



SINO STRIDE

SINO STRIDE TECHNOLOGY (HOLDINGS) LIMITED

中程科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2004

* *For identification purpose only*

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM websites in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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



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

(Incorporated in the Cayman Islands with limited liability)

**FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2004
(UNAUDITED)**

The board of Directors (the “Board”) of Sino Stride Technology (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2004, together with the comparative figures for the three months ended 31 March 2003 (the “Relevant Period”) as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		(Unaudited)	
		For the three months	
		ended 31 March	
		2004	2003
	<i>Notes</i>	RMB'000	RMB'000
Turnover	2	38,838	27,004
Cost of sales		(27,574)	(18,034)
Gross profit		11,264	8,970
Other revenue	2	143	355
Selling and distribution costs		(3,167)	(3,211)
Administrative costs		(4,532)	(3,218)
Profit from operating activities	4	3,708	2,896
Finance costs	5	(915)	(471)
Share of loss of associates		(16)	–
Profit before tax		2,777	2,425
Tax	6	(587)	(435)
Net profit before minority interests		2,190	1,990
Minority interests		60	(76)
Net profit from ordinary activities attributable to shareholders		2,250	1,914
Earnings per share			
– Basic and diluted	7	RMB0.002	RMB0.002

* For identification purpose only.

NOTES TO THE UNAUDITED CONSOLIDATED RESULTS

1. Basis of preparation and consolidation

The Company was incorporated in the Cayman Islands on 12 December 2001 as an exempted limited company under the Company Law (2001 Second Revision) of the Cayman Island. The Company's share were listed on GEM of the Stock Exchange on 29 July 2002. The Group is principally engaged in the development and provision of solutions for software, hardware and value-added service in intelligent information industry.

The unaudited consolidated results have been prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Interpretations of the Standing Interpretations Committee that remain in effect. 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 2003.

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)	
	For the three months	
	ended 31 March	
	2004	2003
	RMB'000	RMB'000
Turnover	38,838	27,004
Amortisation of negative goodwill	88	88
Interest income	48	195
Government grants	–	70
Others	7	2
	<hr/>	<hr/>
Other revenue	143	355
	<hr/>	<hr/>
Total revenue	38,981	27,359
	<hr/> <hr/>	<hr/> <hr/>

3. Segment information

(a) *Business segment*

The Group is principally engaged in the development and provision of solutions for software, hardware and value-added service in intelligent information industry. 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 presents revenue, profit and expenditure information for the Group's geographical segments for the three months ended 31 March 2004.

	Unaudited three months ended 31 March 2004		
	Hong Kong SAR RMB'000	The Mainland of the PRC RMB'000	Consolidated RMB'000
Segment revenue	<u>9,259</u>	<u>29,579</u>	<u>38,838</u>
Segment results	1,121	2,821	3,942
Unallocated corporate expenses			(372)
Amortisation of negative goodwill			88
Amortisation of goodwill			(6)
Other revenue			56
			<hr/>
Profit from operating activities			3,708
Finance costs			(915)
Share loss of associates			(16)
			<hr/>
Profit before tax			2,777
Tax			(587)
			<hr/>
Profit before minority interests			2,190
Minority interests			60
			<hr/>
Net profit attributable to shareholders			<u>2,250</u>

For the three months ended 31 March 2003, no segmental analysis by geographical segment is provided as the Group's turnover and profits were mainly derived from the provision of solutions for software, hardware and value-added service 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)	
	For the three months	
	ended 31 March	
	2004	2003
	RMB'000	RMB'000
Cost of sales	27,574	18,034
Auditors' remuneration	161	114
Amortisation of intangible assets	89	82
Amortisation of negative goodwill	(88)	(88)
Amortisation of goodwill	6	–
Interest income	(48)	(195)
Depreciation	593	357
Interest on bank loans repayable within one year	844	443
Minimum lease payments under operating leases for buildings	552	244
Staff costs:		
Retirement benefits	111	152
Accommodation benefits	89	89
Other staff costs	3,253	2,423
Total staff costs	3,453	2,664
Less: Amounts classified as deferred development costs	(413)	–
	3,040	2,664

5. Finance costs

	(Unaudited)	
	For the three months	
	ended 31 March	
	2004	2003
	RMB'000	RMB'000
Interest on bank loans repayable within one year	844	443
Bank charges and commissions	71	28
	915	471

6. Tax

	(Unaudited)	
	For the three months	
	ended 31 March	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Provision for the period		
– Hong Kong SAR	183	–
– The Mainland of the PRC	404	435
	<hr/>	<hr/>
Total	587	435
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profit has been provided at 17.5% (2003: 17.5%) 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.

