



SINO STRIDE

**SINO STRIDE TECHNOLOGY (HOLDINGS) LIMITED**

**中程科技集團有限公司\***

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

**Interim Report 2004**

\* *For identification purpose only*

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

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



SINOSTRIDE

# SINO STRIDE TECHNOLOGY (HOLDINGS) LIMITED

## 中程科技集團有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8177)

### HIGHLIGHT

- Turnover for the six months ended 30 June 2004 increased by approximately 58% over the corresponding period in 2003 to approximately RMB117.6 million.
- Profit attributable to shareholders for the six months ended 30 June 2004 increased by approximately 15.5% over the corresponding period in 2003 to approximately RMB4.8 million.

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2004 (the "Relevant Period"), together with the comparative figures for the six months ended 30 June 2003 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2	78,727	47,485	117,565	74,489
Cost of sales		(66,142)	(37,279)	(93,716)	(55,313)
Gross profit		12,585	10,206	23,849	19,176
Other revenue	2	59	291	202	646
Selling and distribution costs		(2,744)	(2,576)	(5,911)	(5,787)
Administrative costs		(5,679)	(4,059)	(10,211)	(7,277)
Other operating costs		–	(33)	–	(33)
Profit from operating activities	4	4,221	3,829	7,929	6,725
Finance costs	5	(849)	(598)	(1,764)	(1,069)
Share profit/(losses) of associates		11	(248)	(5)	(248)
Profit before tax		3,383	2,983	6,160	5,408
Tax	6	(670)	(670)	(1,257)	(1,105)
Net profit before minority interests		2,713	2,313	4,903	4,303
Minority interests		(130)	(42)	(70)	(118)
Net profit from ordinary activities attributable to shareholders		2,583	2,271	4,833	4,185
Earnings per share					
– Basic and diluted (RMB cents)	7	0.24 cents	0.21 cents	0.45 cents	0.39 cents

\* For identification purpose only.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

		(Unaudited) 30 June 2004 RMB'000	(Audited) 31 December 2003 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	10	8,729	8,471
Intangible assets	11	7,759	7,019
Goodwill:			
Goodwill		246	257
Negative goodwill		–	(586)
Interests in associates	12	2,571	2,577
Long term investments		2,500	2,500
		<hr/>	<hr/>
Total non-current assets		21,805	20,238
<b>Current assets</b>			
Cash and cash equivalents		47,858	74,792
Deposit pledged with financial institutions	13	20,631	18,151
Trade receivables	14	49,013	55,556
Prepayments, deposits and other receivables		36,400	49,301
Unbilled amount due from customers for contract works		170,582	108,203
Inventories		31,574	16,350
		<hr/>	<hr/>
Total current assets		356,058	322,353
<b>Current liabilities</b>			
Bank loans	15	71,541	82,853
Trade and notes payable	16	102,413	69,412
Accrued liabilities and other payables		49,441	26,148
Tax payable		7,019	8,131
		<hr/>	<hr/>
Total current liabilities		230,414	186,544
<b>Net current assets</b>		<hr/>	<hr/>
		125,644	135,809
<b>Total assets less current liabilities</b>		<hr/>	<hr/>
		147,449	156,047
<b>Non-current liabilities</b>			
Deferred income		215	155
		<hr/>	<hr/>
Minority interests		5,637	5,717
		<hr/>	<hr/>
<b>Net assets</b>		<hr/>	<hr/>
		141,597	150,175
Represented by:			
<b>Capital and reserves</b>			
Issued capital	17	11,491	11,491
Reserves	17	130,106	138,684
		<hr/>	<hr/>
<b>Total equity</b>		<hr/>	<hr/>
		141,597	150,175

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	2,695	(35,395)
Net cash outflow from investing activities	<u>(2,555)</u>	<u>(4,491)</u>
Net cash inflow/(outflow) before financing	140	(39,886)
Net cash outflow from financing	<u>(26,834)</u>	<u>(2,910)</u>
Decrease in cash and cash equivalents	(26,694)	(42,796)
Cash and cash equivalents at the beginning of period	74,792	96,176
Effect of foreign exchange rate changes, net	<u>(240)</u>	<u>–</u>
Cash and cash equivalents at the end of period	<u>47,858</u>	<u>53,380</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u>47,858</u>	<u>53,380</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Share premium	Contri- bution surplus	Statutory surplus reserve	Enterprise expansion fund	Exchange fluctuation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2003	11,491	69,800	13,499	1,785	951	–	34,435	131,961
Net profit for the period	–	–	–	–	–	–	4,185	4,185
Transferred to reserves	–	–	–	644	644	–	(1,288)	–
Dividends	–	–	–	–	–	–	(13,790)	(13,790)
As at 30 June 2003	<u>11,491</u>	<u>69,800</u>	<u>13,499</u>	<u>2,429</u>	<u>1,595</u>	<u>–</u>	<u>23,542</u>	<u>122,356</u>
As at 1 January 2004	11,491	69,800	13,499	2,480	1,611	240	51,054	150,175
Exchange realignment	–	–	–	–	–	(240)	–	(240)
Derecognition of negative good will	–	–	–	–	–	–	587	587
Net profit for the period	–	–	–	–	–	–	4,833	4,833
Transferred to reserves	–	–	–	738	738	–	(1,476)	–
Dividends	–	–	–	–	–	–	(13,758)	(13,758)
As at 30 June 2004	<u>11,491</u>	<u>69,800</u>	<u>13,499</u>	<u>3,218</u>	<u>2,349</u>	<u>–</u>	<u>41,240</u>	<u>141,597</u>

## NOTES TO THE CONDENSED CONSOLIDATED RESULTS

### 1. Basis of preparation and consolidation

The Company was incorporated in the Cayman Islands on 12 December 2001 as an exempted limited company under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on GEM on 29 July 2002.

