



**Annual Report 2004**

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

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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 website in order to obtain up-to-date information on GEM-listed issuers.

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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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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.*

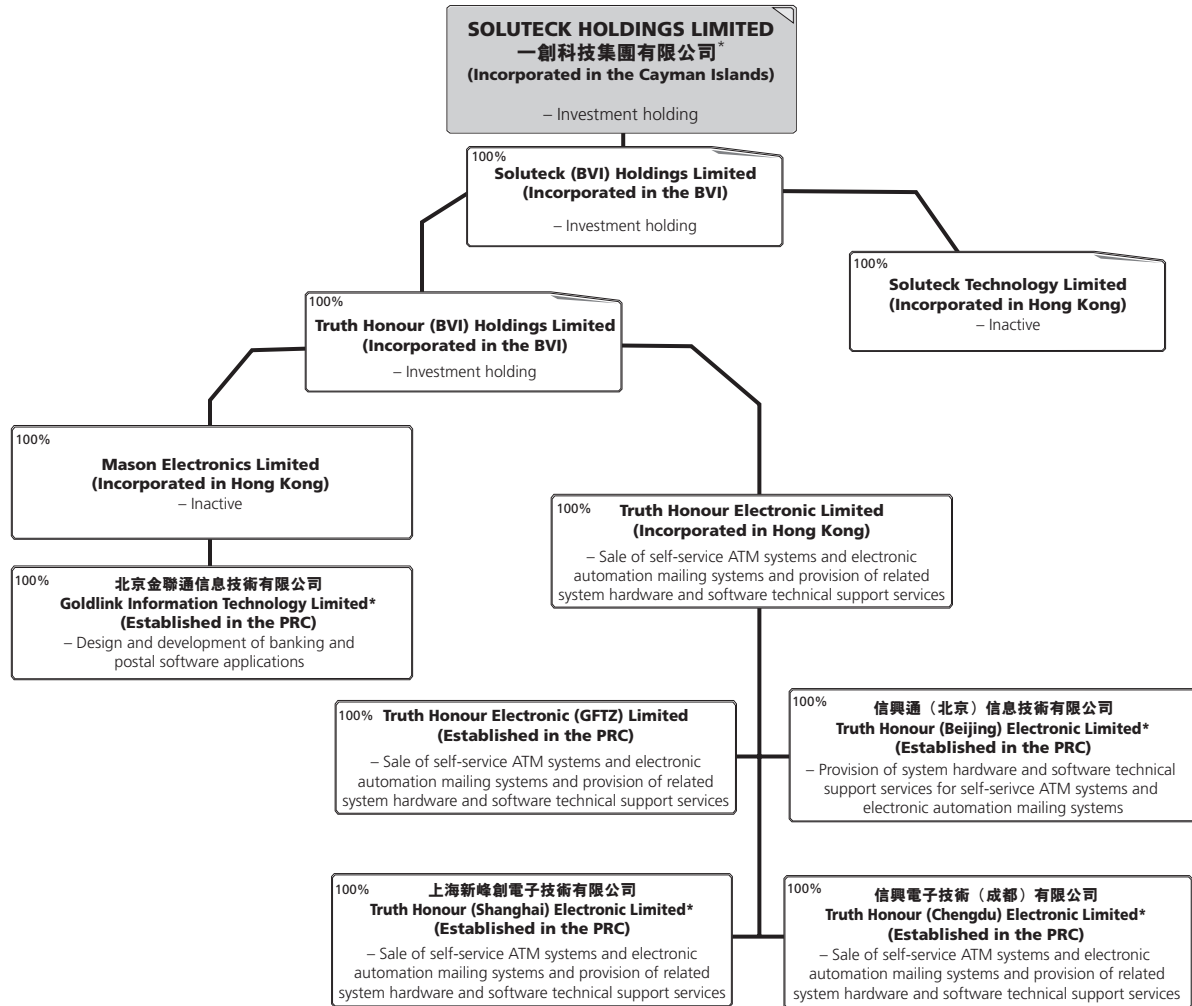
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# CORPORATE STRUCTURE

The following chart illustrates the corporate structure of the subsidiaries of the Company and their respective principal business activities:–



\* For identification purpose only



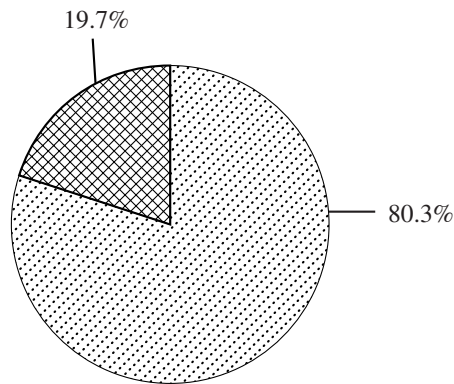
## FINANCIAL HIGHLIGHTS

	2004 HK\$'000	2003 HK\$'000	Increase/ (Decrease) %
Turnover	103,062	118,643	(13.1%)
Gross profit	24,572	39,302	(37.5%)
(Loss)/profit attributable to shareholders	(437)	8,768	N/A
Dividends	2,263	4,526	(50.0%)
Shareholders' funds	45,723	50,686	(9.8%)
Return on Shareholder's funds (%)	(1.0%)	17.3%	N/A
Basic (loss)/earnings per share	(0.10 cents)	1.94 cents	N/A
Dividend declared per share	HK\$0.005	HK\$0.01	(50.0%)
<b>FINANCIAL CALENDAR HIGHLIGHTS</b>			
Announcement of final results for the year	17 June, 2004	18 June, 2003	
Book closing dates for final dividend	26 – 30 July, 2004	25 – 30 July, 2003	
Record date for final dividend	30 July, 2004	30 July, 2003	
Payment date for final dividend	6 August, 2004	5 August, 2003	
Annual General Meeting for the year	30 July, 2004	30 July, 2003	

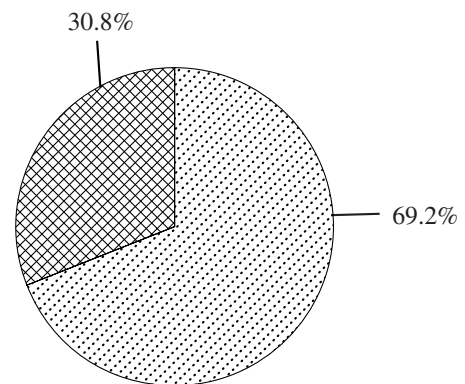


# FINANCIAL HIGHLIGHTS

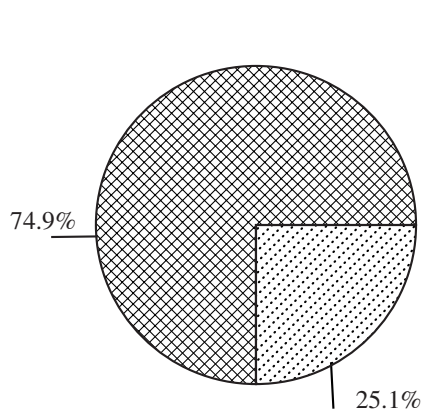
## BY BUSINESS SEGMENT\*



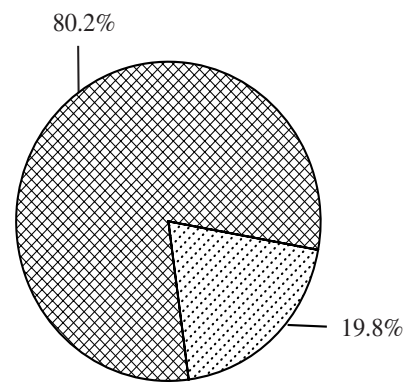
2004 Turnover



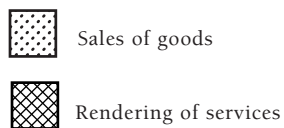
2003 Turnover



2004 Segment results



2003 Segment results



\* Please refer to note 2 to the accounts on pages 39 to 41 for details.



## LETTER FROM THE CHAIRMAN

### ANNUAL RESULTS HIGHLIGHTS

The net loss of the Group for the financial year ended 31 March, 2004 was approximately HK\$0.4 million, (net profit for the financial year ended 31 March, 2003 was approximately HK\$8.8 million).

The turnover of the Group for the financial year ended 31 March, 2004 was approximately HK\$103.1 million, representing a decrease of approximately 13.1 per cent. as compared to the financial year ended 31 March, 2003.

Gross profit margin of the Group was approximately 23.8 per cent. in the financial year ended 31 March, 2004, compared to approximately 33.1 per cent. in the financial year ended 31 March, 2003.

Loss per share for the financial year ended 31 March, 2004 was approximately HK0.10 cents (earnings per share for the financial year ended 31 March, 2003 was approximately HK1.94 cents).

The Directors recommend a final dividend of HK\$0.005 per share for the financial year ended 31 March, 2004 (dividend per Share for the financial year ended 31 March, 2003 was HK\$0.01 per share).

### BUSINESS REVIEW

While committed to its core business of providing 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 year, the Group has also made a strategic switch to dedicate more resources and efforts to the provision of technical and value-added services in order that a stable and recurrent income source could be provided for the Group.

