

**SOLUTECK** HOLDINGS LIMITED  
一創科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

## **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.*

- The turnover of the Group during the three months ended 30 June, 2006 was approximately HK\$7.0 million, representing a decrease of approximately 15.8 per cent. as compared to the same period last year.
- The net loss attributable to shareholders of the Company during the three months ended 30 June, 2006 was approximately HK\$0.8 million.
- The Board does not recommend the payment of quarterly dividend for the three months ended 30 June, 2006.

The board (the "Board") of Directors announces the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three months ended 30 June, 2006.

## **CHAIRMAN'S STATEMENT**

### **FINANCIAL PERFORMANCE**

The Group recorded a loss attributable to shareholders of approximately HK\$0.8 million in the three months ended 30 June, 2006, compared with the loss attributable to shareholders of approximately HK\$0.7 million for the corresponding period in last year. Loss per share during the three months ended 30 June, 2006 was approximately HK0.17 cents, compared with approximately HK0.14 cents for the corresponding period in last year.

The turnover of the Group during the three months ended 30 June, 2006 was approximately HK\$7.0 million, representing a decrease of approximately 15.8 per cent. as compared to the corresponding period in last year. The Group's gross profit margin for the period was approximately 39.4 per cent., compared with approximately 47.7 per cent. for the corresponding period in last year. The management believes that the aforesaid drops were mainly attributable to the continuous keen competition among different suppliers of automatic teller machine systems ("ATM") in the People's Republic of China (the "PRC" or China).

Selling and administrative expenses decreased by approximately 2.5 per cent. and 24.9 per cent. respectively during the three months ended 30 June, 2006 as compared with the corresponding period in last year. This should be a result of the Group's policy on cost control.

### **BUSINESS REVIEW**

The Group is principally engaged in the sale of self-service ATM systems and other banking equipment, and the provision of hardware and software, technical support and consultancy services to commercial banks and postal bureaus in the PRC.

### **IMPLEMENTATION OF SELF-SERVICE ATM SYSTEMS**

Implementation of self-service ATM systems remained the Group's core business and accounted for approximately 97.7 per cent. of the Group's total turnover during the three months ended 30 June, 2006, as compared with approximately 96.6 per cent. in the corresponding period in last year.

The turnover generated from the implementation of self-service ATM systems amounted to approximately HK\$6.8 million, representing a decrease of approximately 14.8 per cent. as compared with the corresponding period in last year. Such a drop was mainly attributable to the keen competition among different suppliers of ATM systems in the PRC.

## **PROVISION OF INFORMATION TECHNOLOGY AND BUSINESS SOLUTIONS**

The provision of information technology and business solutions accounted for approximately 2.3 per cent. of the Group's turnover for the three months ended 30 June, 2006, compared with approximately 3.4 per cent. for the corresponding period in last year. The Group will continue to focus on the development of 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 43.1 per cent. of the total turnover of the Group for the three months ended 30 June, 2006, compared with approximately 53.2 per cent. for the corresponding period in last year.

## **BUSINESS OUTLOOK**

The Group has signed a strategic partnership agreement with a subsidiary of NCR Corporation in China in April 2006. Being able to obtain the above support and recognition from them, together with its being a prestigious and experienced professional ATM software, hardware and services company in the ATM sector, and its existing reputation as an authorized value-added reseller of self-service ATM systems of NCR (Hong Kong) Limited and related applications software for commercial banks in China, the Group will fully commit itself to be one of the leading Total Solution Providers in the banking sector in the PRC, offering a full range of banking and financial system solutions for the banking and financial sectors in the PRC, from the supply of hardware to software development, banking applications to value-added complementary services. It will also continue to put efforts on enhancing closer customer relationships, broadening business relationship and exploring new business opportunities in corporate outsourcing technical service sector, so as to better satisfy the demand from the financial sector in China for advanced global self-service equipment solutions' products, technologies and extensive trans-national industrial experience.