The Group is principally engaged in the development and provision of system integration solutions and software development in the PRC.

The unaudited consolidated results have been prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Interpretations of the Standing Interpretations Committee that remain in effect. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003. These financial statements also comply with the applicable disclosure provisions of the GEM Listing Rules.

### 2. Turnover and revenue

Turnover represents the net invoice value of goods sold and contract revenue on the rendering of installation, system development, system integration, system design and related services, net of value-added tax, after allowances for returns, trade discounts and various types of revenue taxes where applicable. All significant intra-group transactions are eliminated on consolidation.

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Turnover	<b>78,727</b>	47,485	<b>117,565</b>	74,489
Amortisation of negative goodwill	<b>(88)</b>	88	–	176
Interest income	<b>138</b>	29	<b>186</b>	224
Government grants	–	90	–	160
Others	<b>9</b>	84	<b>16</b>	86
	<hr/>	<hr/>	<hr/>	<hr/>
Other revenue	<b>59</b>	291	<b>202</b>	646
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	<b>78,786</b>	47,776	<b>117,767</b>	75,135
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

### 3. Segment information

(a) *Business segment*

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

(b) *Geographical segment*

The following table present revenue, results and expenditure information for the Group's geographical segments for the six months ended 30 June 2004.

	Unaudited six months ended 31 June					
	Hong Kong SAR		The Mainland of the PRC		Consolidated	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Segment revenue	<u>13,156</u>	<u>2,823</u>	<u>104,409</u>	<u>71,666</u>	<u>117,565</u>	<u>74,489</u>
Segment results	2,062	(61)	7,407	7,833	9,469	7,772
Unallocated corporate expenses					(1,730)	(1,869)
Amortisation of negative goodwill					-	176
Amortisation of goodwill					(12)	-
Other revenue					202	646
Profit from operating activities					7,929	6,725
Finance costs					(1,764)	(1,069)
Share losses of associates					(5)	(248)
Profit before tax					6,160	5,408
Tax					(1,257)	(1,105)
Profit before minority interests					4,903	4,303
Minority interests					(70)	(118)
Net profit attributable to shareholders					<u>4,833</u>	<u>4,185</u>

#### 4. Profit from operating activities

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

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Cost of Sales	<b>66,142</b>	37,279	<b>93,716</b>	55,313
Auditors' remuneration	<b>238</b>	131	<b>399</b>	245
Amortisation of intangible assets	<b>503</b>	30	<b>592</b>	60
Amortisation of negative goodwill	<b>88</b>	(88)	–	(176)
Amortisation of goodwill	<b>6</b>	–	<b>12</b>	–
Interest income	<b>(138)</b>	(29)	<b>(186)</b>	(224)
Depreciation	<b>563</b>	573	<b>1,156</b>	930
Interest on bank loans repayable within one year	<b>820</b>	547	<b>1,664</b>	990
Minimum lease payment under operating leases for buildings	<b>562</b>	222	<b>1,114</b>	466
Staff costs:				
Retirement benefits	<b>145</b>	286	<b>256</b>	438
Accommodation benefits	<b>11</b>	101	<b>100</b>	190
Other staff costs	<b>3,038</b>	2,762	<b>6,291</b>	5,185
Total staff costs	<b>3,194</b>	3,149	<b>6,647</b>	5,813
Less: Amount classified as deferred development costs	<b>(154)</b>	–	<b>(567)</b>	–
	<b>3,040</b>	3,149	<b>6,080</b>	5,813

#### 5. Finance costs

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Interest on bank loans repayable within one year	<b>820</b>	547	<b>1,664</b>	990
Bank charges and commissions	<b>29</b>	51	<b>100</b>	79
	<b>849</b>	598	<b>1,764</b>	1,069

## 6. Tax

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Provision for the period				
– Hong Kong SAR	<b>178</b>	–	<b>361</b>	–
– The mainland of PRC	<b>492</b>	670	<b>896</b>	1,105
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>670</b>	670	<b>1,257</b>	1,105
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profit has been provided at 17.5% on the estimated assessable profits arising in Hong Kong during the Relevant Period. Taxes on profits assessable elsewhere has been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

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

According to the Income Tax Law of the People's Republic of China (the "PRC"), Sino Stride Technology Co., Ltd. ("SST") and Hangzhou Sino Stride Xingda Computer System Co., Ltd. ("Xingda Computer"), the PRC subsidiaries of the Company, are both qualified as an advanced technology enterprise and operates in one of the approved high and new technology industrial development zones of the PRC and thus subject to a corporate tax rate of 15%, being preferential tax rate applicable to companies operating in approved high and new technology industrial development zones of the PRC.