The year under review is full of challenges and turbulence for the Group, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in early this year depressed the economy and slowed down investment decisions and economic activities. With the SARS under effective control since June, we can see a significant revival in business activities and investment interest in information technology among our customers was achieved. In addition, with the accession of China to the World Trade Organization (the "WTO") and opening up of China's banking industry to foreign banks, we can for see an increasing need for the banking and finance sectors in the PRC to enhance their technological infrastructure in order to remain competitive in the global economic theater.

The Group held its belief in China, being a market with exciting prospects. With its strong presence and clientele of reputable banking and financial institutions already established in China, the Group has stepped up marketing and business development efforts as to grasp every opportunity arising from high growth areas. Emphasis was put strongly on provision of services (which is more profitable) and the expanding of its service network in China that proves to be an effective channel in reaching out and fostering relationships with existing and new clients. During the year, new ATM service centers have opened at Changsha, Taizhou, Ningbo, Guangxi, Hainan, Kunming, Hangzhou, Jinan and Chuanzhou, with the existing centers in major cities in China including Guangzhou, Shanghai, Beijing, Chengdu, Shenyang, Qingdao, Zhengzhou, Wuhan, Wenzhou, Nanjing, Hefei,



## LETTER FROM THE CHAIRMAN

Xian, Chongqing, Haikou, Fuzhou, Wuxi, Tianjin, Guiyang, Nanning and Shenzhen, creating the network to cover a total of 29 strategic cities and locations in China. Contracts were secured with an increasing number of financial institutions and postal bureaus for the provision of system maintenance and enhancement services and new contracts were signed with the Construction Bank of China, Commercial Bank, Shanghai Pudong Development Bank and The Bank of Communication and postal bureaus during the year.

It is still the Group's policy during the year to pursue a more selective approach to screen out unprofitable projects and this, together with the fierce competition among suppliers of ATM systems in China, had led to a drop in turnover. The Group's turnover amounted to approximately HK\$103.1 million for the year ended 31 March, 2004, representing a drop of approximately 13.1 per cent. compared with approximately HK\$118.6 million recorded for the financial year ended 31 March, 2003. In addition to the turnover drop, the Group recorded a loss attributable to shareholders amounting to approximately HK\$0.4 million for current year (2003: profit attributable to shareholders of HK\$8.8 million), attributable to a loss per share of HK0.10 cents (2003: earnings per share of HK1.94 cents).

The Group's gross profit margin was approximately 23.8 per cent. in the financial year ended 31 March, 2004, (2003: 33.1 per cent.). The drop of such was predominantly attributable to the decrease in the amount of service revenue (which included revenue from software development).

The Group's core business of providing implementation and upgrading of self-service ATM systems, related application hardware and software, technical support and consultancy services amounted to approximately HK\$98.9 million, which constitute 96.0 per cent. to the Group's total turnover for the year ended 31 March, 2004 (2003: 86.3 per cent.).

Regarding the Group's other major businesses, sales of electronic postal automation systems fell to approximately HK\$0.5 million, accounting for approximately 0.4 per cent. of the Group's total turnover in the year under review (2003: 4.1 per cent.), and the provision of information technology and business solutions amounted to approximately HK\$3.7 million, accounting for approximately 3.6 per cent of the Group's total turnover in the year under review (2003: 9.6 per cent).

### **BUSINESS PROSPECTS**

Riding the highway to future success, the Group will continue to enhance customer relationships and build on existing strengths, as to fully committed to be one of the leading Total Solution Providers for the finance sector in China, offering a full range of banking and financial system solutions, from the supply of hardware to software development, banking applications to value-added complementary services.

WTO is beginning to show its positive effects and economies in both Hong Kong and China are anticipated to grow in 2004. The Group, with its competitive strengths in China remains, will keep on boosting its marketing effort in PRC to bring in new customers and broader business relationship, and will further expand its operations, aiming to benefit from WTO, further expand market share and keep in closer contact with customers. The Group will also keep abreast of all latest developments in the industry in order to consolidate existing activities.





## LETTER FROM THE CHAIRMAN

### SUBSTANTIAL CHANGES IN SENIOR MANAGEMENT

With the appointment of a new Chief Executive Officer (the “CEO”) who has rich expertise in management and is experienced in China Market, the Board is confident that the said CEO will be more capable on executing the Group’s strategies in order that the business objectives of the Group, that is, fully committed to be one of the leading Total Solution Providers for the finance sector in China, could be achieved.

### DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.005 per share (the “Share”) of the Company for the financial year ended 31 March, 2004 (2003: HK\$0.01 per share).

### APPRECIATION

As at 31 March, 2004, the Group employed 19 and 132 staff in Hong Kong and the PRC, respectively. We treasure the harmonious relationship with our staff and would like to take this opportunity to express our gratitude to the management and staff of the Group for their dedicated performance which is instrumental to the future development of the Group. We would also like to take this opportunity to thank our shareholders (the “Shareholders”), suppliers and customers for their continuous support to the Group.

**Hou Hsiao Bing**

*Chairman*

Hong Kong, 17 June, 2004



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS

### Review of operations

The Group recorded a turnover of approximately HK\$103.1 million (2003: HK\$118.6 million), representing a decrease of approximately 13.1 per cent. compared with the previous year. Loss attributable to shareholders amounted to approximately HK\$0.4 million (2003: profit attributable to shareholders of HK\$8.8 million), attributable to a loss per share of HK0.10 cents (2003: earnings per share of HK1.94 cents).

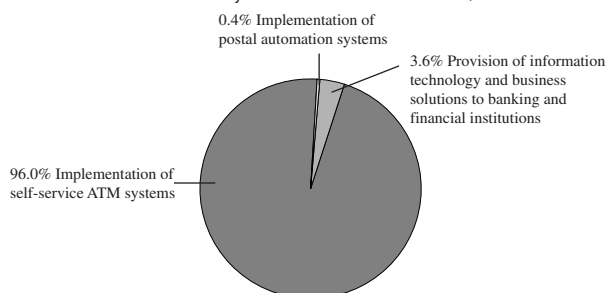
The drop in the Group's turnover was largely attributable to the Group's policy to undertake projects of higher profitability and fierce competition among suppliers of ATM systems in the People's Republic of China (the "PRC" or "China"). The Group's gross profit margin was approximately 23.8 per cent. in the financial year ended 31 March, 2004, (2003: 33.1 per cent.). The management believes that the drop of the Group's gross profit margin was mainly due to the decrease in the amount of service revenue (which included revenue from software development).

### Revenue and turnover

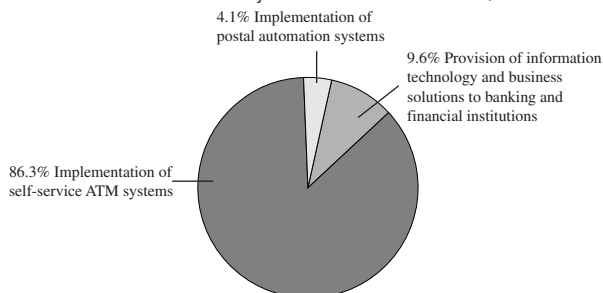
The Group is principally engaged in the sale of electronic banking systems, other banking equipment and mailing systems, and the provision of hardware and software technical support services. Revenues recognized during the financial year are as follows:

	Financial year ended 31 March,	
	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>		
Sales of goods	82,726	82,143
Rendering of services	20,336	36,500
	103,062	118,643
<b>Other revenue</b>		
Interest income	557	311
	103,619	118,954

Analysis of turnover by industry nature  
for the financial year ended 31 March, 2004



Analysis of turnover by industry nature  
for the financial year ended 31 March, 2003





## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS

### Implementation of self-service ATM systems

During the financial year ended 31 March, 2004, implementation of self-service ATM systems remained the Group's core business and accounted for approximately 96.0 per cent. (2003: 86.3 per cent.) of the Group's total turnover, including the income derived from the provision of technical consultancy and support services.

The turnover generated from the implementation of self-service ATM systems amounted to approximately HK\$98.9 million, representing a decrease of approximately 3.4 per cent. compared with the previous financial year. Such decrease was mainly a result of the negative impact from SARS on top of the "screening out" of unprofitable projects and keen competition in the PRC remained.

As an authorised value-added reseller of self-service ATM systems of NCR (Hong Kong) Limited ("NCR") and related applications software for commercial banks in China, the Group is fully committed as a reliable and reputable vendor and a Total Solution Provider for self-service ATM systems. With China's imminent entry into the World Trade Organisation ("WTO"), more banks and postal bureaus in the PRC will need to offer additional services and expand their branch networks to compete with international facilities in order to operate in the market. They have to gear up to improve their information technology infrastructure and operating efficiency, so as to consolidate and strengthen their respective market standing. 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 travelers from major cities in China.

With new contracts signed with the Bank of Communication, Shanghai Pudong Development Bank, Construction Bank of China, Commercial Bank and postal bureaus during the financial year ended 31 March, 2004, and the new openings of nine ATM service centers in China, the network of ATM services was further expanded and the Group has ATM service centers to cover a total of 29 strategic cities and locations currently.

### Implementation of electronic postal automation systems

The implementation of electronic postal automation systems accounted for approximately 0.4 per cent. (2003: 4.1 per cent.) of the total turnover of the Group for the financial year ended 31 March, 2004. Since the development of electronic postal automation systems that include mailing finishing systems, volume mailing handling systems and franking machines still greatly hindered by market competition and acceptance, the Group is cautiously reevaluating the market environment, identifying business development and growth opportunities for this business stream in China.

