

Interim Report 2004
for the period from 1 April, 2004 to 30 September, 2004

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

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This report, for which the directors (the “Directors”) of Soluteck Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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.



HIGHLIGHTS

- The net loss of the Group during the six months ended 30 September, 2004 was approximately HK\$3.0 million, as compared with net profit of approximately HK\$1.6 million for the same period in last year.
- Loss per Share during the six months ended 30 September, 2004 was approximately HK0.65 cents.
- The turnover of the Group during the six months ended 30 September, 2004 was approximately HK\$38.8 million, representing a decrease of approximately 28.3 per cent. as compared with the corresponding period in 2003.

INTERIM RESULTS (UNAUDITED)

The board ("Board") of Directors announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September, 2004 (the "period") as follows:-

CONSOLIDATED INCOME STATEMENT

		From 1 July, 2004 to 30 September, 2004 (unaudited) HK\$'000	From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000	From 1 July, 2003 to 30 September, 2003 (unaudited) HK\$'000	From 1 April, 2003 to 30 September, 2003 (unaudited) HK\$'000
	<i>Notes</i>				
Turnover	2	22,889	38,836	40,058	54,165
Cost of sales		(18,939)	(29,728)	(31,305)	(42,467)
Gross profit		3,950	9,108	8,753	11,698
Other revenue	2	25	40	36	83
Selling expenses		(1,322)	(2,522)	(1,231)	(2,126)
Administrative expenses		(5,161)	(9,121)	(4,050)	(7,584)
(Loss)/profit from operations	4	(2,508)	(2,495)	3,508	2,071
Finance costs	5	(78)	(160)	(97)	(148)
(Loss)/profit before taxation		(2,586)	(2,655)	3,411	1,923
Taxation	3	(73)	(301)	(283)	(283)
(Loss)/profit attributable to shareholders		(2,659)	(2,956)	3,128	1,640
Basic (loss)/earnings per share	6	<u>HK(0.59) cents</u>	<u>HK(0.65) cents</u>	<u>HK0.69 cents</u>	<u>HK0.36 cents</u>

CONSOLIDATED BALANCE SHEET

		As at 30 September, 2004 (unaudited) HK\$'000	As at 31 March, 2004 (audited) HK\$'000
	<i>Notes</i>		
Intangible assets	8	578	665
Fixed assets	7	1,345	1,267
Investment securities		-	-
Current assets			
Inventories	12	6,731	7,638
Accounts receivable	9	22,381	25,200
Other receivables, deposits and prepayments		10,372	13,495
Pledged bank deposits		9,000	8,500
Bank balances and cash	11	10,613	6,072
		<u>59,097</u>	<u>60,905</u>
Current liabilities			
Accounts payable	10	2,747	3,356
Other payables and accrued charges		2,618	3,675
Receipt in advance		1,969	3,041
Taxation payable		309	234
Bank overdrafts		4,000	1,717
Short-term bank loans, secured		8,481	4,709
		<u>20,124</u>	<u>16,732</u>
Net current assets		<u>38,973</u>	<u>44,173</u>
Total assets less current liabilities		<u>40,896</u>	<u>46,105</u>
Financed by:			
Share capital		45,261	45,261
Reserves		(4,747)	(1,801)
Proposed final dividend		-	2,263
Shareholders' funds		<u>40,514</u>	<u>45,723</u>
Deferred tax liabilities		<u>382</u>	<u>382</u>
		<u>40,896</u>	<u>46,105</u>





RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Reserve arising from reorganisation* HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April, 2003	1,194	-	(24,317)	(4)	28,552	5,425
Exchange difference	-	-	-	(135)	-	(135)
Profit for the period	-	-	-	-	1,640	1,640
2003 final dividend	-	-	-	-	(4,526)	(4,526)
	<u>1,194</u>	<u>-</u>	<u>(24,317)</u>	<u>(139)</u>	<u>25,666</u>	<u>2,404</u>
At 1 April, 2004	1,194	-	(24,317)	(4)	23,589	462
Exchange difference	-	-	-	10	-	10
Loss for the period	-	-	-	-	(2,956)	(2,956)
2004 final dividend	-	-	-	-	(2,263)	(2,263)
	<u>1,194</u>	<u>-</u>	<u>(24,317)</u>	<u>6</u>	<u>18,370</u>	<u>(4,747)</u>

