



SINO STRIDE

**SINO STRIDE TECHNOLOGY (HOLDINGS) LIMITED**

**中程科技集團有限公司\***

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

## **Third Quarterly Report 2003**

\* *For identification purpose only*

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



# SINO STRIDE TECHNOLOGY (HOLDINGS) LIMITED

## 中程科技集團有限公司\*

(Incorporated in the Cayman Islands with limited liability)

### THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2003 (UNAUDITED)

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

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2003	2002	2003	2002
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	59,174	62,944	133,663	107,733
Cost of sales		(42,455)	(44,527)	(97,768)	(74,683)
Gross profit		16,719	18,417	35,895	33,050
Other revenue	2	496	64	1,142	243
Selling and distribution costs		(1,324)	(2,058)	(7,111)	(4,957)
Administrative costs		(1,229)	(3,054)	(8,506)	(8,624)
Other operating costs		(203)	–	(236)	(118)
Loss on disposal of the disposed operations	4	(144)	–	(144)	–
Profit from operating activities	5	14,315	13,369	21,040	19,594
Finance costs	6	(832)	(415)	(1,901)	(1,132)
Share of losses of associates		(226)	–	(474)	–
Profit before tax and minority interests		13,257	12,954	18,665	18,462
Tax	7	(1,814)	(2,087)	(2,919)	(3,093)
Minority interests, net of tax		(147)	(813)	(265)	(1,309)
Net profit from ordinary activities attributable to shareholders		11,296	10,054	15,481	14,060
Earnings per share					
– Basic and diluted	8	RMB0.010	RMB0.011	RMB0.014	RMB0.016

\* For identification purpose only

## NOTES TO THE CONDENSED CONSOLIDATED RESULTS

### 1. Group reorganisation 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 quarterly 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.

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Turnover	<b>59,174</b>	62,944	<b>133,663</b>	107,733
Amortisation of negative goodwill	<b>87</b>	–	<b>263</b>	–
Interest income	<b>83</b>	55	<b>307</b>	80
Government grants	<b>305</b>	–	<b>465</b>	–
Others	<b>21</b>	9	<b>107</b>	163
	<hr/>	<hr/>	<hr/>	<hr/>
Other revenue	<b>496</b>	64	<b>1,142</b>	243
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	<b>59,670</b>	63,008	<b>134,805</b>	107,976
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### 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 nine months ended 30 September 2003.

	Unaudited nine months ended 30 September					
	Hong Kong		PRC		Group	
	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>29,727</u>	16,385	<u>103,936</u>	91,348	<u>133,663</u>	107,733
Segment results	<b>6,840</b>	3,505	<b>15,688</b>	16,892	<b>22,528</b>	20,397
Unallocated corporate expense					(2,749)	(1,039)
Loss on disposal of the disposed operations					(144)	–
Amortisation of negative goodwill/(goodwill)					263	(7)
Other revenue					<u>1,142</u>	<u>243</u>
Profit from operating activities					<b>21,040</b>	19,594
Finance costs					(1,901)	(1,132)
Share losses of associates					<u>(474)</u>	<u>–</u>
Profit before tax and minority interests					<b>18,665</b>	18,462
Tax					<u>(2,919)</u>	<u>(3,093)</u>
Profit before minority interests					<b>15,746</b>	15,369
Minority interests, net of tax					<u>(265)</u>	<u>(1,309)</u>
Net Profit attributable to shareholders					<u><b>15,481</b></u>	<u>14,060</u>

#### 4. Loss on disposal of the disposed operations

On 29 July 2003, the board of directors of Sino Stride Technology Co., Ltd resolved to dispose of the entire interest (representing 75% stake) in a subsidiary, Hangzhou Sino Stride Yida System Technology Co., Ltd. (“Yida System”), which held 70% interest in a sub-subsiidiary, Hangzhou Sino Stride Hospital Yida System Technology Co. Ltd. (“Yida Equipment”). The consolidated results and net assets of Yida System and Yida Equipment (collectively the “Yida Group”) are included in the geographical segment of PRC for the purpose of segment reporting. The disposal is reported in the financial statements as the disposed operations. The unaudited consolidated sales, results and net assets of Yida Group were as follows:

	<b>From 1 Jan 2003 to 29 Jul 2003 RMB'000</b>	From 1 Jan 2002 to 30 Sep 2002 RMB'000
Turnover	2,223	2,571
Cost of sales	<u>(1,475)</u>	<u>(1,750)</u>
Gross profit	748	821
Other revenue	91	116
Selling and distribution costs	(477)	(501)
Administrative costs	<u>(309)</u>	<u>(646)</u>
Profit/(loss) from operating activities	53	(210)
Finance costs	<u>(1)</u>	<u>–</u>
Profit/(loss) before tax	52	(210)
Tax	<u>(13)</u>	<u>–</u>
Profit/(loss) before tax	39	(210)
Minority interests, net of taxes	<u>(34)</u>	<u>56</u>
Net profit/(loss) of the disposed operations	<u><u>5</u></u>	<u><u>(154)</u></u>