### Provision of information technology and business solutions

The provision of information technology and business solutions accounted for approximately 3.6 per cent of the Group's turnover for the financial year ended 31 March 2004 (2003: 9.6 per cent). With China's fast economic growth and the relaxation of travel restrictions on individual travelers from major cities, the Group believes that the economic activities will be fueled which in turn creating demand from banking and financial institutions in China for the Group's information technology and business solutions. The Group is already succeeded in developing software applications for converging banking business platforms and other state-of-art application software for banking and financial institutions and postal bureaus.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS

### Provision of technical consultancy and support services

The provision of technical consultancy and support services, which were already included in the above-mentioned businesses, contributed to a stable and recurrent source of income for the Group and accounted for approximately 19.7 per cent. (2003: 30.8 per cent.) of the total turnover of the Group for the financial year ended 31 March, 2004. The decrease in technical consultancy and support services was mainly due to the disposal of Task Consultants Limited, a subsidiary which was principally engaged in software development, on 10 January 2003. The total amount of service income contributed by Task Consultants Limited amounted to approximately 6.7 per cent of the total turnover of the Group in last year.

### Interest income

As a result of the decline in interest rate and bank balance, the bank interest income of the Group declined by approximately 55.0 per cent. to approximately HK\$140,000 during the financial year ended 31 March, 2004. However, during the year, an interest income of approximately HK\$417,000 was received from a business partner on the outstanding current account balance. Therefore, the total interest income is approximately HK\$557,000.

### Gross profit

The Group's gross profit margin was approximately 23.8 per cent. in the financial year ended 31 March, 2004 (2003: 33.1 per cent.). Such a decline was predominantly attributable to the decrease in the amount of service revenue (which included revenue from software development).

### Selling expenses

Selling expenses incurred by the Group for the financial year ended 31 March, 2004 amounted to approximately HK\$5.8 million (2003: HK\$7.4 million), representing a decrease of approximately 21.6 per cent., which was mainly because of the disposal of Task Consultants Limited in last year. The selling expenses of Task Consultants Limited were approximately HK\$1.5 million during the year ended 31 March 2003.

### Administrative expenses

Administrative expenses incurred by the Group for the financial year ended 31 March, 2004 amounted to approximately HK\$18.5 million (2003: HK\$28.4 million), representing a decrease of approximately 34.9 per cent. which was mainly because of the disposal of Task Consultants Limited in last year. The administrative expenses of Task Consultants Limited were approximately HK\$6.9 million in last year.

Staff costs (including Directors emoluments) which were included in both selling expenses and administrative expenses decreased by approximately 26.2 per cent. to approximately HK\$16.6 million (2003: HK\$22.4 million) was mainly because of the disposal of Task Consultants Limited in last year. The staff costs of Task Consultants Limited were approximately HK\$7.1 million in last year.

Moreover, due to the Group's commitment to constantly research and develop new banking and postal software, research and development costs, which was included in the administrative expenses increased by approximately 13.8 per cent. during the financial year.

Depreciation expenses decreased by approximately 59.2 per cent. as compared to that of last financial year mainly because some fixed assets have been fully depreciated.

### Finance costs

The finance costs of the Group for the financial year ended 31 March, 2004 increased to HK\$365,000 (2003: HK\$195,000). Such an increase was mainly attributable to the increase in the use of banking facilities.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS

### Taxation

The Group's taxation charge for the financial year ended 31 March, 2004 increased to approximately HK\$970,000 (2003: HK\$216,000) primarily due to the provision for deferred taxation of approximately HK\$382,000 in the current year.

### Liquidity and financial resources

The Group generally finances its operations with internally generated cash flow. As at 31 March, 2004, the Group had cash and bank balances amounting to a total of approximately HK\$14.6 million (2003: HK\$29.0 million) and had outstanding bank overdraft of approximately HK\$1.7 million (2003: Nil) and outstanding short-term bank loan of approximately HK\$4.7 million (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.

As at 31 March, 2004, approximately 41.1 per cent. of the Group's cash and cash equivalents (comprise cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in Hong Kong dollars (HKD) and United States dollars (USD).

### Gearing ratio

As at 31 March, 2004, the gearing ratio of the Group, based on total liabilities over total assets was approximately 27.2 per cent. (2003: approximately 31.9 per cent.)

### Banking facilities

Although the Group has consistently been in a very liquid position, credit facilities have nevertheless been put in place for contingency purposes. As at 31 March, 2004, the Group's banking facilities of approximately HK\$28.4 million (2003: HK\$45.2 million) are secured by the following:-

- (a) pledged deposits of approximately HK\$8.5 million (2003: HK\$7.0 million); and
- (b) corporate guarantees by the Company and its subsidiaries of approximately HK\$31.0 million (2003: HK\$46.5 million);

### Charges on assets

As at 31 March, 2004, the Group had an approximately HK\$28.4 million (2003: HK\$45.2 million) banking facilities with banks in Hong Kong, which were secured by a pledge of the Group's deposits of approximately HK\$8.5 million (2003: HK\$7.0 million) at the banks.

Except for the aforementioned, there are no other charges on assets.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS

### 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 31 March, 2004, the Group has no exposure under foreign exchange contracts.

### Contingent liabilities

As at 31 March, 2004, the Group did not have any significant contingent liabilities.

### Exposure to foreign exchange risk

The Group is exposed to foreign currency risk as most of its payable to hardware suppliers and accounts receivable from the PRC sales are denominated in Renminbi. Fluctuation of exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

### Final dividend

On 17 June, 2004, the Directors recommend the payment of a final dividend of HK\$0.005 per Share for the financial year ended 31 March, 2004 (2003: HK\$0.01 per Share).

Subject to the approval of Shareholders at the forthcoming annual general meeting, the dividend will be paid to Shareholders whose names appeared on the register of members of the Company on 30 July, 2004 (Friday).

The register of members of the Company will be closed from 26 July, 2004 (Monday) to 30 July, 2004 (Friday), both days inclusive during which period no transfer of shares will be effected. In order to qualify for the final dividend payable on or around 6 August, 2004 (Friday), all transfers accompanied by the relevant Share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investors Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 23 July, 2004 (Friday).

### Employees

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 Scheme approved by a resolution in writing passed by all shareholders of the Company on 13 December, 2000.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS**

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

There were no significant acquisitions and disposals of investments by the Group during the year under review.

### **Purchase, sale or redemption of Shares**

The Company has not redeemed any of its Shares during the financial year ended 31 March, 2004. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the financial year ended 31 March, 2004.



## CORPORATE INFORMATION

Executive Directors	Hou Hsiao Bing ( <i>Chairman</i> ) Hou Hsiao Wen, Eddie Chung Yuk Hung, Yvonne Chung Yuk Man, Kevin
Independent non-executive Directors	Ho Wai Wing, Raymond <sup>#</sup> Lui Ming, Rosita <sup>#</sup>
	<sup>#</sup> <i>Members of audit committee of the Board</i>
Company secretary	Chan Mi Ling FCCA, AHKSA (resigned on 25 February 2004) Chan So Mei, ACS, ACIS (appointed on 25 February 2004)
Members of audit committee	Ho Wai Wing, Raymond Lui Ming, Rosita ( <i>Chairperson</i> )
Chairman of audit committee	Lui Ming, Rosita
Authorised representatives	Chan Mi Ling, Anita FCCA, AHKSA (resigned on 25 February 2004) Chan So Mei, ACS, ACIS (appointed on 25 February 2004) Chung Yuk Hung, Yvonne (resigned on 4 June 2004) Chung Yuk Man, Kevin (appointed on 4 June 2004)
Compliance officer	Chung Yuk Hung, Yvonne (resigned on 4 June 2004) Chung Yuk Man, Kevin (appointed on 4 June 2004)
Qualified accountant	Chan Mi Ling, Anita, FCCA, AHKSA
Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman British West Indies
Head office and principal place of business in Hong Kong registered under Part XI of the Companies Ordinance	Room 1004, SUP Tower 75-83 King's Road North Point Hong Kong





## CORPORATE INFORMATION

<b>Company homepage/website</b>	<p>www.soluteck.com www.truthhonour.com</p>
<b>Principal bankers</b>	<p>Standard Chartered Bank 10th Floor 4-4A Des Voeux Road Central Hong Kong</p> <p>Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong</p> <p>DBS Bank (Hong Kong) Limited 16/F, The Center 99 Queen's Road Central Central, Hong Kong</p> <p>Bank of Communications Ground Floor 67-71 King's Road Hong Kong</p>
<b>Principal share registrar and transfer office</b>	<p>Bank of Butterfield International (Cayman) Ltd. P.O. Box 705 Butterfield House Fort Street, George Town Grand Cayman Cayman Islands British West Indies</p>
<b>Hong Kong branch share registrar and transfer office</b>	<p>Computershare Hong Kong Investor Services Limited Room 1901-1905, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong</p>
<b>Auditors</b>	<p>PricewaterhouseCoopers Certified Public Accountants 22nd Floor, Prince's Building Central, Hong Kong</p>



## **REPORT OF THE DIRECTORS**

### **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 14 to the accounts.

An analysis of the Group's performance for the financial year by business and geographical segments is set out in note 2 to the accounts.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the financial year are set out in the consolidated profit and loss account on page 28.