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

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	From 1 April, 2004 to 30 September, 2004 HK\$'000	From 1 April, 2003 to 30 September, 2003 HK\$'000
Total equity as at 1 April	45,723	50,686
Exchange differences arising on translation of the financial statements of foreign subsidiaries	10	(135)
(Loss)/Profit for the period	(2,956)	1,640
Dividends	(2,263)	(4,526)
Total equity as at 30 September	<u>40,514</u>	<u>47,665</u>

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Six months ended	
		2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Operating activities			
Net cash inflow/(outflow) from operations		1,973	(6,385)
Interest paid	5	(160)	(148)
Overseas taxation paid		(226)	(170)
		<u> </u>	<u> </u>
Net cash inflow/(outflow) from operating activities		<u>1,587</u>	<u>(6,703)</u>
Investing activities			
Purchase of fixed assets	7	(388)	(198)
Interest received	2	40	83
Increase in pledged bank deposits		(500)	(2,000)
		<u> </u>	<u> </u>
Net cash outflow from investing activities		<u>(848)</u>	<u>(2,115)</u>
Net cash inflow/(outflow) before financing		<u>739</u>	<u>(8,818)</u>
Financing activities			
New bank loan drawn down		8,481	3,746
Repayment of amounts borrowed		(4,709)	(3,769)
Dividends paid		(2,263)	(4,526)
		<u> </u>	<u> </u>
Net cash inflow/(outflow) from financing		<u>1,509</u>	<u>(4,549)</u>
Increase/(Decrease) in cash and cash equivalents		2,248	(13,367)
Cash and cash equivalents at the beginning of the period		4,355	21,959
Effect of foreign exchange rate changes		10	(135)
		<u> </u>	<u> </u>
Cash and cash equivalents at the end of the period		<u>6,613</u>	<u>8,457</u>
Analysis of balances of cash and cash equivalents			
Bank balances and cash		10,613	12,452
Bank overdraft		(4,000)	(3,995)
		<u> </u>	<u> </u>
		<u>6,613</u>	<u>8,457</u>

Notes:

1. Basis of preparation

The unaudited interim financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants and Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The principal accounting policies and methods of computation used in the preparation of the unaudited interim financial statements are consistent with those adopted in the latest annual financial statements of the Group.

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

2. Revenue, turnover and segment information

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

	From 1 July, 2004 to 30 September, 2004 HK\$'000	From 1 April, 2004 to 30 September, 2004 HK\$'000	From 1 July, 2003 to 30 September, 2003 HK\$'000	From 1 April, 2003 to 30 September, 2003 HK\$'000
Turnover				
Sale of goods	17,671	28,651	35,692	46,315
Rendering of services	<u>5,218</u>	<u>10,185</u>	<u>4,366</u>	<u>7,850</u>
	22,889	38,836	40,058	54,165
Other revenue				
Interest income	<u>25</u>	<u>40</u>	<u>36</u>	<u>83</u>
Total revenue	<u><u>22,914</u></u>	<u><u>38,876</u></u>	<u><u>40,094</u></u>	<u><u>54,248</u></u>

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 8) and fixed assets (Note 7).

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

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

2. Revenue, turnover and segment information (Continued)

Primary reporting format – business segments

The Group is organised into two main business segments:-

- 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 From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000	Rendering of service From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000	Group From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000
Turnover	28,651	10,185	38,836
Segment results	432	5,038	5,470
Other revenue			40
Unallocated costs			(8,005)
Loss from operations			(2,495)
Finance costs			(160)
Loss before taxation			(2,655)
Taxation			(301)
Loss attributable to shareholders			(2,956)
Segment assets	20,131	12,261	32,392
Unallocated assets			28,628
Total assets			61,020
Segment liabilities	2,747	2,647	5,394
Unallocated liabilities			15,112
Total liabilities			20,506
Capital expenditure	-	317	317
Unallocated capital expenditure			71
			388
Depreciation	-	95	95
Unallocated depreciation			215
			310
Other non-cash expenses			1,087



2. Revenue, turnover and segment information (Continued)

Primary reporting format – business segments

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

3. Taxation

There was no provision for Hong Kong profits tax as the Group has no assessable profit for the six months ended 30 September, 2004 (six months ended 30 September, 2003: Nil).