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

According to the Income Tax Law of the People's Republic of China (the "PRC"), Sino Stride Technology Co., Ltd. ("PRC Sino Stride"), a PRC subsidiary of the Company, is qualified as an advanced technology enterprise and operates in one of the approved high and new technology industrial development zones of the PRC and is subject to a corporate tax rate of 15% (2003: 10%), 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, is subject to corporate income tax of the PRC at the rate of 15% (2003: 15%), being preferential tax rate applicable to companies operating in approved high and new technology industrial development zones of PRC.

Beijing Sino Stride Powerlink Technology Co., Ltd. ("Beijing Sino Stride") a PRC subsidiary of the Company, which is qualified as 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 year starting from its first year of operation, i.e. 1 January 2003 to 31 December 2004.

The applicable Hong Kong corporate income tax rate of Ever Create Profits Limited., a subsidiary of the Company which operates in Hong Kong, is 17.5% (2003: 17.5%), based on existing legislation.

The applicable PRC income tax rate of the other PRC subsidiaries is 33% based on existing legislation. No provision for income tax has been made for the Company and other subsidiaries of the Company as they incurred losses during the period since the respective incorporation dates.

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 is based on the net profit attributable to shareholders for the three months ended 31 March 2004 of approximately RMB2,250,000 (2003: RMB1,914,000) and the number of 1,084,090,000 (2003: 1,084,090,000) ordinary shares in issue during the period.

Diluted earnings per share equals basic earnings per share because there were no potential dilutive ordinary shares outstanding during the three months ended 31 March 2004 and 2003.

8. Interim dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2004 (2003: Nil).

9. Share capital and reserves

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

	Issued capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Contri- bution surplus <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Enterprise expansion fund <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Notes</i>			(a)	(b)	(c)			
As at 1 January 2003	11,491	69,800	13,499	1,785	951	–	34,435	131,961
Net profit for the period	–	–	–	–	–	–	1,914	1,914
Transferred to reserves	–	–	–	644	644	–	(1,288)	–
Dividends	–	–	–	–	–	–	(13,790)	(13,790)
As at 31 March 2003	<u>11,491</u>	<u>69,800</u>	<u>13,499</u>	<u>2,429</u>	<u>1,595</u>	<u>–</u>	<u>21,271</u>	<u>120,085</u>
	Issued capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Contri- bution surplus <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Enterprise expansion fund <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Notes</i>			(a)	(b)	(c)			
As at 1 January 2004	11,491	69,800	13,499	2,480	1,611	240	51,054	150,175
Exchange realignment	–	–	–	–	–	–	–	–
Net profit for the period	–	–	–	–	–	–	2,250	2,250
Transferred to reserves	–	–	–	738	738	–	(1,476)	–
Dividends	–	–	–	–	–	–	(13,864)	(13,864)
As at 31 March 2004	<u>11,491</u>	<u>69,800</u>	<u>13,499</u>	<u>3,218</u>	<u>2,349</u>	<u>240</u>	<u>37,964</u>	<u>138,561</u>

Notes:

(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 in preparation for the public listing of the Company's shares on the GEM of Stock Exchange, over the nominal value of the Company's shares issued in exchange thereof. 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 thereof.

(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 the 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 the enterprise expansion fund (“EEF”), which is a non-distributable reserve other than in the event of the liquidation of these subsidiaries. EEF must be used for production and operation expansion purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

For the three months ended 31 March 2004, the Group recorded a turnover of approximately RMB38,838,000, representing an increase of approximately 44% over the three months ended 31 March 2003. The growth in the turnover of the Group for the three months ended 31 March 2004 was mainly attributed to the increase in the Group's contract value and number of clients resulting from the growing demand of solutions for software, hardware and value-added service in intelligent information industry in the PRC.

During the relevant periods, the purchase costs of parts and components for network installation increased with the prices increase of steel in PRC. As the network installation cost was one of the major costs of the Group, its increase resulted in an increase of the Group's cost of sales and a decrease in the Group's gross profit margin from 33% for the three months ended 31 March 2003 to 29% for the three months ended 31 March 2004.