No interim dividend have been paid or declared by the Company during the financial year. The Directors recommend the payment of a final dividend of HK\$0.005 per share for the year ended 31 March, 2004 (2003: HK\$0.01 per Share).

The details of dividends declared are set out in note 8 to the accounts.

### **RESERVES**

Movements in the reserves of the Group and the Company during the financial year are set out in note 22 to the accounts.

### **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

### **SHARE CAPITAL**

Details of the movements in share capital are set out in note 21 to the accounts.

### **DISTRIBUTABLE RESERVES**

Distributable reserves of the Company as at 31 March, 2004 amounted to HK\$4.0 million (2003: HK\$6.0 million). Under Section 34 of the Companies Law (2000 Revision) of the Cayman Islands, the share premium is available for distribution to Shareholders subject to the provisions of the articles of association of the Company, and no distribution may be paid to Shareholders out of the share premium unless the Company shall be able to pay its debt as they fall due in the ordinary course of business.

### **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 58.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company had not redeemed any of its Shares during the financial year. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the financial year.



# REPORT OF THE DIRECTORS

## DIRECTORS

The Directors during the financial year and up to the date of this report were:-

Mr. Hou Hsiao Bing (*Chairman*)  
 Mr. Hou Hsiao Wen, Eddie  
 Ms. Chung Yuk Hung, Yvonne  
 Mr. Chung Yuk Man, Kevin  
 Mr. Ho Wai Wing, Raymond\*  
 Ms. Lui Ming, Rosita\*

\* *Independent non-executive Directors*

In accordance with Article 108(A) of the Company's Articles of Association, Mr. Ho Wai Wing, Raymond and Ms. Lui Ming, Rosita retire as Director by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Ho Wai Wing, Raymond and Ms. Lui Ming, Rosita are independent non-executive Directors and were appointed for a term of two years expired on 30 November, 2002 and have been reappointed for a further term of 2 years expiring on 30 November, 2004.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP DIRECTORS

### Executive Directors

**HOU Hsiao Bing**, aged 49, the elder brother of Hou Hsiao Wen, Eddie, has been appointed as the Chairman of the Group on 5 August, 2002. He is responsible for the Business Development of the Group. Prior to joining the Group in April 2000, Mr. Hou was the Managing Director of a private company focusing on selling satellite TV products network in the PRC. He has more than 23 years' experience in China businesses. Mr. Hou graduated from The Hong Kong Polytechnic University with a Diploma in Marketing.

**HOU Hsiao Wen, Eddie**, aged 44, is the Director of Sales and Marketing of the Group and is responsible for the overall sales and marketing of the Group. Mr. Hou has over 17 years' experience in the information technology industry in the PRC. Mr. Hou holds a Bachelor of Science degree in Information System from the Ohio State University in the United States ("U.S."). Prior to joining the Group in January 2000, he was the Managing Director of a private company principally engaged in providing satellite TV network solutions in the PRC. Mr. Hou is the younger brother of Hou Hsiao Bing.

**CHUNG Yuk Hung, Yvonne**, aged 43, is the Director of Finance and Administration of the Group. Ms. Chung is responsible for the overall finance and administration and formulation and implementation of operation policies for the Group. Ms. Chung holds a Bachelor degree of Science in Computer Science and Mathematics from the University of Oregon in the U.S. Ms. Chung has over 13 years' PRC experience in information technology industry and nine years' Hong Kong and PRC experience in finance and administration. Ms. Chung joined the Group in April 1994. Chung Yuk Hung, Yvonne is the elder sister of Mr. Chung Yuk Man, Kevin.



## REPORT OF THE DIRECTORS

### BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP DIRECTORS (continued)

**CHUNG Yuk Man, Kevin**, aged 35, is the Compliance Officer and the Director of Information Technology of the Group overseeing the technological development of hardware and software. Mr. Chung Yuk Man, Kevin has broad experience in information technology and is specialised in software development. Mr. Chung holds a Bachelor degree in Electrical Engineering from the University of Ottawa in Canada. Prior to joining the Group in July 1995, Mr. Chung Yuk Man, Kevin worked in a leading software consulting firm in Canada for three years. Chung Yuk Man, Kevin is the younger brother of Ms. Chung Yuk Hung, Yvonne.

#### **Independent Non-Executive Directors**

**HO Wai Wing, Raymond**, aged 41, was appointed as an Independent Non-Executive Director in August 2000. Mr. Ho holds a Bachelor of Arts degree from the University of Hong Kong and a Master of Business Administration degree from University of East Asia in Macau. Mr. Ho is currently a marketing head of a telecommunication company in Hong Kong. Mr. Ho has 18 years' experience in sales and marketing in Hong Kong and Asia.

**LUI Ming, Rosita**, aged 40, was appointed as an Independent Non-Executive Director in August 2000. Ms. Lui earned her Bachelor degree in Economics and Finance from the University of Oregon in the U.S. and a Master of Business Administration degree from the University of Queensland in Australia. While living in Australia, Ms. Lui joined Andersen Consulting as a strategy consultant. She is working for a multinational petroleum company in Hong Kong for approximately eleven years. Her expertise is in business development, sales and marketing.

The Board confirmed that it had received the annual confirmation by each of the aforesaid two Independent Non-Executive Directors confirming their independence pursuant to Rule 5.09 of the GEM Listing Rules and so the Board still consider each of them to be independent.

### SENIOR MANAGEMENT OF THE GROUP

**CHAN KWAI YIU, Sammy**, aged 47, is the Chief Executive Officer of the Group. Mr. Chan joined the Group in March 2004. Mr. Chan holds a Bachelor of Science Degree from Luton University in UK and has pursued a series of management courses on business management and international finance. Mr. Chan has over 20 years' working experience and specialises himself in the marketing and sales discipline including 10 years' experience which has been mainly focused on the China market and was very deeply involved in setting up of some large business infrastructure and management of sales team to spread across the various regions in the major parts of China.



## REPORT OF THE DIRECTORS

### SENIOR MANAGEMENT OF THE GROUP (continued)

**CHAN Mi Ling, Anita**, aged 37, is the Chief Financial Officer and the qualified Accountant of the Group. Ms. Chan holds a Master degree in Business Administration from the University of Western Sydney in Australia and a Master degree in Accounting from Guangzhou Jinan University in the PRC. Ms. Chan is also a member of Hong Kong Society of Accountants and a fellow member of Association of Chartered Certified Accountants. Ms. Chan has over twelve years' experience in auditing, accounting and finance field. Ms. Chan joined the Group in July 2000.

**CHAN So Mei**, aged 34, is the Company Secretary of the Group. Ms. Chan holds a Bachelor degree in Business Administration from Lingnan University of Hong Kong and a Postgraduate Diploma in Corporate Administration from The Hong Kong Polytechnic University. Ms. Chan is also an associate member of both The Institute of Company Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Ms. Chan has over eight years' working experience in the fields of cooperative administration and company secretarial and have been engaged in both practising professional firms and listed corporations. Ms. Chan joined the Group in February 2004.

### DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Mr. Hou Hsiao Wen, Eddie, Mr. Chung Yuk Man, Kevin and Mr. Hou Hsiao Bing and Ms. Chung Yuk Hung, Yvonne, all being executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 1 December, 2000 (which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other) with an aggregate basic annual salaries of HK\$5,295,000. The respective basic salary of these Executive Directors will be subject to an annual increment after 31 March, 2002 at the discretion of the Directors. In addition, the executive Directors are also entitled, on completion of every 12 months of service, to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 15 per cent. of the audited combined profits attributable to shareholders of the Company (after payment of such management bonuses) in respect of that financial year of the Company.

The independent non-executive Directors have been appointed for a term expired on 30 November, 2002 and have been reappointed for a further term of 2 years expiring on 30 November, 2004. Save for Directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as disclosed herein, there are no existing or proposed service contracts with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.



## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS

During the year, the Group has entered into the following connected transactions which are required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules:-

	Notes	Financial year ended 31 March,	
		2004 HK\$'000	2003 HK\$'000
Rental paid to Directors	(1)	325	136
Rental paid to the related companies	(2)	617	617

- (1) The Group leased an office premise from Mr. Hou Hsiao Wen, Eddie and Ms. Chung Yuk Hung, Yvonne, both are executive Directors of the Company, in Beijing of the PRC for the Group's use.
- (2) The Group leased office premises from San Yee Investment Limited ("San Yee") and Dynatek Limited ("Dynatek") in Hong Kong at an annual rental of HK\$558,000 (2003: HK\$558,000) and from Ms. Tsou Lo Nien and Ms. Chung Po Chu in Shanghai, the PRC, at an annual rental of HK\$58,800 (2003: HK\$59,000) for the Group's use. San Yee is owned by Mr. Chung Lok Fai and his wife, Ms. Tsou Lo Nien. Dynatek is owned by Mr. Hou Chung and Ms. Chung Po Chu. Mr. Chung Lok Fai was a former Director and a shareholder of the Company. Mr. Hou Chung, Ms. Chung Po Chu and Ms. Tsou Lo Nien are shareholders of the Company.

In the opinion of the Directors, the above connected transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements. The independent non-executive Directors confirm that they have reviewed the lease agreements between the Group and certain connected persons, and that the connected transactions have been carried out in accordance with their respective terms.