Taxation on overseas profits has been calculated on the estimated assessable profit 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:-

	From 1 July, 2004 to 30 September, 2004 HK\$'000	From 1 April, 2004 to 30 September, 2004 HK\$'000	From 1 July, 2003 to 30 September, 2003 HK\$'000	From 1 April, 2003 to 30 September, 2003 HK\$'000
Current taxation:				
- Hong Kong profits tax	-	-	-	-
- Overseas taxation	73	301	283	300
- Over provisions in prior years	-	-	-	(17)
Deferred taxation	-	-	-	-
Taxation charge	<u>73</u>	<u>301</u>	<u>283</u>	<u>283</u>

4. (Loss)/profit from Operations

The Group's (loss)/profit from operations is arrived at after charging:-

	From 1 July, 2004 to 30 September, 2004 HK\$'000	From 1 April, 2004 to 30 September, 2004 HK\$'000	From 1 July, 2003 to 30 September, 2003 HK\$'000	From 1 April, 2003 to 30 September, 2003 HK\$'000
Cost of inventories sold	16,388	25,940	29,852	38,953
Depreciation	183	310	231	463
Amortisation of intangible assets	43	87	48	73
Provision for obsolete stock	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>-</u>

5. Finance costs

	From 1 July, 2004 to 30 September, 2004 HK\$'000	From 1 April, 2004 to 30 September, 2004 HK\$'000	From 1 July, 2003 to 30 September, 2003 HK\$'000	From 1 April, 2003 to 30 September, 2003 HK\$'000
Interest on bank loans and overdrafts	<u>78</u>	<u>160</u>	<u>97</u>	<u>148</u>

6. (Loss)/Earnings per Share

The calculation of the basic loss per Share for the three months and six months ended 30 September, 2004 is based on the unaudited consolidated net loss attributable to shareholders of approximately HK\$2,659,000 and HK\$2,956,000 (2003: profit of HK\$3,128,000 and HK\$1,640,000) and the weighted averaged number of 452,612,072 and 452,612,072 Shares (2003: 452,612,072 and 452,612,072 Shares) in issue throughout the relevant accounting periods, respectively.

No diluted loss per share for the six months ended 30 September, 2004 and 2003 are presented as the exercise of the outstanding options of the Company would have an anti-dilutive effect.

7. Fixed assets

During the period, the Group spent approximately HK\$388,000 (six months ended 30 September, 2003: HK\$198,000) on the acquisition of fixed assets.

8. Intangible assets

Software development costs

	As at 30 September, 2004 (unaudited) HK\$'000	As at 31 March, 2004 (audited) HK\$'000
At the beginning of the period	665	822
Addition	-	-
Amortisation	<u>(87)</u>	<u>(157)</u>
At the end of the period	<u>578</u>	<u>665</u>

9. Accounts receivable

The majority of the Group's turnover is on credit terms ranging from sixty to ninety days. As at 30 September, 2004, the ageing analysis of the accounts receivable was as follows:-

	As at 30 September, 2004 (unaudited) HK\$'000	As at 31 March, 2004 (audited) HK\$'000
Current to 60 days	9,430	18,787
61 – 90 days	3,946	1,158
Over 90 days	<u>9,005</u>	<u>5,255</u>
	<u>22,381</u>	<u>25,200</u>



10. Accounts payable

As at 30 September, 2004, the ageing analysis of the accounts payable was as follows:-

	As at 30 September, 2004 (unaudited) HK\$'000	As at 31 March, 2004 (audited) HK\$'000
Current to 60 days	1,244	2,307
61 – 90 days	30	–
Over 90 days	1,473	1,049
	<u>2,747</u>	<u>3,356</u>