	<b>At 29 Jul 2003</b> <i>RMB'000</i>	At 30 Dec 2002 <i>RMB'000</i>
Fixed assets	246	364
Intangible assets	328	400
Currents assets	<u>2,778</u>	<u>2,438</u>
Total assets	3,352	3,202
Total liabilities	(1,172)	(1,057)
Minority interest of Yida Equipment	<u>(332)</u>	<u>(300)</u>
Net assets	<u><b>1,848</b></u>	<u><b>1,845</b></u>
Percentage attributable to the Group	75%	
Net assets disposed	1,386	
Sales proceeds	<u>1,242</u>	
Loss on disposal of the disposed operations	<u><b>144</b></u>	

**At 29 Jul 2003**  
*RMB'000*

The net cash outflow on sales is determined as follows:

Sales proceeds	1,242
Less: Increase in other receivables	(1,242)
Cash and cash equivalents in disposed operations sold	<u>(800)</u>
Sales of disposed operations, net of cash disposed	<u><b>(800)</b></u>

*Note:* Pursuant to the sales and purchase agreement entered into between Sino Stride Technology Co., Ltd and a third party buyer of Yida System (the "Agreement"), Yida System was disposed at cash consideration of RMB1,242,000, payable within six months after completion of all relevant registration procedures in the Industry and Commerce Administration Bureau. RMB1,242,000 were recorded as other receivables. In the opinion of Directors, there is no recoverability associated with the remaining balance outstanding as at 30 September 2003 and therefore no provision has been made in the accounts.



## 5. Profit from operating activities

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

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Auditors' remuneration	99	–	344	17
Amortisation of intangible assets	3	30	63	90
Amortisation of (negative goodwill)/ goodwill	(87)	2	(263)	7
Interest income	(83)	(55)	(307)	(80)
Depreciation	369	439	1,299	1,090
Interest on bank loans repayable within one year	645	380	1,635	908
Minimum lease payment under operating leases for buildings	306	182	772	429
Staff costs:				
Retirement benefits	179	183	617	338
Accommodation benefits	55	76	245	169
Other staff costs	1,145	2,972	6,330	5,416
	<u>1,379</u>	<u>3,231</u>	<u>7,192</u>	<u>5,923</u>

## 6. Finance costs

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank loans repayable within one year	645	380	1,635	908
Bank charges and commissions	187	35	266	224
	<u>832</u>	<u>415</u>	<u>1,901</u>	<u>1,132</u>

## 7. Tax

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Provision for the period:				
– Hong Kong	<b>1,026</b>	500	<b>1,026</b>	500
– PRC	<b>788</b>	1,587	<b>1,893</b>	2,593
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>1,814</b>	2,087	<b>2,919</b>	3,093
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated 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 September 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.

## 8. Earnings per share

The calculation of basic earnings per share for the three months and nine months periods ended 30 September 2003 is based on the net profit attributable to shareholders of approximately RMB11,296,000 and RMB15,481,000 (2002: RMB10,054,000 and RMB14,060,000) and the weighted average of approximately 1,084,090,000 ordinary shares in issue for the three months and nine months ended 30 September 2003 (2002: approximately 876,863,004 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 nine months periods ended 30 September 2003 and 2002.

## 9. Interim dividends

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

## 10. 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 nine months ended 30 September 2003 amounted to RMB448,380 (2002: RMB276,660).

## 11. Share capital and reserves

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

	Share capital	Share premium	Contri- bution surplus	Statutory surplus reserve	Enterprise expansion fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 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	–	–	–	–	–	15,481	15,481
As at 30 September 2003	<u>11,491</u>	<u>69,800</u>	<u>13,499</u>	<u>2,429</u>	<u>1,595</u>	<u>34,838</u>	<u>133,652</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.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Overview**

For the nine months ended 30 September 2003, the Group recorded a turnover of approximately RMB134 million, representing an increase of approximately 24% over the nine months ended 30 September 2002. The growth in the turnover of the Group for the nine months ended 30 September 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 19% for the nine months ended 30 September 2002 to 32% for the nine months ended 30 September 2003 because several computer networks hardware and equipment suppliers appointed the Group as distribution agents.