Save as disclosed in the section headed "Directors' service contracts" and the above, there is no other connected transactions.

The above transactions are also related party transactions as disclosed in the note 26 to the accounts.

### DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Group's business to which the Company and its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.



## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31 March, 2004, the interests and short positions of the Directors and chief executives of the Company 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules were as follows:-

Name	Name of company	Capacity	Number and class of securities (Note 1)	Percentage shareholding in the same class of securities
Mr. Hou Hsiao Bing (Executive Director)	The Company	Beneficial owner	76,460,000 ordinary shares (L)	16.89%
	The Company	Beneficial owner	2,000,000 ordinary shares (Note 2)	0.44%
Ms. Chung Yuk Hung, Yvonne (Executive Director)	The Company	Beneficial owner	35,190,000 ordinary shares (L)	7.77%
	The Company	Beneficial owner	2,000,000 ordinary shares (Note 2)	0.44%
	Truth Honour Electronic Limited (Note 3)	Beneficial interest	200,000 non-voting deferred shares of HK\$1 each (L)	6.67%
Mr. Chung Yuk Man, Kevin (Executive Director)	The Company	Beneficial owner	35,190,000 ordinary shares (L)	7.77%
	The Company	Beneficial owner	2,000,000 ordinary shares (Note 2)	0.44%
	Truth Honour Electronic Limited (Note 3)	Beneficial interest	200,000 non-voting deferred shares of HK\$1 each (L)	6.67%
Mr. Hou Hsiao Wen, Eddie (Executive Director)	The Company	Beneficial owner	33,160,000 ordinary shares (L)	7.33%
	The Company	Beneficial owner	2,000,000 ordinary shares (Note 2)	0.44%



## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OF THE COMPANY (continued)

Notes:–

1. The letter “L” represents the Director’s interests in the shares and underlying shares of the Company or its associated corporations.
2. These shares were the respective number of shares which would be allotted and issued upon exercise in full of the options granted to each of the Company’s Executive Directors namely Mr. Hou Hsiao Bing, Ms. Chung Yuk Hung, Yvonne and Mr. Chung Yuk Man, Kevin and Mr. Hou Hsiao Wen, Eddie pursuant to the share option scheme of the Company adopted on 13 December 2000. The exercise period and the exercise price of these options are set out in the section headed “Share Option Scheme” below.
3. Truth Honour Electronic Limited is a subsidiary of the Company and is thus an associated corporation of the Company.





## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME

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 may, at their discretion, grant to any employees of the Group, including executive Directors, options to subscribe for the Shares.

The subscription price for options granted under the Share Option Scheme after the listing of the Shares on the 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 the 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 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 18 December, 2000, which is the date on which the offer of grant was made, and therefore will be exercisable during the period from the aforesaid date to 17 December, 2010. 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.

Pre-IPO Share Options	Number of Options			Outstanding at 31.3.2004	Closing price per share immediately before the date of grant (HK\$) <i>(Note 2)</i>
	Outstanding at 1.4.2003	Granted during the year	Lapsed during the year		
Exercise price at HK\$0.20:					
– Director of a subsidiary:					
LAM Shut Chun	500,000	Nil	Nil	500,000	Nil
– Other Employees	6,900,000	Nil	(1,800,000)	5,100,000	Nil
Exercise price at HK\$0.40:					
– Executive Directors					
HOU Hsiao Bing	2,000,000	Nil	Nil	2,000,000	Nil
CHUNG Yuk Hung, Yvonne	2,000,000	Nil	Nil	2,000,000	Nil
CHUNG Yuk Man, Kevin	2,000,000	Nil	Nil	2,000,000	Nil
HOU Hsiao Wen, Eddie	2,000,000	Nil	Nil	2,000,000	Nil
– Other Employees	2,500,000	Nil	(100,000)	2,400,000	Nil
	17,900,000	Nil	(1,900,000)	16,000,000	



## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME (continued)

Notes:—

1. During the financial year ended 31 March, 2004, 1,900,000 share options were lapsed upon the resignation of the relevant employees of the Group.
2. As the shares of the Company were listed in the GEM of the Stock Exchange of Hong Kong Limited not earlier than the date of 3 January, 2001, no closing price per share of the Pre-IPO Share Options could be calculated.

The share options are not recognised in the financial statements until they are exercised. No share option was granted and exercised during the year ended 31 March, 2004.

Apart from the foregoing, at no time during the year was the Company, or its subsidiaries a party to any arrangements to enable the Company's Directors or chief executive or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 March, 2004, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:—

Name	Number of ordinary shares	Capacity	Approximate percentage of interest
Mr. Chung Lok Fai	45,125,000	Beneficial owner	9.97%
	35,245,000	interest of spouse (note 1)	7.79%
Ms. Tsou Lo Nien	35,245,000	Beneficial owner	7.79%
	45,125,000	interest of spouse (note 2)	9.97%

Notes:—

1. Mr. Chung Lok Fai is the spouse of Ms. Tsou Lo Nien. Accordingly, Mr. Chung Lok Fai is deemed, by virtue of Part XV 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 Part XV of the SFO, to be interested in 80,370,000 Shares, representing approximately 17.76 per cent. of the Shares in issue.
2. Ms. Tsou Lo Nien is the spouse of Mr. Chung Lok Fai. Accordingly, Ms. Tsou Lo Nien is deemed, by virtue of Part XV 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 Part XV of the SFO, to be interested in 80,370,000 Shares, representing approximately 17.76 per cent. of the Shares in issue.



## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO (continued)

Save as disclosed above, as at 31 March, 2004, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### PENSION SCHEME ARRANGEMENT

The Company and subsidiaries incorporated/operate in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated profit and loss account as they become payable in accordance with the rules of the Pension Scheme.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contribution upon their retirement at the age of 65 years old, death or total incapacity.

The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The employer's contributions vest fully with the employees when contributed to the MPF Scheme, except for the portion of voluntary contributions made by the employer, which will be refunded to the Group when the employees cease employment prior to vesting fully in the contributions, in accordance with the rules of the MPF Scheme.

The subsidiaries operating in the People's Republic of China (the "PRC") are required to participate in defined contribution retirement schemes, organised by relevant local government authorities. The subsidiaries are required to make contributions to the retirement schemes, at a rate of 11.0 per cent. to 22.5 per cent. of the basic salary of their employees and there is no other future obligations to the Group towards the employees' retirement benefits.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:-

#### Purchases

- the largest supplier : Approximately 84.2 per cent.
- five largest suppliers in aggregate : Approximately 90.9 per cent.



## REPORT OF THE DIRECTORS

### Sales

- the largest customer : Approximately 35.4 per cent.
- five largest customers in aggregate : Approximately 67.6 per cent.

None of the Directors or their respective associates (as defined in the GEM Listing Rules) or shareholders which to the knowledge of the Directors, owns more than 5 per cent. of the Company's issued share capital had any interest in the major suppliers or customers noted above.

### BOARD PRACTICES AND PROCEDURES

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

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, although there are no restrictions against such rights under the laws in the Cayman Islands.

### AUDIT COMMITTEE

The Company's Audit Committee was formed on 13 December, 2000. The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with Reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee of the Board provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors, namely Ms. Lui Ming, Rosita and Mr. Ho Wai Wing, Raymond. Four Meetings were held during the current financial year. This report has been reviewed and approved by the Audit Committee of the Board.

### DIRECTORS' INTEREST IN COMPETING BUSINESS

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

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Hou Hsiao Bing**

*Chairman*

Hong Kong, 17 June, 2004



# AUDITORS' REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central  
Hong Kong

## TO THE SHAREHOLDERS OF SOLUTECK HOLDINGS LIMITED

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

We have audited the accounts on pages 28 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers  
Certified Public Accountants

Hong Kong, 17 June 2004



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2004

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	2	103,062	118,643
Cost of sales		(78,490)	(79,341)
Gross profit		24,572	39,302
Other revenue	2	557	311
Selling expenses		(5,773)	(7,363)
Administrative expenses		(18,458)	(28,357)
Gain on disposal of discontinuing operation	3	–	5,286
Operating profit	4	898	9,179
Finance costs	5	(365)	(195)
Profit before taxation		533	8,984
Taxation	6	(970)	(216)
(Loss)/profit attributable to shareholders	7	(437)	8,768
Dividends	8	2,263	4,526
Basic (loss)/earnings per share	9	(0.10 cents)	1.94 cents



# CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Intangible assets	12	665	822
Fixed assets	13	1,267	1,363
Investment securities	15	–	–
<b>Current assets</b>			
Inventories	16	7,638	10,462
Accounts receivable	17	25,200	19,929
Other receivables, deposits and prepayments		13,495	12,049
Prepaid taxation		–	850
Pledged bank deposits	24	8,500	7,000
Bank balances and cash	19	6,072	21,959
		60,905	72,249
<b>Current liabilities</b>			
Accounts payable	18	3,356	6,630
Other payables and accrued charges		3,675	5,884
Receipt in advance	1(c)	3,041	7,308
Taxation payable		234	157
Bank overdrafts		1,717	–
Short-term bank loans, secured	23(b), 24	4,709	3,769
		16,732	23,748
<b>Net current assets</b>		44,173	48,501
<b>Total assets less current liabilities</b>		46,105	50,686
<b>Financed by:</b>			
Share capital	21	45,261	45,261
Reserves	22(a)	(1,801)	899
Proposed final dividend	22(a)	2,263	4,526
<b>Shareholders' funds</b>		45,723	50,686
Deferred tax liabilities	20	382	–
		46,105	50,686