Beijing Sino Stride Powerlink Technology Co., Ltd ("Beijing Sino Stride"), a PRC subsidiary of the Company, which is qualified as advanced technology enterprise and operates in one of the approved high and new technology industrial development zones of the PRC, was exempted from corporate income tax of the PRC for the two years starting from 1 January 2004 to 31 December 2006.

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

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

There are no significant potential deferred tax liabilities for which provision has not been made.

## 7. Earnings per share

The calculation of basic earnings per share for the three months and six months periods ended 30 June 2004 is based on the net profit attributable to shareholders of approximately RMB2,583,000 and RMB4,833,000 (2003: RMB2,271,000 and RMB4,185,000) and the number of 1,084,090,000 ordinary shares in issue for the three months and six months ended 30 June 2004 (2003: 1,084,090,000 ordinary shares).

Diluted earnings per share equals basic earnings per share because there were no potential dilutive ordinary shares outstanding during the three months and six months periods ended 30 June 2004 and 2003.

## 8. Interim dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

## 9. Related party transactions

On 19 April 2002, Sino Stride Holdings Limited (the "HKSS"), a company beneficially owned by Mr. Chau Chit, a Director, Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a Director, in the proportion of 50%, 30% and 20%, respectively, as landlords, entered into two leases with the Company as tenant in respect of (i) the premises located at Rooms 3113, 3115 and 3116, 31/F., New Tech Plaza, 34 Tai Yau Street, San Po Kong, Kowloon Hong Kong for use as its warehouse and (ii) an apartment located at Flat F, 22/F., Tower One Park Tower, 1 King's road, Causeway Bay, Hong Kong, for use as living quarter for the directors for a term of five years each commencing from 19 April 2002, at monthly rent of HK\$21,000 and HK\$26,000, respectively, as determined based on approximate prevailing market prices. The corresponding rental expenses of the Group for the six months ended 30 June 2004 amounted to RMB 298,920 (2003: RMB298,920).

## 10. Property, plant and equipment

	<b>(Unaudited)</b>	(Audited)
	<b>At 30 June</b>	At 31 December
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Net book value, beginning of period/year	<b>8,471</b>	7,643
Acquisition of a subsidiary	–	506
Additions	<b>1,419</b>	2,464
Disposal of subsidiaries	–	(242)
Exchange realignment	<b>(5)</b>	4
Depreciation	<b>(1,156)</b>	(1,904)
	<hr/> <b>8,729</b>	<hr/> 8,471
Net book value, end of period/year	<b>8,729</b>	8,471

## 11. Intangible assets

	<b>Deferred development costs</b>	
	<b>(Unaudited)</b> <b>At 30 June</b> <b>2004</b> <b>RMB'000</b>	<b>(Audited)</b> <b>At 31 December</b> <b>2003</b> <b>RMB'000</b>
Net book value, beginning of period/year	7,019	1,400
Additions	1,332	6,019
Disposal of subsidiaries	–	(330)
Amortisation charge	(592)	(70)
	<u>7,759</u>	<u>7,019</u>

## 12. Interest in associates

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2004</b> <b>RMB'000</b>	<b>(Audited)</b> <b>At 31 December</b> <b>2003</b> <b>RMB'000</b>
Share of net assets of associates	<u>2,571</u>	<u>2,577</u>

Particulars of the associates at 30 June 2004 are as follows:

Company	Business structure	Place of incorporation and operations	Paid-up capital RMB'000	Percentage of equity interest attributable to the Group	Principal activities
Zhejiang University Sino Stride Fire Prevention Engineering Co., Ltd (浙江浙大中程消防工程有限公司)	Corporate	PRC	800	36.6%	Fire prevention system installation
Zhejiang Sino Stride Hospital Yida System Technology Co., Ltd (浙江中程依達醫療設備有限公司)	Corporate	PRC	1,000	27.8%	Sale of medical equipment
Shenzhen Fasten Sino Stride Technology Co., Ltd (深圳市法爾勝中程科技有限公司)	Corporate	PRC	5,000	39%	Sale of hardware and equipment related to system solution and system design

### 13. Deposit pledged with financial institutions

	(Unaudited) At 30 June 2004 RMB '000	(Audited) At 31 December 2003 RMB '000
Fixed deposits	<u>20,631</u>	<u>18,151</u>

The above fixed deposits have been pledged to financial institutions for the issuance of letter of credits, notes payable and to secure bank loans in the amount of RMB5,140,000 (31 December 2003: RMB9,572,000).

### 14. Trade receivables

The ages of the trade receivables are analysed as follows:

	(Unaudited) At 30 June 2004 RMB '000	(Audited) At 31 December 2003 RMB '000
Outstanding balance with ages:		
Within 30 days	24,538	24,617
Between 31 to 90 days	18,838	25,620
Between 91 to 180 days	4,426	2,943
Between 181 to 360 days	320	300
Between 361 to 540 days	891	2,076
	<u>49,013</u>	<u>55,556</u>

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

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

## 15. Bank loans

	<i>Note</i>	<b>Unaudited 30 June 2004</b>	Audited 31 December <b>2003</b>
Secured	<i>(a)</i>	<b>5,140</b>	9,572
Unsecured	<i>(b)</i>	<b>66,401</b>	73,281
		<b>71,541</b>	82,853
Classified as current liabilities repayable within one year		<b>71,541</b>	82,853

(a) The bank loans are secured by cash deposits as set out in note 13, bearing interest at a rate of 2.56 to 5.3% (31 December 2003: 2.4%) per annum and are repayable in less than 12 months.