Administrative cost for the three months ended 31 March 2004 increased by approximately RMB1,314,000 because more resources were employed to explore business collaboration opportunities with reputable enterprises, improve the Group's internal workflows and administration structure.

For the three months ended 31 March 2004, the Group's net profit from ordinary activities attributable to shareholders amounted to approximately RMB2,250,000, representing an increase of approximately 18% over the three months ended 31 March 2003.

OPERATIONS REVIEW

In January 2004, Sino Stride Technology Co Limited ("PRC Sino Stride") was awarded as one of the 2003年度華東十家最具潛力IT企業(Top Ten Highest Potential IT Enterprise in the Eastern China of year 2003) by 中國計算機報(PRC Computer Newspaper) and 賽迪顧問股份有限公司(CCID Consulting Company Limited). On 16 February 2004, the government of Hangzhou City (Bin Jiang) District awarded 杭州高新區(濱江)2003年度先進企業(Hangzhou City (Bin Jiang) District Advanced Enterprise of High and Advanced Technology of year 2003) and 杭州高新區(濱江)2003年度經濟發展突出貢獻企業家獎(Hangzhou City (Bin Jiang) District outperformed entrepreneur in economic development of year 2003) to one of our subsidiaries, PRC Sino Stride and Mr. Shen Yue, the director and president of PRC Sino Stride respectively. In February 2004, PRC Sino Stride was designated as one of the 2003年度國家規劃布局內重點軟件企業(Outstanding Software enterprise of year 2003 defined by the National Development Bureau of the PRC).

During the three months ended 31 March 2004, the Group successfully bid several large intelligent building system and value added service solution projects such as 山東省臨淄市工商行政管理局大樓(the Bureau of Commerce and Industry Building of Lin Zi City in Shan Dong Province), 正大集團北方區11家易初蓮花連鎖超市(11 Yi Chu Lian Hua chained supermarket stores in the northern district of the Zheng Dai Group), 上海仁濟醫院二期外科病房大樓(Phase II Surgery Building of Shanghai Renji Hospital), 蘇州國際博覽中心(International Exhibition Centre of Suzhou City), 安徽省電網生產調度大樓(Anhui Provincial Electricity Network Production and Controlling Building), 溫州市行政西樓(West Wing of Administration Building of Wenzhou City) and 浙江省地方稅局大樓(Zhejiang Provincial Tax Bureau Building).

During three months ended 31 March 2004, the Group made a number of achievements in research and developments, especially in intelligent traffic controls. The Group completed certain modules under intelligent vehicles speed detection systems, including image signals analysis and controls modules, as well as flash light and shutters controls modules for the traffic police's cameras system to detect speeding. Besides, the Group provided the training courses to the operators 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) in March 2004.

On 2 February 2004, Enterasys Networks Singapore Pte Ltd. (“Enterasys”) awarded the Group as “the best value added distributor in China of year 2003” and “outperformed partner of Enterasys in Asia Pacific of year 2003”. In March 2004, one of our subsidiaries, Beijing Sino Stride Powerlink Technology Co., Ltd. (“Beijing Sino Stride”), became one of the business partners of IBM China to promote IBM storage device and equipment.

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, Expo 2010 Shanghai, 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”) 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. Moreover, the demand of traffic controls management system is expected to increase with the increase in the number of motor vehicles in PRC and the implementation of the proposed new traffic controls regulations in near future. As the application of intelligence technologies in building, traffic and other relevant sectors in PRC is still at early stage, it is expected that 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 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 and the prominent market position established (e.g. Top Ten Software Enterprise of Zhejiang Province and outstanding software enterprise of year 2003 defined by the National Development Bureau of the PRC), 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 such as ST Elect and Zhejiang University, provides the Group with the required human resources, research and development capabilities for developing self-propertied software technology and products with the brand name of “Sino Stride” to fulfils 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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2004, the interests or short positions of the directors in the shares capital of the Company or any of its associated corporations, as recorded in the register by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.68 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long positions in ordinary shares of the Company

Name of Director	Note	Number of Ordinary Shares			Approximate percentage of interest
		Personal Interests	Corporate Interests	Total	
Mr. Chau Chit	(1)	–	540,000,000	540,000,000	49.81%
Mr. Wong Wai Tin	(1&2)	2,500,000	108,000,000	110,500,000	10.19%

Notes:

- (1) Mega Start Limited ("Mega Start"), 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. Wong Wai Tin, a director, in proportion of 50%, 30% and 20% respectively.
- (2) On 8 January 2004, Mr. Wong personally purchased 2,500,000 shares representing approximately 0.23% of the issued share capital of the Company.