On behalf of the Board

Hou Hsiao Bing  
Director

Chung Yuk Hung, Yvonne  
Director



# BALANCE SHEET

AS AT 31 MARCH 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Investments in subsidiaries	14	50,322	52,230
<b>Current assets</b>			
Other receivables, deposits and prepayments		153	112
Bank balances and cash		159	160
		312	272
<b>Current liabilities</b>			
Other payables and accrued charges		1,352	1,198
<b>Net current liabilities</b>		<b>(1,040)</b>	<b>(926)</b>
<b>Total assets less current liabilities</b>		<b>49,282</b>	<b>51,304</b>
<b>Financed by:</b>			
Share capital	21	45,261	45,261
Reserves	22(b)	1,758	1,517
Proposed final dividend	22(b)	2,263	4,526
<b>Shareholders' funds</b>		<b>49,282</b>	<b>51,304</b>

On behalf of the Board

Hou Hsiao Bing  
Director

Chung Yuk Hung, Yvonne  
Director





# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2004

	2004 HK\$'000	2003 HK\$'000
Total equity as at 1 April	50,686	46,413
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	(4)
(Loss)/profit for the year	(437)	8,768
Reserves transferred to profit and loss account upon disposal of subsidiary	–	(2,228)
Dividends	(4,526)	(2,263)
Total equity as at 31 March	45,723	50,686



# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2004

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Operating activities</b>			
Net cash outflow from operations	23(a)	(12,743)	(3,513)
Interest paid		(365)	(195)
Hong Kong profits tax refund/(paid)		850	(506)
Overseas taxation paid		(511)	(816)
<b>Net cash outflow from operating activities</b>		<b>(12,769)</b>	<b>(5,030)</b>
<b>Investing activities</b>			
Purchase of fixed assets		(322)	(925)
Sales of fixed assets		16	–
Payment for software development costs		–	(470)
Interest received		557	311
Disposal of discontinuing operation, net of cash disposed		–	(1,174)
Increase in pledged bank deposits		(1,500)	–
<b>Net cash outflow from investing activities</b>		<b>(1,249)</b>	<b>(2,258)</b>
<b>Net cash outflow before financing</b>		<b>(14,018)</b>	<b>(7,288)</b>
<b>Financing activities</b>			
New bank loan drawn down	23(b)	4,701	3,769
Repayment of amounts borrowed	23(b)	(3,761)	(5,047)
Dividends paid		(4,526)	(2,263)
<b>Net cash outflow from financing</b>		<b>(3,586)</b>	<b>(3,541)</b>
Decrease in cash and cash equivalents		(17,604)	(10,829)
Cash and cash equivalents at 1 April		21,959	32,792
Effect of foreign exchange rate changes		–	(4)
<b>Cash and cash equivalents at 31 March</b>		<b>4,355</b>	<b>21,959</b>
<b>Analysis of balances of cash and cash equivalents</b>			
Bank balances and cash		6,072	21,959
Bank overdraft		(1,717)	–
		<b>4,355</b>	<b>21,959</b>



## NOTES TO THE ACCOUNTS

### 1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:–

(a) **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 (“HKSA”). They have been prepared under the historical cost convention.

In the current year, the Group adopted the Statements of Standard Accounting Practice (“SSAP”) No. 12 “Income Taxes” (revised) issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The adoption of the above revised SSAP had no material financial effect on the accounts.

(b) **Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March 2004.

Subsidiaries are companies in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of Directors; or to cast majority of votes at the meetings of the board of Directors.

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

In the Company’s balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) **Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.



## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (c) Revenue recognition (continued)

Revenue from the provision of technical support services is recognised when the services are rendered. The unrecognised portion is recorded as receipt in advance when deposits and instalment payments are received.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

#### (d) Fixed assets

Fixed assets, comprising leasehold improvements, office equipment, furniture and fixtures and motor vehicles, are stated at cost less accumulated depreciation.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:-

Leasehold improvements	20%
Office equipment, furniture and fixtures	20%
Motor vehicles	20%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

#### (e) Inventories

Inventories, comprising merchandise and spare parts, are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises cost of purchases. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (f) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.



## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(h) **Employee benefits**

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Company and subsidiaries incorporated/operated in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the consolidated profit and loss account as they become payable in accordance with the rules of the Pension Scheme.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer’s monthly contributions are calculated at 5% of the employee’s monthly salaries up to a maximum of HK\$1,000 (the “mandatory contributions”). The employees are entitled to 100% of the employer’s mandatory contribution upon their retirement at the age of 65 years old, death or total incapacity.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The employer’s contributions vest fully with the employees when they are contributed to the MPF Scheme, except for the portion of voluntary contributions made by the employer, which will be refunded to the Group when the employees cease employment prior to vesting fully in the contributions, in accordance with the rules of the MPF Scheme.

The subsidiaries operating in the People’s Republic of China (the “PRC”) are required to participate in defined contribution retirement schemes, organised by the relevant local government authorities. The subsidiaries are required to make contributions to the retirement schemes, at a rate of 11.0 per cent. to 22.5 per cent. of the basic salary of their employees and there will be no other future obligations of the Group towards the employees’ retirement benefits.



## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (i) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy but there is no material impact to the financial statements except for certain presentational changes.

#### (j) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (k) Intangible assets

##### (i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life, while the amount was eliminated against reserves before 1 January 2001.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisition occur after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.



## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (k) Intangible assets (continued)

##### (i) Goodwill/negative goodwill (continued)

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to capital reserve. The Group has taken the advantage of the transitional provisions under SSAP 30 that such negative goodwill has not been restated.

The gain or loss on disposal of an acquired entity is determined after taking into account the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisition, the related goodwill or negative goodwill written off against or charged to reserves to the extent it has not previously been realised in the profit and loss account.

##### (ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense will not be recognised as an asset in a subsequent period.

##### (iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

#### (l) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amount of individual investment is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.



## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### (n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### (o) Translation of foreign currencies

The Group adopts Hong Kong dollars as its financial statement reporting currency. Transactions in foreign currencies are translated to Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated to Hong Kong dollars at rates of exchange ruling at the balance sheet date ("closing rate"). Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries outside Hong Kong expressed in currencies other than Hong Kong dollars are translated to Hong Kong dollars at closing rate whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.





## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (p) Segment reporting

In accordance with the Group's internal financial reporting structure, 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 12*) and fixed assets (*Note 13*).

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% of the consolidated turnover and less than 10% of the operating profit of the Group are attributable to markets outside the PRC.

#### (q) Dividends

Dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date.

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of goods	82,726	82,143
Rendering of services	20,336	36,500
	103,062	118,643
Other revenue		
Interest income	557	311
	557	311
Total revenue	103,619	118,954



## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Primary reporting format - business segments

The Group is organised into two main business segments:-

- i. Sales of goods – sale of electronic banking systems, other banking equipment and mailing systems
- ii. Rendering of services – provision of hardware and software technical support services

	Sales of goods 2004 HK\$'000	Rendering of services 2004 HK\$'000	Group 2004 HK\$'000
Turnover	82,726	20,336	103,062
Segment results	4,682	13,978	18,660
Other revenue			557
Unallocated costs			(18,319)
Operating profit			898
Finance costs			(365)
Profit before taxation			533
Taxation			(970)
Loss attributable to shareholders			(437)
Segment assets	24,109	11,663	35,772
Unallocated assets			27,065
Total assets			62,837
Segment liabilities	3,356	3,575	6,931
Unallocated liabilities			10,183
Total liabilities			17,114
Capital expenditure	–	31	31
Unallocated capital expenditure			291
			322
Depreciation	–	138	138
Unallocated depreciation			264
			402
Other non-cash expenses			279



## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Primary reporting format – business segments

	Sales of goods 2003 HK\$'000	Rendering of services 2003 HK\$'000	Group 2003 HK\$'000
Turnover	82,143	36,500	118,643
Segment results	7,739	31,259	38,998
Other revenue			311
Unallocated costs			(35,416)
Gain on disposal of a discontinuing operation			5,286
Operation profit			9,179
Finance costs			(195)
Profit before taxation			8,984
Taxation			(216)
Profit attributable to shareholders			8,768
Segment assets	24,520	12,126	36,646
Unallocated assets			37,788
Total assets			74,434
Segment liabilities	4,580	7,532	12,112
Unallocated liabilities			11,636
Total liabilities			23,748
Capital expenditure	–	155	155
Unallocated capital expenditure			770
			925
Depreciation	–	161	161
Unallocated depreciation			825
			986
Other non-cash expenses			1,611

On 10 January 2003, a subsidiary which was a component of the “rendering of services” segment was disposed of to a third party (Note 3).



## NOTES TO THE ACCOUNTS

### 3. GAIN ON DISPOSAL OF DISCONTINUING OPERATION

The gain on disposal of a discontinuing operation in 2003 represents the gain arising from the disposal of the entire equity interests in Task Consultants Limited (“Task Consultants”), a then wholly-owned subsidiary of the Group, on 10 January 2003.