(b) The unsecured bank loans bear interest at rates ranging from 2.4 to 5.1% (31 December 2003: 5.04% to 5.31%) per annum and are repayable in less than 12 months.

## 16. Trade and notes payable

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

	<b>(Unaudited) At 30 June 2004 RMB '000</b>	(Audited) At 31 December 2003 RMB '000
Outstanding balance with ages:		
Within 90 days	<b>77,088</b>	54,805
Between 91 to 180 days	<b>16,947</b>	4,395
Between 181 to 360 days	<b>3,630</b>	7,394
Over 360 days	<b>4,748</b>	2,818
	<b>102,413</b>	69,412

## 17. Share capital and reserves

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

Notes	Issued	Share	Contri-	Statutory	Enterprise	Exchange	Retained	Total
	capital	premium	tribution	surplus	expansion	fluctuation	profits	
	RMB'000	RMB'000	surplus	reserve	fund	reserve	RMB'000	RMB'000
			(a)	(b)	(c)			
As at 1 January 2004	11,491	69,800	13,499	2,480	1,611	240	51,054	150,175
Exchange realignment	-	-	-	-	-	(240)	-	(240)
Derecognition of negative good will	-	-	-	-	-	-	587	587
Net profit for the period	-	-	-	-	-	-	4,833	4,833
Transferred to reserves	-	-	-	738	738	-	(1,476)	-
Dividends	-	-	-	-	-	-	(13,758)	(13,758)
	<u>11,491</u>	<u>69,800</u>	<u>13,499</u>	<u>3,218</u>	<u>2,349</u>	<u>-</u>	<u>41,240</u>	<u>141,597</u>
As at 30 June 2004	11,491	69,800	13,499	3,218	2,349	-	41,240	141,597

Notes:

### (a) Contribution surplus

The contribution surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group Reorganisation in preparation for the public listing of the Company's shares on the GEM of Stock Exchange, over the nominal value of the Company's shares issued in exchange thereof. The contribution surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

### (b) Statutory surplus reserve

In accordance with the Company Law of the PRC and the articles of association of the PRC subsidiaries, certain PRC subsidiaries are required to allocate 5% to 10% of its profit after tax, as determined in accordance with the accounting principles generally accepted in the PRC ("PRC GAAP") applicable to the PRC subsidiaries, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the PRC subsidiaries, and part of the SSR may be converted to increase the paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

### (c) Enterprise expansion fund

In accordance with the Company Law of the PRC, certain PRC subsidiaries are required to transfer 5% to 10% of its profit after tax, as determined in accordance with PRC GAAP applicable to the PRC subsidiaries, to the enterprise expansion fund ("EEF") which is a non-distributable reserve other than in the event of the liquidation of these subsidiaries. EEF must be used for production and operation expansion purposes.

## 18. The Commitments

At 30 June 2004, the Group had the following commitments:

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2004</b> <i>RMB'000</i>	(Audited) At 31 December 2003 <i>RMB'000</i>
Future minimum lease rentals payable under non-cancelable operating lease expiring:		
Within one year	<b>1,363</b>	1,986
In the second to fifth years, inclusive	<b>1,121</b>	2,320
	<b>2,484</b>	4,306
Capital commitments:		
Contracted, but not provided for	<b>3,200</b>	6,050

The Group did not have any other significant capital expenditure and commitments as at 31 December 2003 and 30 June 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Overview

For the Relevant Period, the Group recorded a turnover of approximately RMB117.6 million, representing an increase of approximately 58% over the six months ended 30 June 2003. The growth in the turnover of the Group for the Relevant Period was mainly attributed to the increase in the Group's contract value and number of clients. The turnover was primarily derived from the provision of system integration solutions of RMB77.6 million, computer network system integration solutions of approximately RMB39.1 million and system software of approximately RMB0.8 million.

During the Relevant Period, the Group recorded a gross profit of approximately RMB23.8 million, representing a profit margin of approximately of 20%. Such decrease in gross profit margin was mainly attributable to (i) the increase in price of parts and components purchased for network installation and high-tech products; (ii) the sub-contracting and cooperation arrangement of smaller-sized projects. As the labour intensive system integration works of those smaller-sized projects were carried out by those sub-contractors and partners, the role of the Group therefore shifted towards focusing on the design of solutions, quality controls and project management. This arrangement enabled the Group bid for and focus its resources on larger-sized projects. However it also resulted in lower profit margin in smaller-sized projects; (iii) increase competition in the industry of system integration solution business; and (iv) an increased proportion of revenue generated from computer network system integration solution, which generally have lower gross profit margin than that of system integration solutions.

Administrative costs for the Relevant Period increased by RMB2.9 million because more resources were employed to set up new offices, explore business collaboration opportunities with reputable enterprises, improve the Group's internal workflows and administration structure.