11. Bank balances and cash

Included in the balance is approximately HK\$8,542,000 (31 March, 2004: HK\$3,578,000), representing Renminbi deposits placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

12. Inventories

	As at 30 September, 2004 (unaudited) HK\$'000	As at 31 March, 2004 (audited) HK\$'000
Merchandise for re-sale	3,713	3,451
Spare parts	3,018	4,187
	<u>6,731</u>	<u>7,638</u>

13. Commitments under operating leases – land and building

At 30 September, 2004, the Group had future aggregate minimum lease payments under operating leases as follows:

	As at 30 September, 2004 (unaudited) HK\$'000	As at 31 March, 2004 (audited) HK\$'000
Not later than one year	1,038	726
Later than one year and not later than five years	428	478
	<u>1,466</u>	<u>1,204</u>



14. Related party transactions

During the six months ended 30 September, 2004, the Group undertook the following material transactions with its related companies during the course of its business at terms of underlying agreements:

		From 1 July, 2004 to 30 September, 2004	From 1 April, 2004 to 30 September, 2004	From 1 July, 2003 to 30 September, 2003	From 1 April, 2003 to 30 September, 2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental paid to Directors	<i>(a)</i>	-	54	81	163
Rental paid to the related companies	<i>(b)</i>	<u>99</u>	<u>230</u>	<u>154</u>	<u>308</u>

Note:

- (a) 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 for the period from 1 April, 2004 to 31 May, 2004.
- (b) The Group leased office premises from San Yee Investment Limited ("San Yee") and Dynatek Limited ("Dynatek") in Hong Kong and from Ms. Tsou Lo Nien and Ms. Chung Po Chu in Shanghai, the PRC, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Review

The Group specializes in the provision of implementation and upgrading of self-service automatic teller machine ("ATM") systems, related application hardware and software, technical support and consultancy services to commercial banks and postal bureaus in the People's Republic of China (the "PRC" or China).

For the six months ended 30 September, 2004, the Group recorded a drop of approximately 28.3 per cent. in turnover to approximately HK\$38.8 million, compared with HK\$54.2 million for the corresponding period in 2003. The turnover decrease was largely a result of the keen competition in the PRC.

The Group recorded a loss attributable to shareholders of approximately HK\$3.0 million in the six months ended 30 September, 2004, compared with the profit attributable to shareholders of approximately HK\$1.6 million for the corresponding period in last year. Loss per share during the six months ended 30 September, 2004 was approximately HK0.65 cents, compared with earnings per share of approximately HK0.36 cents for the corresponding period in last year.

Implementation of self-service ATM systems

Implementation of self-service ATM systems remained the Group's core business and accounted for approximately 92.6 per cent. of the Group's total turnover during the six months ended 30 September, 2004 (six months ended 30 September, 2003: 96.3 per cent.), representing a decrease of approximately 31.0 per cent. as compared with the corresponding period in last year. The Group believes that such a decrease was mainly attributable to the keen competition in the PRC and corporate restructuring in its sales and marketing teams ("teams") undergone in the last quarter, from which the new teams newly recruited have to participate in an intensive training so as to accommodate to our working environment and the market.

The Group continued its network of ATM service centers in China with new openings at Zhuhai. At present, the network covers a total of 30 strategic cities and locations currently.

Implementation of electronic postal automation systems

The implementation of electronic postal automation systems rise slightly in the six months ended 30 September, 2004, to approximately 2.8 per cent. of the total turnover of the Group, compared with approximately 0.9 per cent. for the corresponding period in last year. The Group will continue to identify niche business development and growth opportunities for electronic postal automation systems that include mailing finishing systems, volume mailing handling systems and franking machines, despite the fierce competition and market rebuff towards this business stream in the China market.

Provision of information technology and business solutions

The provision of information technology and business solutions accounted for approximately 4.6 per cent. of the Group's turnover for the six months ended 30 September, 2004, compared with approximately 2.8 per cent. for the corresponding period in last year. The Group will continue to develop software applications for converging banking business platforms and other state-of-the-art application software for banking and financial institutions and postal bureaus.