On the other hand, on top of its carrying on keeping abreast of all latest developments in the industry in order to consolidate existing activities and be prepared to diversify into new areas (whenever the time will be appropriate), the Group will also keep on boosting its marketing effort in China to bring in new customers and, will further expand its operations (should the time be ripen for the same), so as to further expand market share and shareholder's value could be enriched.

**Hou Hsiao Bing**  
*Chairman*

**Soluteck Holdings Limited**

Hong Kong, 11 August, 2006

## RESULTS

The Board announces the unaudited consolidated results of the Group for the three months ended 30 June, 2006 (the "Period") together with comparative unaudited consolidated results of the Group for the corresponding period in 2005 as follows:

	<i>Notes</i>	<b>From 1 April, 2006 to 30 June, 2006 HK\$'000</b>	From 1 April, 2005 to 30 June, 2005 HK\$'000
Revenue	2	<b>6,951</b>	8,252
Cost of sales		<b>(4,213)</b>	(4,316)
Gross profit		<b>2,738</b>	3,936
Other revenue	2	<b>19</b>	24
Selling expenses		<b>(586)</b>	(601)
Administrative expenses		<b>(2,868)</b>	(3,817)
Operating loss	3	<b>(697)</b>	(458)
Finance costs	4	<b>(53)</b>	(108)
Loss before taxation		<b>(750)</b>	(566)
Income tax expenses	5	<b>–</b>	(87)
Loss attributable to shareholders		<b>(750)</b>	(653)
Basic loss per share	6	<b>HK(0.17) cents</b>	HK(0.14) cents

Notes:-

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### (i) Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies

In the current period, the Group has applied a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

#### *Financial Instruments*

In the current period, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application and HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarized below:

#### *Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

However, there has been no material effect on how the results for the current accounting period are prepared and presented.

#### *Financial assets and financial liabilities other than debt and equity securities*

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognized in profit or loss directly. Other financial liabilities are carried at amortized cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

#### *Share-based payments*

In the current period, the Group has applied HKFRS 2 “Share-based Payment” which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over share (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these shares option until they were exercised. In relation to share options granted before 1 January 2005, in accordance with the relevant transitional provision, the Group has not granted any share options since 7 November 2002, the provision of HKFRS 2 are not applicable to the Group’s outstanding share options. The application of HKFRS 2 has had no financial impact on the results of the Group for current or prior accounting periods.

(ii) **The unaudited consolidated results has been prepared under the historical cost convention.**

The preparation of the unaudited consolidated results in conformity with the New HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated results include depreciation of property, plant and equipment, allowance for inventories and allowance for bad and doubtful debts.

**2. REVENUE**

The Group is principally engaged in the sales of self-service ATM systems and other systems, and the provision of hardware and software technical support services. Revenues recognised during the period are as follows:-

	<b>From 1 April, 2006 to 30 June, 2006 HK\$'000</b>	From 1 April, 2005 to 30 June, 2005 HK\$'000
Revenue		
Sales of goods	<b>3,955</b>	3,859
Rendering of services	<b>2,996</b>	4,393
	<b>6,951</b>	8,252
Other revenue		
Interest income	<b>19</b>	24
Total revenue	<b>6,970</b>	8,276

**3. OPERATING LOSS**

The Group's operating loss is arrived at after charging:

	<b>From 1 April, 2006 to 30 June, 2006 HK\$'000</b>	From 1 April, 2005 to 30 June, 2005 HK\$'000
Cost of inventories	<b>3,673</b>	3,112
Depreciation	<b>101</b>	133
Provision for bad and doubtful debts	-	500
Provision for slow moving and obsolete inventories	-	500

**4. FINANCE COSTS**

	<b>From 1 April, 2006 to 30 June, 2006 HK\$'000</b>	From 1 April, 2005 to 30 June, 2005 HK\$'000
Interest on bank loans and overdrafts	<b>53</b>	108

**5. INCOME TAX EXPENSES**

There was no provision for Hong Kong profits tax as the Group has no assessable profit for the period (three months ended 30 June 2005: Nil).

Income tax expenses on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC in which the subsidiaries of the Group operate.