For the Relevant Period, the Group's net profit from ordinary activities attributable to shareholders amounted to approximately RMB4.8 million, representing an increase of approximately 15.5% over the six months ended 30 June 2003.

#### Capital Structure

There has been no change in the capital structure of the Company during the Relevant Period.

#### Liquidity, financial resources and debt ratio

The Group generally finances its operations with internally generated financial resources, short-term bank loans and part of the proceeds from the placing of the Company's shares on 29 July 2002. As at 30 June 2004, the Group had outstanding bank borrowings of RMB71.5 million. For the details of these bank borrowing, please refer to note 15 of the Notes to the Condensed Consolidated Results. During the Relevant Period, the Group did not create any mortgage.

As at 30 June 2004, the Group's cash and cash equivalents amounted to approximately RMB47.9 million.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise cost of funds, the Group's treasury activities are centralised. Cash is generally placed on deposits, mostly denominated in Renminbi and Hong Kong dollars. The Group's liquidity and financing arrangements are reviewed regularly.

### **Gearing ratio**

The Group expresses its gearing ratio as a percentage of bank borrowings over total assets. As at 30 June 2004, the Group's gearing ratio was 19% (as at 31 December 2003: 24%). The decrease in gearing ratio was mainly due to repayment of the bank loans during the Relevant Period

### **Significant investments**

Save as those disclosed in the paragraph "OPERATIONS REVIEW", the Group did not hold any significant investment as at 30 June 2004.

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

Save as those disclosed in the paragraph "OPERATIONS REVIEW" and note 12 "Interest in associates" of the Notes to the Condensed Consolidated Results, the Group did not make any material acquisitions or disposals of subsidiaries or affiliated companies during the Relevant Period.

### **Exchange rate risk**

The Group has foreign currency risk as certain of its payables to suppliers, trade receivables and bank borrowings are denominated in foreign currencies, principally United States dollars. Fluctuations in exchange rates of Hong Kong Dollars and Renminbi against foreign currencies could affect the Group's results of operation.

### **Contingent liabilities**

As of the date of this results announcement and at 30 June 2004, the Board was not aware of any material contingent liabilities.

### **Segmental information**

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

### **Charge on assets**

Other than the Group's bank deposits of RMB20,631,000 (as at 31 December 2003: RMB18,151,000) which had been pledged to financial institutions for the issuance of letter of credits and security of outstanding bank borrowing, as at 30 June 2004, the Group did not have any charge on its assets.

## Employees

As at 30 June 2004, the Group had 305 (as at 31 December 2003: 344) employees. As higher quality staff was employed to cope with the Group's business expansion, total staff costs increased from approximately RMB5.8 million for the six months ended 30 June 2003 to RMB6.6 million for Relevant Period. The Board believes that the quality of its employees is one of the most important factors in sustaining the Group's growth and enhancing its profitability. Employees are remunerated according to their performance and working experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus.

## Future plans for material investments or capital assets

The Group intends to pursue strategic acquisitions of and/or investments in system integration business and relevant system software development business to strengthen or complement the Group's existing business. Up to the date of this results announcement, no such acquisitions and/or investments targets other than those mentioned in the paragraph "OPERATIONS REVIEW" and note 12 "Interest in associates" of the Notes to the Condensed Consolidated Results have been located by the Group. Accordingly, the Group did not have intended plans for material investments or capital assets as at 30 June 2004.

## OPERATIONS REVIEW

In January 2004, Sino Stride Technology Co., Ltd. ("SST") was awarded as one of the 2003年度華東十家最具潛力IT企業 (Top Ten Highest Potential IT Enterprise in Eastern China of Year 2003) by 中國計算機報 (PRC Computer Newspaper) and 賽迪顧問股份有限公司 (CCID Consulting Company Limited). On 16 February 2004, SST was awarded as the 杭州高新技術開發區2003年度先進企業 (Advanced Enterprise 2003 of Hangzhou High-Tech Development Zone) and 沈越先生 (Mr. Shen Yue), a Director, was awarded as the 杭州高新技術開發區2003年度經濟發展突出貢獻企業家獎 (Outperformed Entrepreneur in Economic Development 2003 of Hangzhou Hi-Tech Development Zone), respectively by the government of Bin Jiang District. In February 2004, SST was designated as one of the 2003年度國家規劃布局內重點軟件企業 (Outstanding Software Enterprise Defined by the National Development Bureau of the PRC of Year 2003) which entitles the Group to enjoy preferential enterprise income tax rate. In June 2004, the Company was awarded 中國軟件產業最大規模100強 (Top 100 Large Scale PRC Software Enterprise) by the Ministry of Information Industry of the PRC ("MI").

On 2 February 2004, Enterasys Networks Singapore Pte Ltd. ("Enterasys") awarded the Group as "The Best Value Added Distributor in China of Year 2003" and "Outperformed Partner of Enterasys in Asia Pacific of Year 2003". In March 2004, one of our subsidiaries, Beijing Sino Stride Powerlink Technology Co., Ltd. ("Beijing Sino Stride"), became one of the business partners of IBM China to promote IBM storage device and equipment.