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 26.2 per cent. of the total turnover of the Group for the six months ended 30 September, 2004, compared with approximately 14.5 per cent. for the corresponding period in last year.

Gross profit

During the six months ended 30 September, 2004, the Group managed to improve its gross profit margin by promoting its maintenance and technical support services. The gross profit margin increased to approximately 23.5 per cent. (six months ended 30 September, 2003: 21.6 per cent), albeit that there was a decrease in the amount of gross profit, as compared to the same period in last year.

Selling and administrative expenses

During the period under review, selling and administrative expenses incurred by the Group for the six months ended 30 September, 2004 increased by 18.6 per cent. and 20.3 per cent. respectively, as compared with the corresponding period in last year, primarily attributable to the following reasons:

Firstly, the Group had concentrated its effort in improving the existing maintenance service quality due to expansion of the service business segment, increasing in the provision of value-added services delivered to our customers, and exploring business opportunity in corporate outsourcing technical service sector.

Secondly, a general provision for obsolete stock of HK\$1.0 million had been provided for the six months ended 30 September, 2004 (six months ended 30 September, 2003: Nil).

Finance costs

The finance costs of the Group for the six months ended 30 September, 2004 increased slightly to HK\$301,000 (six months ended 30 September, 2003: HK\$283,000).

Liquidity and financial resources

The Group generally finances its operations with internally generated cash flow. As at 30 September, 2004, the Group had cash and bank balances (including pledged bank deposits) amounting to a total of approximately HK\$19.6 million (31 March, 2004: HK\$14.6 million) and had outstanding bank overdraft of approximately HK\$4.0 million (31 March, 2004: HK\$1.7 million) and short-term bank loan of approximately HK\$8.5 million (31 March, 2004: HK\$4.7 million) which represented the total borrowings of the Group as at that date. The bank overdraft was at 0.75% per annum over Hong Kong Dollar prime rate while the short-term loan was repayable within 1 year and at interest rate of approximately 5 per cent. over the base rate announced by People's Bank of China.

With these resources and the proceeds from the new issue of shares in January 2001, the Board believes that the Group has adequate capital resources to finance its business objectives, that is, fully committed to be one of the leading total Solution Providers for the finance sector in China.

Gearing ratio

As at 30 September, 2004, the gearing ratio of the Group, based on total liabilities over total assets was approximately 33.6 per cent. (31 March, 2004: approximately 27.2 per cent.).

Banking facilities

As at 30 September, 2004, the Group's banking facilities of approximately HK\$21.4 million (31 March, 2004: HK\$28.4 million) are secured by the followings:-

- (a) pledged deposits of HK\$9.0 million (31 March, 2004: HK\$8.5 million); and
- (b) corporate guarantees by the Company and its subsidiaries of approximately HK\$25.0 million (31 March, 2004: HK\$31.0 million).

Treasury policies and capital structure

The Group's overall treasury and funding policies are prudent, with a focus on risk management, and those transactions which are directly related to the underlying business of the Group. Assets which are denominated in currencies other than Hong Kong and United States dollars, in particular, Renminbi assets, are hedged with the appropriate level of borrowings in Renminbi and bank deposits in Hong Kong and United States dollars. When necessary, forward exchange contracts will be used to hedge against foreign currency exposures. As at 30 September, 2004, the Group had no exposure under foreign exchange contracts.

Contingent liabilities

As at 30 September, 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.

Employees

As at 30 September, 2004, the Group employed 127 and 15 staff in the PRC and Hong Kong, respectively. The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system.

Share options may be granted to Directors and employees of the Group to subscribe for shares in the Company in accordance with the terms and conditions of the New Share Option Scheme adopted by Shareholders' resolution passed at the Company's Annual General Meeting held on 30 July, 2004. Particulars of such scheme are detailed in the relevant sections that follow.