The amount of income tax expenses charged to the consolidated profit and loss account represents:-

	<b>From 1 April, 2006 to 30 June, 2006 HK\$'000</b>	From 1 April, 2005 to 30 June, 2005 HK\$'000
Current income tax		
– Hong Kong profits tax	–	–
– Overseas taxation	–	(87)
Deferred taxation	–	–
Income tax expenses	–	(87)

**6. BASIC LOSS PER SHARE**

The calculation of basic loss per share for the three months ended 30 June, 2006 is based on the Group's loss attributable to shareholders of approximately HK\$750,000 (three months ended 30 June 2005: loss of approximately HK\$653,000) and the 452,612,072 (three months ended 30 June 2005: 452,612,072) ordinary shares in issue during the period.

No diluted loss per share for the three months ended 30 June, 2006 and 2005 are presented as the exercise of the outstanding options of the Company would have an anti-dilutive effect.



## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow. As at 30 June, 2006, the Group had cash and bank balances amounting to a total of approximately HK\$6.9 million (as at 31 March 2006: HK\$3.8 million) and had outstanding bank overdraft of approximately HK\$2.1 million (as at 31 March 2006: HK\$3.4 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.

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.

## QUARTERLY DIVIDEND

The Board does not recommend the payment of quarterly dividend for the period from 1 April, 2006 to 30 June, 2006 (three months ended 30 June 2005: Nil).

## RESERVES

	Share premium HK\$'000	Reserve arising from reorganisation* HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April, 2005	1,194	(24,317)	9	9,440	(13,674)
Exchange difference	-	-	(131)	-	(131)
Loss for the period	-	-	-	(653)	(653)
At 30 June, 2005	1,194	(24,317)	(122)	8,787	(14,458)
At 1 April, 2006	1,194	(24,317)	757	6,795	(15,571)
Exchange difference	-	-	100	-	100
Loss for the period	-	-	-	(750)	(750)
At 30 June, 2006	1,194	(24,317)	857	6,045	(16,221)

\* 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.

## 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 June, 2006, 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%
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 and Mr. Hou Hsiao Wen, and the former Executive Directors namely Ms. Chung Yuk Hung and Mr. Chung Yuk Man 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 1.4.2006	Number of Options		Outstanding at 30.6.2006	Closing price per share immediately Options before the date of grant (HK\$) (Note 2)
		Granted during the period	Lapsed during the period		
Exercise price at HK\$0.20:					
– Other Employees	1,250,000	Nil	(200,000)	1,050,000	Nil
Exercise price at HK\$0.40:					
– Executive Directors					
HOU Hsiao Bing	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
	7,650,000	Nil	(200,000)	7,450,000	

Notes:-

1. During the first three months ended 30 June, 2006, 200,000 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 first three months ended 30 June, 2006.

## 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 June, 2006, 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
Ms. Chung Yuk Hung	35,190,000	Beneficial owner	7.77%
Mr. Chung Yuk Man	35,190,000	Beneficial owner	7.77%

Save as disclosed above, as at 30 June, 2006, 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. The draft of this report has been reviewed and approved by the Audit Committee of the Board.

### **COMPETING INTEREST**

Mr. Tam Kam Biu, William, an 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 three months ended 30 June, 2006. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the three months ended 30 June, 2006.

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

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of the 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 during the period under review.

### **CORPORATE GOVERNANCE**

Unless otherwise disclosed herein, the Company has complied with the Code throughout the three months ended 30 June, 2006 except the followings:

#### **DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

##### *Code Provisions*

Under the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

##### *Deviation and its Reasons*

Mr. Hou Hsiao Bing is both the Chairman and Chief Executive Officer of the Company who is responsible for managing the Board and the Group's business. Mr. Hou has been both Chairman and Chief Executive Officer of the Company since 5 August, 2002. The management considered that there is no imminent need to change the arrangement for there are only 2 directors in the board of Directors are executive directors.

On behalf of the Board  
**Hou Hsiao Bing**  
Chairman

Hong Kong, 11 August, 2006

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