Pursuant to the sale and purchase agreement entered into between Soluteck Holdings (BVI) Limited and a third party (the “Agreement”), Task Consultants was disposed at a cash consideration of HK\$5.8 million, which was payable by seven installments according to a schedule specified in the Agreement up to 15 May 2004. As at 31 March 2004, full settlement of the HK\$5.6 million consideration for the year had been received by the Group.

### 4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:–

	Group	
	2004 HK\$'000	2003 HK\$'000
<b>Crediting</b>		
Net exchange gain	–	2
Write-back of over provision of deferred income	2,937	1,130
<b>Charging</b>		
Auditors' remuneration	419	405
Amortisation of intangible assets	157	52
Cost of inventories	72,270	70,365
Depreciation	402	986
Loss on disposal of fixed assets	–	35
Net exchange loss	50	–
Operating leases for land and building	1,597	1,534
Provision for bad and doubtful debt	100	1,413
Bad debts written off	22	146
Research and development costs	2,908	2,556
Staff costs (including directors' emoluments) (Note 10)	16,573	22,447

### 5. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts	365	195



## NOTES TO THE ACCOUNTS

### 6. TAXATION

There was no provision for Hong Kong profits tax as the Group has no assessable profit for the year (2003: Nil).

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the subsidiaries of the Group operate.

The amount of taxation charged to the consolidated profit and loss account represents:-

	Group	
	2004 HK\$'000	2003 HK\$'000
Current taxation:		
– Hong Kong profits tax	–	–
– Overseas taxation	588	776
– Over provisions in prior years	–	(469)
Deferred taxation ( <i>Note 20</i> )	382	(91)
Taxation charge	970	216

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:-

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	533	8,984
Calculated at a taxation rate of 17.5% (2003: 16%)	93	1,437
Effect of difference taxation rates in other countries	(54)	(42)
Income not subject to taxation	(1,843)	(3,488)
Expenses not deductible for taxation purposes	1,585	2,470
Tax losses not recognised	1,096	488
Utilisation of previously unrecognised tax losses	–	(3)
Over provision of current taxation in prior years	–	(469)
Others	93	(177)
Taxation charge	970	216



## NOTES TO THE ACCOUNTS

### 7. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$2,504,000 (2003: HK\$4,600,000).

### 8. DIVIDENDS

	Group	
	2004 HK\$'000	2003 HK\$'000
Final, proposed, of HK\$0.005 (2003: HK\$0.01) per ordinary share	2,263	4,526

At a meeting held on 17 June 2004, the directors declared a final dividend of 0.5 cents per ordinary share. This proposed dividend has not been reflected as dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2005.

### 9. BASIC (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share are based on the Group's loss attributable to shareholders of HK\$437,000 (2003: profit of HK\$8,768,000) and 452,612,072 (2003: 452,612,072) ordinary shares in issue during the year.

No diluted loss per share for the years ended 31 March 2004 and 2003 is presented as the exercise of the outstanding options of the Company would have an anti-dilutive effect.

### 10. STAFF COSTS (including directors' emoluments)

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	15,466	21,310
Termination benefits	483	100
Pension costs – defined contribution plans	624	1,037
	16,573	22,447



## NOTES TO THE ACCOUNTS

### 11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

Emoluments of the directors of the Company during the year are as follows:-

	2004 HK\$'000	2003 HK\$'000
Independent non-executive directors		
Fees	-	-
Basic salaries, allowances and benefits in kind	120	120
Executive directors		
Fees	-	-
Basic salaries, allowances and benefits in kind	5,295	4,254
Contributions to pensions schemes	48	54
	5,463	4,428

The four executive directors (2003: six executive directors) received individual emoluments for the year ended 31 March 2004 of nil (2003: HK\$180,000), HK\$1,392,260 (2003: HK\$970,845), HK\$1,347,130 (2003: HK\$963,307), HK\$1,302,000 (2003: HK\$952,000), HK\$1,302,000 (2003: HK\$736,000) and nil (2003: HK\$505,998), respectively.

Please also refer to Note 21 for details of options granted to executive Directors.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: three) directors whose emoluments have been disclosed in the preceding paragraph. The emoluments payable to the remaining one (2003: two) individual during the year are as follows:-

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and benefits in kind	1,080	1,691



## NOTES TO THE ACCOUNTS

### 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals (continued)

The emoluments fell with the following bands:-

Emolument bands:	Number of individuals	
	2004	2003
Nil – HK\$1,000,000	–	2
HK\$1,000,001 – HK\$1,500,000	1	–

During the year ended 31 March 2004, no emoluments have been paid by the Group to the Directors and the highest paid individuals other than the Directors above as bonus, as inducement to join the Group or as compensation for loss of office (2003: Nil).

### 12. INTANGIBLE ASSETS

Software development costs

	2004 HK\$'000	2003 HK\$'000
At 1 April	822	404
Additions	–	470
Amortisation	(157)	(52)
At 31 March	665	822





## NOTES TO THE ACCOUNTS

### 13. FIXED ASSETS

	Leasehold improvements <i>HK\$'000</i>	Group Office equipment, furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 April 2003	977	5,613	340	6,930
Additions	3	319	–	322
Disposals	–	(32)	–	(32)
At 31 March 2004	980	5,900	340	7,220
Accumulated depreciation				
At 1 April 2003	796	4,431	340	5,567
Charge for the year	47	355	–	402
Disposals	–	(16)	–	(16)
At 31 March 2004	843	4,770	340	5,953
Net book value				
At 31 March 2004	137	1,130	–	1,267
At 31 March 2003	181	1,182	–	1,363

### 14. INVESTMENTS IN SUBSIDIARIES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted investments, at cost	27,826	27,826
Amounts due from subsidiaries	22,496	24,404
	50,322	52,230

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.



## NOTES TO THE ACCOUNTS

### 14. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the subsidiaries as at 31 March 2004:—

Name of company	Place of incorporation/ establishment and type of legal entity	Principal activities and place of operation	Particulars of issued shares capital/ registered capital	Interest held %
Subsidiary held directly:				
Soluteck (BVI) Holdings Limited	British Virgin Islands ("BVI"), limited liability company	Investment holding in Hong Kong	1,000 ordinary shares of US\$1 each	100
Subsidiaries held indirectly:				
Mason Electronics Limited	Hong Kong, limited liability company	Inactive	2 ordinary shares of HK\$1 each and 500,000 non-voting deferred shares of HK\$1 each	100
Soluteck Technology Limited	Hong Kong, limited liability company	Inactive	1,000,000 ordinary shares of HK\$1 each	100
Truth Honour Electronic Limited	Hong Kong, limited liability company	Sale of electronic banking systems and mailing systems and provision of related hardware and software technical support services in Hong Kong	2 ordinary shares of HK\$1 each and 3,000,000 non-voting deferred shares of HK\$1 each	100
Truth Honour Electronic (GFTZ) Limited @ #	PRC, limited liability company	Sale of electronic banking systems and mailing systems and provision of related hardware and software technical support services in the PRC	Registered capital of US\$200,000	100



## NOTES TO THE ACCOUNTS

### 14. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment and type of legal entity	Principal activities and place of operation	Particulars of issued shares capital/ registered capital	Interest held %
Subsidiaries held indirectly (continued):				
Truth Honour (BVI) Holdings Limited	BVI, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US\$1 each	100
北京金聯通信息技術有限 公司 <sup>@#</sup>	PRC, limited liability company	Design and development of banking and postal application software in the PRC	Registered capital of US\$150,000	100
信興通(北京)信息技術 有限公司 <sup>@#</sup>	PRC, limited liability company	Provision of hardware and software technical support services for electronic banking systems and mailing systems in the PRC	Registered capital of US\$150,000	100
上海新峰創電子技術 有限公司 <sup>@#</sup>	PRC, limited liability company	Sale of electronic banking systems and mailing systems and provision of related hardware and software technical support services in the PRC	Registered capital of US\$200,000	100
信興電子技術(成都) 有限公司 <sup>@#</sup>	PRC, limited liability company	Sale of electronic banking systems and mailing systems and provision of related hardware and software technical support services in the PRC	Registered capital of US\$150,000	100

@ Subsidiaries have financial accounting period ends at 31 December which is not coterminous with the Group. The Board of Directors of the Company considers the financial impact of the three-month intervening period from 1 January 2004 to 31 March 2004 is insignificant.

# Subsidiaries not audited by PricewaterhouseCoopers.



## NOTES TO THE ACCOUNTS

### 15. INVESTMENT SECURITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted, at cost	19	19
Less : Provision for diminution in value	(19)	(19)
	-	-

### 16. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Merchandise for re-sale	3,451	6,481
Spare parts	4,187	3,981
	7,638	10,462

At 31 March 2004 and 2003, all inventories were stated at cost.

### 17. ACCOUNTS RECEIVABLE

The majority of the Group's turnover is on credit terms ranging from sixty to ninety days. At 31 March 2004, the ageing analysis of the accounts receivable was as follows:-

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 60 days	18,787	12,515
61 – 90 days	1,158	1,621
Over 90 days	5,255	5,793
	25,200	19,929



## NOTES TO THE ACCOUNTS

### 18. ACCOUNTS PAYABLE

At 31 March 2004, the ageing analysis of the accounts payable was as follows:–

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 60 days	2,307	3,538
61 – 90 days	–	287
Over 90 days	1,049	2,805
	<b>3,356</b>	<b>6,630</b>

### 19. BANK BALANCES AND CASH

Included in the balance was approximately HK\$3,578,000 (2003: HK\$8,969,000), representing bank deposits denominated in Renminbi 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.