The profit margin 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 result in decrease in overall gross profit margin. The implementation of projects was affected by Sever Acute Respiratory Syndrome (“SARS”). There are usually supplementary and modification contracts with higher profit margin in the final stage of projects but SARS affected business negotiations activities and those supplementary contracts with higher profit margin were postponed as projects on hands were not yet achieved the final stage. Since the technology involved in the middle stage of project was less than that in the final stage of project, the gross profit margin for the Group was decreased when comparing with nine months period ended 30 September 2002. As explained as above, the Group’s gross profit margin was decreased from 30.7% for the nine months ended 30 September 2002 to 26.9% for the nine months ended 30 September 2003.

The percentage of selling and distribution expenses to turnover increased from 4.6% for the nine months ended 30 September 2002 to 5.3% for the nine months ended 30 September 2003 because of the establishment of sales branches in different locations. In order to expand the Group's market coverage outside Zhejiang Province, more recourse was employed in those newly established sales offices.

For the nine months ended 30 September 2003, the Group's net profit from ordinary activities attributable to shareholders amounted to approximately RMB15.5 million, representing an increase of approximately 10% over the nine months ended 30 September 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 September 2003, the Group had outstanding bank borrowings of RMB67 millions which are unsecured and guaranteed by PRC Sino Stride or Xingda Computer. During the nine months ended 30 September 2003, the Group did not create any mortgage.

As at 30 September 2003, the Group's cash and cash equivalents amounted to approximately RMB56 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 September 2003, the Group's gearing ratio was 25% (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 September 2003.

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

Save as those disclosed in the paragraph "OPERATIONS REVIEW", the Group did not make any material acquisitions or disposals of subsidiaries or affiliated companies during the nine months ended 30 September 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 September 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 RMB2,721,015 (as at 30 September 2002: RMB1,443,634) which had been pledged to financial institutions for the issuance of letter of credits, as at 30 September 2003, the Group did not have any charge on its assets.

### **Employees**

As at 30 September 2003, the Group had 344 (2002: 321) employees. Total staff costs increased to approximately RMB7.2 million from approximately RMB5.9 million for the nine months ended 30 September 2002. The increase in staff costs was mainly due to the employment of more staff to cope with the expansion of the Group's business. The Board believes that the quality of its employees is the most important factor in sustaining the Group's growth and enhancing its profitability. Employees are remunerated according to their performance and working experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus.

### **Future plans for material investments or capital assets**

The Group intends to pursue strategic acquisitions of and/or investments in system integration business and relevant system software development business to strengthen or complement the Group's existing business. Up to the date of this results announcement, no such acquisitions and/or investments targets other than those mentioned in the paragraph "OPERATIONS REVIEW" have been located by the Group. Accordingly, the Group did not have intended plans for material investments or capital assets as at 30 September 2003.

## OPERATIONS REVIEW

During the period under review, the Group has made a number of achievements in the area of business development. The magazine 中國企業家 (China Enterprise Magazine) and 清華大學經營管理學院中國創業研究中心 (Tsinghua University Business Management Institute China Entrepreneurship Center) jointly awarded the prize of 2003年未來之星 – 21佳 (2003 China Most Promised – 21 New Stars Enterprise) to the Group for its well development and brightness prospectus. PRC Sino Stride won the award of the Top Ten Software Enterprises of Zhejiang Province in 2003. On 3 March 2003, the committee of High and New Technology Industrial Development Zone of Hangzhou City presented the prize of 2002年度管理創新獎 (Business Innovation and Management Awards in year 2002) to our chairman Mr. Chau Chit. Furthermore, nine of our intelligent buildings system integration projects were awarded 2003年度浙江省建設工程錢江杯獎 (優質工程) (2003 Zhejiang Province Construction Projects Qian Jiang Cup (Quality Projects) awards) during November 2003.

The Group has successfully bid the projects of 104國道 – 浙江省段全程智能網絡化監控系統項目 (Intelligent Network Monitoring System of National Highway 104 – Zhejiang Province section) and 318國道 – 湖州市交警智能卡口工程 (Intelligent Traffic Control Gates of National Highway 318 – Huzhou City Traffic Police section) which indicated our intelligent traffic technology was recognized by the Public. During the nine months ended 30 September 2003, PRC Sino Stride and Xingda Computer have successfully signed 39 and 29 contracts with various organizations including 寧波水利局 (Ningbo City Water Conservancy Bureau), 義烏市體育中心 (Yiwu City Sport Complex), 溫嶺市廣播電視局 (Wenling City TV Broadcasting Bureau), 湖州市公安局 (Huzhou City Police Bureau), 重慶市九龍園高新產業有限公司 (Chongqing City Nine Dragon Garden High Technology Industry Co.), 紹興市疾病預防控制中心 (Shaoxing Disease Control and Prevent Centre), 中國人民銀行杭州中心支行 (Bank of China Hangzhou Office), 浙江省國家安全廳 (Zhejiang Provincial National Security Department) and 台州市第一人民醫院網絡工程 (Taizhou City First People Hospital Computer Network projects).