Significant investments held and material acquisitions and disposals of subsidiaries

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





Business Outlook

China has been opened up to the global economic theater since its entry into the World Trade Organisation (“WTO”). With the non-stopping fast economic growth and the relaxation of travel restrictions on individual travelers from major cities in China, more emphasis have been put by banks and postal bureaus in the PRC on the importance of provision for quality and efficient information technology infrastructure in order to consolidate and strengthen their respective market standing. They have not only opened up more branches in different locations and cities in the PRC, but have also increasingly applied ATM systems in each of their branches, so that more valuable services can be provided to their customers. The Group, 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, will definitely take the advantage derived from the aforesaid circumstances and in turn be of benefit to the Group’s future prospect.

The Group is fully committed itself as a reliable and reputable vendor and 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. With a strong presence and a solid clientele in China, and a closer business relationship with NCR being established, the Group not only will further consolidate the existing activities and sustain service quality at the highest professional standard, but also will simultaneously increase the offering of its maintenance services to a broader range of self-service products in the PRC and to boost its marketing effort in the PRC aiming to bring in new customers and broader business relationship. Furthermore, the Group’s carrying on updating itself on all latest developments in the industry will undoubtedly facilitate the increasing of the Group’s market share in China and ultimately enhancing the value of the shareholders.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period from 1 April, 2004 to 30 September, 2004 (2003: Nil).

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS
IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE
COMPANY AND ITS ASSOCIATED CORPORATIONS**

As at 30 September, 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%

Name	Name of company	Capacity	Number and class of securities (Note 1)	Percentage shareholding in the same class of securities
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%

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.

SHARE OPTION SCHEMES

1. Pre-IPO Share Options

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	Outstanding at 1.4.2004	Number of Options		Outstanding at 30.9.2004	Closing price per share immediately before the date of grant (HK\$) (Note 2)
		Granted during the period	Lapsed during the period		
Exercise price at HK\$0.20:					
- Director of a subsidiary:					
LAM Shut Chun	500,000	Nil	(500,000)	Nil	Nil
- Other Employees	5,100,000	Nil	(1,850,000)	3,250,000	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	2,400,000	Nil	Nil	2,400,000	Nil
	<u>16,000,000</u>	<u>Nil</u>	<u>(2,350,000)</u>	<u>13,650,000</u>	

Notes:-

1. During the six months ended 30 September, 2004, 2,350,000 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 six months ended 30 September, 2004.



2. New Share Option Scheme adopted as at 30 July, 2004

The Company has adopted a new share option scheme ("New Scheme") and terminated the Share Option Scheme by shareholders' resolutions passed at its Annual General Meeting held on 30 July, 2004. The New Scheme became effective on 30 July, 2004. Upon the termination of the Share Option Scheme on 30 July, 2004, no further options may be offered under the Share Option Scheme but the Share Option Scheme would in all respects remain in force to the extent necessary to give effect to the exercise of the outstanding Pre-IPO Share Options granted under it prior to its termination. The outstanding Pre-IPO Share Options will continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September, 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:-

- 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.
- 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.

Save as disclosed above, as at 30 September, 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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the Quarterly Period.

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 Institute of Certified Public Accountants.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures and risk evaluation of the Group and to provide advise and comments thereon. The Committee comprises three independent non-executive Directors, namely Ms. Lui Ming, Rosita, Mr. Ho Wai Wing, Raymond and Mr. Tam Kam Biu, William (appointed since 28 September, 2004). The draft of this report has been reviewed and approved by the Audit Committee of the Board.

COMPETING INTERESTS

Mr. Tam Kam Biu, William, the newly appointed Independent non-executive director of the Company, is an Executive Director of Q9 Technology Holding Limited ("Q9 Technology"). As Q9 Technology is also a Company which is engaged in business related to research, development of information technology, Q9 Technology may be in competition with the Group.

Save as disclosed above, 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company had not redeemed any of its Shares during the six months ended 30 September, 2004. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the six months ended 30 September, 2004.

On behalf of the Board
Hou Hsiao Bing
Chairman

Hong Kong, 10 November, 2004

As of the date hereof, the executive directors are Mr. Hou Hsiao Bing, Ms. Chung Yuk Hung, Mr. Chung Yuk Man and Mr. Hou Hsiao Wen. The independent non-executive directors are Ms. Lui Ming, Rosita, Mr. Ho Wai Wing, Raymond and Mr. Tam Kam Biu, William.