### 20. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 16%).

The movement on the deferred tax liabilities account is as follows:–

	Group	
	2004 HK\$'000	2003 HK\$'000
At 1 April	–	91
Deferred taxation charged/(credited) to profit and loss account ( <i>Note 6</i> )	382	(91)
At 31 March	<b>382</b>	<b>–</b>

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised deferred tax assets of approximately HK\$1,503,000 (2003: HK\$650,000) relating to tax losses of approximately HK\$8,590,000 (2003: HK\$4,096,000) as at 31 March 2004. These tax losses have no expiry date.



## NOTES TO THE ACCOUNTS

### 20. DEFERRED TAXATION (continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:-

#### Deferred tax liabilities

	Accelerated tax depreciation		Other temporary difference		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	55	72	-	-	55	72
Charged/(credited) to profit and loss account	2	(17)	1,496	-	1,498	(17)
At 31 March	57	55	1,496	-	1,553	55

#### Deferred tax assets

	Provisions		Tax losses		Other temporary difference		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	55	72	-	-	-	-	55	72
(Charged)/credited to profit and loss account	(55)	(17)	57	-	1,114	-	1,116	(17)
At 31 March	-	55	57	-	1,114	-	1,171	55

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	1,171	55
Deferred tax liabilities	(1,553)	(55)
	(382)	-

Deferred tax liabilities are to be recovered and settled after more than 12 months.



## NOTES TO THE ACCOUNTS

### 21. SHARE CAPITAL

	Authorised	
	Ordinary shares of HK\$0.1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 March 2003 and 2004	1,000,000,000	100,000
	Issued and fully paid	
	Ordinary shares of HK\$0.1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 March 2003 and 2004	452,612,072	45,261

#### Share options

- (a) Under a share option scheme approved and adopted by the shareholders on 13 December 2000 (the "Share Option Scheme"), the Directors of the Company may, at their discretion, invite full-time employees including executive directors to take up options to subscribe for shares in the Company representing up to a maximum of 30% of the shares in issue from time to time (excluding shares issued up on the exercise of options granted under the share option scheme).
- (b) On 13 December 2000, Pre-IPO share options (the "Pre-IPO share options") were granted to certain Directors of the Company and employees of the Group, respectively under the Share Option Scheme to subscribe for the shares of the Company. The exercise prices of these share options range from HK\$0.2 to HK\$0.4 per share. All options are only exercisable 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 of the Company on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, respectively. These options have a life of 10 years from the date on which the grant was made.
- (c) During the year, no options were granted or exercised under the Share Option Scheme, and 1,900,000 options were lapsed upon resignation of the relevant employees of the Group. As at 31 March 2004, options to subscribe for 16,000,000 shares of the Company were outstanding.



## NOTES TO THE ACCOUNTS

### 22. RESERVES

	Group					Total HK\$'000
	Share premium HK\$'000	Capital reserve HK\$'000	Reserve arising from reorganisation HK\$'000 (Note i)	Exchange reserve HK\$'000	Retained earnings HK\$'000	
At 1 April 2002	1,194	2,228	(24,317)	-	22,047	1,152
Exchange difference	-	-	-	(4)	-	(4)
Profit for the year	-	-	-	-	8,768	8,768
Reserves transferred to profit and loss account upon disposal of a subsidiary	-	(2,228)	-	-	-	(2,228)
2002 final dividend	-	-	-	-	(2,263)	(2,263)
At 31 March 2003	1,194	-	(24,317)	(4)	28,552	5,425
At 1 April 2003	1,194	-	(24,317)	(4)	28,552	5,425
Loss for the year	-	-	-	-	(437)	(437)
2003 final dividend	-	-	-	-	(4,526)	(4,526)
At 31 March 2004	1,194	-	(24,317)	(4)	23,589	462
2004 final dividend proposed	-	-	-	-	(2,263)	(2,263)
At 31 March 2004	1,194	-	(24,317)	(4)	21,326	(1,801)

Note:-

- (i) 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.





## NOTES TO THE ACCOUNTS

### 22. RESERVES (continued)

(b)	Company		Total HK\$'000
	Share premium HK\$'000	Retained earnings HK\$'000	
At 1 April 2002	1,194	2,512	3,706
Profit for the year	–	4,600	4,600
2002 final dividend	–	(2,263)	(2,263)
At 31 March 2003	1,194	4,849	6,043
At 1 April 2003	1,194	4,849	6,043
Profit for the year	–	2,504	2,504
2003 final dividend	–	(4,526)	(4,526)
At 31 March 2004	1,194	2,827	4,021
2004 final dividend proposed	–	(2,263)	(2,263)
At 31 March 2004	1,194	564	1,758



## NOTES TO THE ACCOUNTS

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash outflow from operating activities

	Group	
	2004 HK\$'000	2003 HK\$'000
Operating profit	533	8,984
Depreciation	402	986
Amortisation of intangible assets	157	52
Loss on disposal of fixed assets	–	35
Gain on disposal of a discontinuing operation	–	(5,286)
Interest income	(557)	(311)
Interest expenses	365	195
Operating profit before working capital changes	900	4,655
Decrease/(increase) in inventories	2,824	(2,833)
(Increase)/decrease in accounts receivable	(5,271)	25,928
Increase in other receivables, deposits and prepayments	(1,446)	(2,862)
Decrease in accounts payable	(3,274)	(17,051)
(Decrease)/increase in other payables and accrued charges	(2,209)	1,964
Decrease in receipt in advance	(4,267)	(13,314)
Net cash outflow from operations	(12,743)	(3,513)

(b) Analysis of changes in financing during the year (bank loans)

	Bank loans	
	2004 HK\$'000	2003 HK\$'000
Balance at the beginning of the year	3,769	5,084
Payment of amounts borrowed	(3,761)	(5,047)
New bank loans drawn down	4,701	3,769
Loans of a subsidiary disposed of	–	(37)
Balance at the end of the year	4,709	3,769



## NOTES TO THE ACCOUNTS

### 24. BANKING FACILITIES

As at 31 March 2004, the Group's banking facilities of approximately HK\$28,400,000 (2003: HK\$45,200,000) are secured and supported by the following:–

- (a) pledged deposits of HK\$8,500,000 (2003: HK\$7,000,000); and
- (b) corporate guarantees granted by the Company and several subsidiaries of the Group of approximately HK\$31,000,000 (2003: HK\$46,500,000);

### 25. COMMITMENTS UNDER OPERATING LEASES – LAND AND BUILDING

At 31 March 2004, the Group had future aggregate minimum lease payments under operating leases as follows:–

	Group	
	2004 HK\$'000	2003 HK\$'000
Not later than one year	726	761
Later than one year and not later than five years	478	34
	1,204	795

### 26. RELATED PARTY TRANSACTIONS

During the year, the Group undertook the following material transactions with its related companies during the course of its business at terms of underlying agreements:–

	Note	Group	
		2004 HK\$'000	2003 HK\$'000
Rental paid to Directors	(a)	325	136
Rental paid to the related companies	(b)	617	617

Note:–

- (a) The Group leased a office premise from Mr. Hou Hsiao Wen, Eddie and Ms. Chung Yuk Hung, Yvonne, both are executive Directors of the Company, in Beijing of the PRC for the Group's use.
- (b) The Group leased office premises from San Yee Investment Limited ("San Yee") and Dynatek Limited ("Dynatek") in Hong Kong at an annual rental of HK\$558,000 (2003: HK\$558,000), and from Ms. Tsou Lo Nien and Ms. Chung Po Chu in Shanghai, the PRC, at an annual rental of HK\$58,800 (2003: HK\$59,000), respectively. San Yee is owned by Mr. Chung Lok Fai and his wife, Ms. Tsou Lo Nien. Dynatek is owned by Mr. Hou Chung and Ms. Chung Po Chu. Mr. Chung Lok Fai was a former Director and a shareholder of the Company. Mr. Hou Chung, Ms. Chung Po Chu and Ms. Tsou Lo Nien are shareholders of the Company.

### 27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 17 June 2004.



## FIVE YEAR FINANCIAL SUMMARY

	2004	2003		2002		2001		2000
		Continuing operations	Discontinuing operation Note (i)	Continuing operations	Discontinuing operation Note (i)	Continuing operations	Discontinuing operation Note (i)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Result:</b>								
Turnover	103,062	110,696	7,947	191,790	16,211	292,353	11,038	212,774
(Loss)/profit attributable to shareholders	(437)	10,138	(1,370)	7,730	320	22,025	2,068	22,991
<b>Assets and liabilities</b>								
Total assets	62,837	74,434	-	93,763	7,007	86,721	4,122	106,559
Total liabilities	(17,114)	(23,748)	-	(51,462)	(2,895)	(53,497)	(30)	(83,150)
Net assets	45,723	50,686	-	42,301	4,112	33,224	4,092	23,409

*Note(i)* A subsidiary which was principally engaged in software development acquired by the Group in September 2000 was disposed on 10 January 2003. Its operating results and state of affairs were grouped under rendering of service for the purpose of segment reporting as described in Notes 2 and 3 to the accounts.