During the Relevant Period, the Group successfully bid for several large intelligent building system and value added service solution projects such as 山東省臨淄市工商行政管理局大樓 (the Bureau of Commerce and Industry Building of Lin Zi City in Shandong Province), 上海仁濟醫院二期外科病房大樓 (Phase II Surgery Building of Shanghai Renji Hospital), 蘇州工業園區法院 (Legal Court of Industrial Zone of Suzhou City), 安徽省電網生產調度大樓 (Anhui Provincial Electricity Network Production and Controlling Building), 溫州市行政西樓 (West Wing of Administration Building of Wenzhou City) and 浙江省地方稅局大樓 (Zhejiang Provincial Tax Bureau Building).

As for the provision of intelligent traffic system (“ITS”), the Group successfully bid for the projects of 緡雲交通警察電子警察系統 (Jin Yu Electronic Traffic Police System).

The Group will continue to explore the possibility of various forms of alliances with reputable enterprises and research institutions to further complement its existing business and to enhance its competitiveness in the industry.

## **PROSPECTS**

In light of the 2008 Beijing Summer Olympic Games, Expo 2010 Shanghai, PRC’s entry to the WTO and PRC’s continuous economic growth, the Directors believe that the demand for system integration solutions and value added service solutions will continue to grow with the prosperity of PRC property markets, increasing proportion of investments in intelligence buildings and necessity for PRC information network system to be in line with international standards. Moreover, the demand of traffic controls management system will increase with the surge in the number of motor vehicles in PRC and the implementation of the proposed new traffic controls regulations in near future. As the application of intelligence technologies in building, traffic and other relevant sectors in PRC is still at early stage, there is a growth potential for the Group’s business.

The Ministry of Construction (“MOC”) and the MII of the PRC promulgated market entry requirements and qualification verification process for system integration solutions and value added service solution providers respectively, new competitors without recognition are difficult to accumulate relevant experience and technology to fulfill the market entry requirements to enter this regulated market. Leveraging on the Group’s compliance with the market entry requirements, grade A standard in system integration solutions and value added service solution, the prominent market position recognised by awards such as “Top Ten Software Enterprise” of Zhejiang Province, “2003 Most Promising PRC Enterprise” and “Outstanding Software Enterprise of Year 2003” defined by the National Development Bureau of the PRC, the Group will continue to increase its marketing efforts, expand its market coverage to other provinces in PRC.

Unlike small system integration providers without self-developed products under their own brand name and technology know how, the cooperation with reputable enterprises and research institutions like Singapore Technologies Electronics Limited and Zhejiang University supply the Group with necessary human resources, research and development capabilities for developing proprietary software technology and products with the brand name of “Sino Stride” to satisfy market requirements in PRC market. To further enhance its competitiveness in the industry, the Group also intends to pursue strategic acquisitions of investments in system integration business and software development business in the future if such opportunities arise to strengthen and complement the Group’s existing business.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress and the business objectives set out on pages 95 to 98 of the prospectus of the Company dated 23 July 2002 (the “Prospectus”). To attain our long-term business goals, the Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

### **Business objectives for the Relevant Period up as set out in the Prospectus**

### **Actual business progress in the Relevant Period**

#### *Geographical expansion*

Establish branches and/or subsidiaries in Xian, Xinjiang-Uygur Autonomous Region and Harbin to develop the intelligent building system integration solutions market in northwest China and northeast China.

As the intelligent system integration solution markets in Xian, Xinjiang-Uygur Autonomous Region and Harbin are not yet mature, the Group did not establish branches or subsidiaries in those cities. The Group established Guizhou and Shandong branches in the Relevant Period.

#### *Marketing and promotion*

Promote digital government system integration in northern China and central China markets.

The Group held a seminar in Beijing to promote digital storage solutions which was one of the key technologies the digital government system integration. The Group also participated in a seminars held by 北京計算機協會 (Beijing Computer Association).

Promote BFA, e-HIS and e-LIS to hospitals in Jiangsu, Jiangxi and Fujian Provinces.

As the markets in those provinces are not yet mature, the Group decided to postpone the promotion activities.

Promote urban traffic system integration to traffic departments in Yunnan Province and Chongqing.

The Group has continuously promoted urban traffic system integration to traffic departments in Yunnan Province and Chongqing.

Continue to promote traffic management software for light rail in Hangzhou.

The Group has continuously promoted traffic management software for light rail in Hangzhou.

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

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

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

The Group is considering a plan to set up a video audio control system between offices to enhance communication efficiency.

**Business objectives for the Relevant Period up as set out in the Prospectus**

**Actual business progress in the Relevant Period**

***Research and development***

*Product development of the Group*

Continue to upgrade existing e-HIS and e-LIS according to domestic medical reform and new development of hospital management.

As domestic medical reform and development of hospital management were in process, the Group delayed upgrading e-HIS and e-LIS until finalization of medical reform.

Receive approvals for SSMIS and PACS from MOH.

The Group carried out major modifications and internal testing for several SSMIS and PACS modules.

Continue the development of price monitoring software for medicine and medical services.

The reform of medicine and medical service price monitoring market was not yet finalised, hence the development of price monitoring software was postponed.