On 25 May 2003, the Hangzhou Industry and Commerce Administration Bureau issued a new business license regarding the change of name from Zhejiang Sino Stride Technology Co., Ltd to Sino Stride Technology Co., Ltd (“PRC Sino Stride”). It was a milestone for the company to grow from a Zhejiang system integration solution supplier to a national system integration solution expert. PRC Sino Stride’s scope of business was also extended to include design, testing and implementation of lightning protection projects.

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-mk11”) which 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 enables the Group to obtain system hardware and licensed software from Enterasys with more favorable terms. As the progress of distribution of Enterasys products was satisfactory, the Group’s senior management was invited by Enterasys to visit their purchasing centre in Singapore during July 2003 and the vice president of Enterasys, Mr. Robert Ray also visited our Headquarter in Hangzhou to discuss strategic promotion of Enterasys products in China on 14 October 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.

In order to extend the Group’s business scope to fire prevention engineering related business, PRC Sino Stride invested RMB360,000 (representing 37.5% stake) into a company named 浙江浙大中程消防工程有限公司 (Zhejiang University Sino Stride Fire Prevention Engineering Co. Ltd) (“ZUSS Fire”) during May 2003. The remaining interest of ZUSS Fire is held by a company under Zhejiang University.

The Group has invested RMB7,500,000 (representing 75% stake) into a newly formed company namely 北京中程滙強科技有限公司 (Beijing Sino Stride Powerlink Technology Co., Ltd) during July 2003. It is principally engaged in the development and provision of system integration solutions.

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 nine month ended 30 September 2003 represented only 1.7% 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.

On 10 September 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 any business collaboration opportunities of establishing a software laboratory with Zhejiang University, being distribution partner and promoting TMAX’s software in PRC.



18 experts from Siemens, German Ministry of Internal Affairs and Stuttgart University have visited our Hangzhou headquarter for experience sharing, discussion of any technical or commercial cooperation possibility on 21 September 2003.

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 (“IBSI”), computer network system integration solutions (“CNSI”) and system software (“SS”) will continue to grow with the prosperity of PRC property markets, increasing proportion of investments in intelligence buildings and necessity for PRC information network system to be in line with international standards. Since the application of intelligence technologies in building, traffic and other relevant sectors in 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 IBSI and CNSI providers respectively, new competitors without recognition are difficult to accumulate relevant experience and technology to fulfill the above mentioned market entry requirements to enter this regulated market. Leverages on the Group’s compliance with the market entry requirements, grade A standard in IBSI and the prominent market position like Top Ten Software Enterprise of Zhejiang Province and 2003 China Most Promised – 21 New Stars Enterprise established, the Group will continue to intensify its marketing efforts, expand its market coverage to various provinces.

Unlike small system integration providers without self-developed products under own brand name and technology know how, the cooperation with reputable enterprises and research institutions like ST Elect and Zhejiang University supply the Group necessary research capabilities and human resources for developing products under Sino Stride brand name which are tailor-made to fulfill unique requirements in PRC market. 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.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30 September 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 (Note)	59.77%
Mr. Wong Wai Tin	129,600,000	Corporate (Note)	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 pm 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 nine months ended 30 September 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 September 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 ( <i>Note 1</i> )	59.77%
Mr. Chau Chit	648,000,000	Corporate ( <i>Note 1</i> )	59.77%
Ms. Ting Hiu Wan	648,000,000	Corporate ( <i>Note 1</i> )	59.77%
Mr. Wong Wai Tin	129,600,000	Corporate ( <i>Note 1</i> )	11.95%
Singapore Technologies Electronics Ltd	108,000,000	Corporate ( <i>Note 2</i> )	9.96%
Singapore Technologies Engineering Ltd	108,000,000	Corporate ( <i>Note 2</i> )	9.96%
Singapore Technologies Pte Ltd	108,000,000	Corporate ( <i>Note 2</i> )	9.96%
Temasek Holdings (Private) Ltd	108,000,000	Corporate ( <i>Note 2</i> )	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 Limited (“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 Limited (“STPL”) which in turn hold controlling interest in Singapore Technologies Engineering Limited. 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 108,000,0000 shares (9.96%) of the Company's issued share capital. Such option shall expire at 5:00 pm 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 Singapore Technologies Pte Limited ("STPL") which in turn hold controlling interest in Singapore Technologies Engineering Limited. 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.

**(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 108,000,0000 shares (9.96%) of the Company's issued share capital. Such option shall expire at 5:00 pm 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 September 2003.

## **SPONSOR’S INTEREST**

As at 30 September 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 Mar 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 September 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 nine months ended 30 September 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 three meetings in this period and six 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 nine months ended 30 September 2003.

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

Hangzhou, the PRC  
13 November 2003