Save as disclosed above, as at 31 March 2004, none of the directors or their spouse or children under the age of 18 was granted by the Company or any its associated corporations any right to subscribe for equity or debt securities of the Company or any body corporate, or had registered an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.68 of the GEM Listing Rules.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed in the Share Option Scheme, at no time during the three months ended 31 March 2004 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were such rights exercised by them; or was the Company, its holding company, or any of its subsidiary and fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquiring of shares in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 March 2004, the following persons or companies had interests or short positions in the shares and underlying shares as recorded in the register of interests required to be kept by the Company pursuant to 352 of the SFO:

Long positions

Name of substantial shareholders	Notes	Number of Ordinary Shares			Approximate percentage of interest
		Personal Interests	Corporate Interests	Total	
Mega Start	(1)	–	540,000,000	540,000,000	49.81%
Mr. Chau Chit	(1)	–	540,000,000	540,000,000	49.81%
Ms. Ting Hiu Wan	(1)	–	540,000,000	540,000,000	49.81%
Mr. Wong Wai Tin	(1)	2,500,000	108,000,000	110,500,000	10.19%
Singapore Technologies Electronics Limited (“ST Elect”)	(2)	–	216,000,000	216,000,000	19.92%
Singapore Technologies Engineering Ltd (“ST Eng”)	(2)	–	216,000,000	216,000,000	19.92%
Singapore Technologies Pte Ltd (“STPL”)	(2)	–	216,000,000	216,000,000	19.92%
Temasek Holdings (Private) Ltd (“Temasek Holdings”)	(2)	–	216,000,000	216,000,000	19.92%

Notes:

- (1) Mega Start, 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. Wong Wai Tin, a director, in proportion of 50%, 30% and 20% respectively.
- (2) ST Elect is a wholly-owned subsidiary of ST Eng whose shares are listed on the Singapore Exchange Securities Trading Limited. Temasek Holdings holds controlling interest in STPL which, in turn, holds controlling interest in ST Eng. Pursuant to Part XV of the SFO, ST Eng, STPL and Temasek Holdings are taken to be interested in the shares held by ST Elect

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 shares under the Scheme will be determined by the directors, which shall be calculated with reference to the higher of (i) the closing price of the shares on GEM of the Stock Exchange of Hong Kong Limited on the date of grant of the option; (ii) the average closing price of the share on the GEM of the Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant of option; and (iii) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the share capital of the Company in issue and may not exceed in nominal value 30% of the issued share capital of the Company in issue for a period of 10 consecutive years. The Scheme will remain in force for a period of 10 years commencing on 16 July 2002. No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and which may fall to, be issued to him under all the options previously granted to him pursuant to the Scheme in any 12 month’s period up to the date of grant to such person exceeding 1% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Scheme. No share options had been granted under the Scheme as at 31 March 2004.

DIRECTORS’ INTEREST IN COMPETING BUSINESS

ST Electronics (Shanghai) Co., Ltd., a wholly foreign-owned enterprise established by ST Elect in Shanghai, 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 31 March 2004.

SPONSOR’S INTEREST

As at 31 March 2004, 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.

AUDIT COMMITTEE

The Company established an audit committee on 16 July 2002 with written terms of reference in compliance with Rules 5.28, 5.29 and 5.30 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 annual 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 consolidated results for the three months ended 31 March 2004 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

The audit committee has two members comprising the two independent non-executive directors, Mr. Cai Xiao Fu and Mr. Wu Ming Dong. The audit committee held one meeting in this period to perform the functions specified in the GEM listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 31 March 2004.

By order of the Board
Chau Chit
Chairman

Hangzhou, the PRC, 14 May 2004

As at the date of this report, executive director are Mr. Chau Chit. Mr. Wong Wai Tin and Mr. Zhang Xiao Feng. Non-executive directors are Mr. Wong Wai Kwan and Mr. Ng Chong Khim. Independent non-executive directors are Cai Xiao Fu and Wu Ming Dong.