<u>17,900,000</u>	<u>Nil</u>	<u>Nil</u>	<u>(1,600,000)</u>	<u>16,300,000</u>	<u>Nil</u>

Notes:-

1. During the six months ended 30 September, 2003, 1,600,000 share options were lapsed upon the resignation of the relevant employees of the Group.
2. Mr. Chung Lok Fai resigned as a Director on 5 August, 2002, but remained as an employee of Truth Honour Electronic Limited, a subsidiary of the Company. As a result, the share options are still valid and are reclassified into other employees category.

## BOARD PRACTICES AND PROCEDURES

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The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the Shares got listed on GEM on 3 January, 2001.

## AUDIT COMMITTEE OF THE BOARD

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

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

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None of the members of the Group purchased, sold or redeemed any of the Group's listed securities during the period from 1 April, 2003 to 30 September, 2003.

## SPONSOR'S INTERESTS

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As at 31 March, 2003, DBS Asia Capital Limited ceased to be the sponsor of the Company upon expiration of the terms of contract after two years of service. The Company had no sponsor as at and for the period from 1 April, 2003 to 30 September, 2003. Accordingly, no additional disclosure is made.

## COMPETING INTERESTS

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

By order of the Board  
**Soluteck Holdings Limited**  
**Hou Hsiao Bing**  
*Chairman*

Hong Kong, 10 November, 2003