Continue to upgrade GPS and GIS.

The Group cooperated with Singapore Technologies Electronics Limited to upgrade GPS and GIS.

Feasibility study of light rail construction project.

The Group cooperated with Singapore Technologies Electronics Limited and considered submitting a tender for light rail projects in Chongqing.

Continue development of electronic hospital information system platform.

As the reform of hospital management was not yet finalised, the Group postponed the development of electronic hospital information system platform.

***Strengthening of research and development capacity***

Continue to recruit research and development staff .

The Group continued to recruit research and development staff.

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

The Group improved the internal structure, procedures and the training of the staff according Capability Maturity Model standard.

Continue to improve the research and development system.

The research and development department of the Group continued to explore measures to improve the research and development system including purchase of new computer equipment and software for research and development purpose.

**Business objectives for the Relevant Period up as set out in the Prospectus**

**Actual business progress in the Relevant Period**

*Co-operation with Zhejiang University*

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

Start the research on electronic medical book.

The research and development of electronic medical book was in the preliminary preparation stage.

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

Develop workshop for medical image network system and conduct testing of EEG Holter.

The Group established a workshop for medical image network system and the research and development of EEG Holter was in the process.

*Strategic investment and business collaboration*

Continue locating and discussing with reputable companies and research institutions.

No strategic investment or business collaboration agreement agreements has been signed by the Group except for the above and those already disclosed in the paragraph “OPERATIONS REVIEW”.

Continue negotiations and evaluation and enter into agreements if appropriate.

No acquisition and/or joint venture agreements has been signed by the Group except for the above and those already disclosed in the paragraph “OPERATIONS REVIEW”.

## USE OF PROCEEDS

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

	<b>Planned use of proceeds as stated in the Prospectus up to 30 June 2004</b>	<b>Actual amount utilised up to 30 June 2004</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
Geographical expansion	7.1	6.0
Marketing and promotion	6.4	6.1
Research and development	18.4	14.6
Strategic investment and business collaboration	12.7	11.4
Repayment of bank loans	10.3	10.3
	<hr/>	<hr/>
Total	<u>54.9</u>	<u>48.4</u>

As the reform of the medical service market was in progress and the medical service related information system market was not yet ready, the Group decided to postpone research and development of several medical service related products which resulted in a reduced use of proceeds for research and development up to 30 June 2004 than as planned. The evaluations of planned strategic investments and business collaborations were still being carried out, as such the use of proceeds originally planned for strategic investments and business collaboration up to 30 June 2004 were reduced.

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

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the beneficial interests of the Directors in the share capital of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions in which they are taken or deemed to have taken under such provisions of the SFO), or which will be required pursuant to Section 352 of the SFO to be entered in the register referred therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the GEM Listing Rules to be notified to the Company and the Stock Exchange are as follows:

Name of Director	Note	Number of Shares		Total	Approximate percentage of interest
		Personal interests	Corporate interests <sup>(1)</sup>		
Mr. Chau Chit	(2)	–	540,000,000 (L)	540,000,000	49.81%
Mr. Wong Wai Tin	(2&3)	2,500,000 (L)	108,000,000 (L)	110,500,000	10.19%

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Mega Start Limited ("Mega Start"), the ultimate holding company of the Company, is held by Mr. Chau Chit, a Director, and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a Director, in the proportion of 50%, 30% and 20%, respectively.
- (3) On 8 January 2004, Mr. Wong personally purchased 2,500,000 shares representing approximately 0.23% of the issued share capital of the Company.

Save as disclosed above, as at 30 June 2004, none of the Directors or chief executive of the Company has any interests or short positions in the share, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed in the Share Option Scheme (as defined below), at no time during the Relevant Period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or minor children, or were such rights exercised by them; or was the Company, its holding company, or any of its subsidiary and fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquiring of shares in the Company or any other body corporate.

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

As at 30 June 2004, so far as the Directors are aware, the following persons or companies had interests or short position in shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Notes	Company/Name of Group member	Capacity/ Nature of interest	Number of shares/ amount of registered capital directly or indirectly held/owned <sup>(1)</sup>	Approximate percentage of interest
Mega Start	(2)	Company	Beneficial owner	540,000,000 (L)	49.81%
Mr. Chau Chit	(2)	Company	Interest of a controlled corporation	540,000,000 (L)	49.81%
Ms. Ting Hiu Wan	(2)	Company	Interest of a controlled corporation	540,000,000 (L)	49.81%
Mr. Wong Wai Tin	(2)	Company	Interest of a controlled corporation	108,000,000 (L)	9.96%
Mr. Wong Wai Tin		Company	Beneficial owner	2,500,000 (L)	0.23%
Singapore Technologies Electronics Limited ("ST Electronics")	(3)	Company	Beneficial owner	216,000,000 (L)	19.92%
Singapore Technologies Engineering Ltd ("ST Engineering")	(3)	Company	Interest of a controlled corporation	216,000,000 (L)	19.92%
Singapore Technologies Pte Ltd ("STPL")	(3)	Company	Interest of a controlled corporation	216,000,000 (L)	19.92%
Temasek Holdings (Private) Ltd ("Temasek Holdings")	(3)	Company	Interest of a controlled corporation	216,000,000 (L)	19.92%
孟惠強 (Meng Hui Qiang)		北京中程匯強 科技有限公司 (Beijing Sino Stride)	Beneficial owner	RMB2,500,000 (L)	25%
鄭篠祥 (Zheng Xiao Xiang)		杭州維科軟件工程 有限責任公司 (Hangzhou Vico Software Engineering Co., Ltd.)	Beneficial owner	RMB225,000 (L)	15%
段會龍 (Duan Hui Long)		杭州維科軟件工程 有限責任公司 (Hangzhou Vico Software Engineering Co., Ltd.)	Beneficial owner	RMB225,000 (L)	15%
呂蘇英 (Lu Su Ying)		杭州維科軟件工程 有限責任公司 (Hangzhou Vico Software Engineering Co., Ltd.)	Beneficial owner	RMB150,000 (L)	10%

*Notes:*

- (1) The letter “L” denotes the person’s long position in such shares.
- (2) Mega Start, the ultimate holding company of the Company, is held by Mr. Chau Chit, a Director, and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a Director, in the proportion of 50%, 30% and 20%, respectively.
- (3) ST Electronics is a wholly-owned subsidiary of ST Engineering whose shares are listed on the Singapore Exchange Securities Trading Limited. Temasek Holdings holds controlling interest in STPL which, in turn, holds controlling interest in ST Engineering. Pursuant to Part XV of the SFO, ST Engineering, STPL and Temasek Holdings are taken to be interested in the shares held by ST Electronics.

Save as disclosed herein, the Directors are not aware of any person who had an interest or a short position in shares or underlying shares which would fail to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

## **SHARE OPTION SCHEME**

Pursuant to written resolutions of the shareholders of the Company dated 16 July 2002, a share option scheme (the “Share Option Scheme”) was approved and adopted. A summary of the terms of the Scheme is set out in Appendix V of the Prospectus.

Under the Share Option Scheme, the Directors may, at their discretion, grant options to Directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The subscription price for shares under the Scheme will be determined by the Directors, which shall be calculated with reference to the higher of (i) the closing price of the shares on GEM on the date of grant of the option; (ii) the average closing price of the share on the GEM for the five trading days immediately preceding the date of grant of option; and (iii) the nominal value of a share.

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

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

ST Electronics (Shanghai) Co., Ltd., a wholly foreign-owned enterprise established by ST Electronics in Shanghai, the PRC, may engage in the business of intelligent building systems and home automation systems in PRC through joint ventures. Mr. Ng Chong Khim, a non-executive Director, is a member of the senior management of ST Electronics. Through the share options scheme in ST Engineering (which owns 100% of ST Electronics), Mr. Ng Chong Khim may from time to time own shares or share options in ST Engineering.

Save as disclosed above, none of the Directors or the substantial shareholders or the management shareholders of the Company or their respective associates had an interest in a business that competed with or might compete with the business of the Group as at 30 June 2004 .

## **SPONSOR'S INTEREST**

As at 30 June 2004 , neither South China Capital Limited (the "Sponsor") nor its Directors or employees or associates, had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group. Pursuant to an agreement (the "Sponsor Agreement") dated 23 July 2002, entered into between the Company and the Sponsor, the Sponsor has agreed to act as a sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the date on which dealings in shares on GEM commence (i.e. 29 July 2002) to 31 December 2004 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein.

## **AUDIT COMMITTEE**

The Company established an audit committee on 16 July 2002 with written terms of reference in compliance with Rules 5.28, 5.29 and 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and annual reports and to provide advice and comments thereon the board of Directors. The audit committee is also responsible for reviewing the financial reporting process and internal control system of the Group. The Group's unaudited consolidated results for the Relevant Period have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

The audit committee has three members comprising the three independent non-executive Directors, Mr. Cai Xiao Fu, Mr. Shi Jian Jun and Mr. Li Xiaoqiang, Richard. The audit committee held two meetings in this period to perform the functions specified in the GEM listing Rules.

## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

In the opinions of the Directors, the Company had complied with the code of best practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the Relevant Period.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company, nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Relevant Period.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the Relevant Period, the Company adopted a code of conduct regarding of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiries with all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

## **SUBMISSION OF AN ADVANCE BOOKING FORM FOR THE PROPOSED LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE (THE "MAIN BOARD") BY WAY OF INTRODUCTION**

On 30 July 2004, the Directors announced that the Company plans to list the shares of the Company on the Main Board by way of introduction. An advance booking form for the proposed listing on the Main Board by way of introduction was submitted to the Stock Exchange on 30 July 2004.

By order of the Board  
**Sino Stride Technology (Holdings) Limited**  
**Chau Chit**  
*Chairman*

Hangzhou, the PRC

13 August 2004

*As at the date of this report, the Board comprises of the executive Directors, namely, Mr. Chau Chit (Chairman), Mr. Wong Wai Tin and Mr. Shen Yue; the non-executive Directors, namely, Mr. Wong Wai Kwan and Mr. Ng Chong Khim; and the independent non-executive Directors, namely, Mr. Cai Xiao Fu, Mr. Shi Jian Jun and Mr. Li Xiaoqiang, Richard.*