Interim Report 2006

SOLUTECK HOLDINGS LIMITED

一創科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8111

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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 ("GEM") of the Stock Exchange (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, 2006 was approximately HK$0.9 million, as compared with net loss of approximately HK$2.0 million for the same period in last year.

- Loss per Share during the six months ended 30 September, 2006 was approximately HK0.20 cents.

- The turnover of the Group during the six months ended 30 September, 2006 was approximately HK$23.8 million, representing an increase of approximately 41.7 per cent. as compared with the corresponding period in 2005.

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, 2006 (the "period") as follows:–

CONSOLIDATED INCOME STATEMENT

	Note	**From 1 July, 2006 to 30 September, 2006 (unaudited)** ***HK$'000***	**From 1 April, 2006 to 30 September, 2006 (unaudited)** ***HK$'000***	From 1 July, 2005 to 30 September, 2005 (unaudited) *HK$'000*	From 1 April, 2005 to 30 September, 2005 (unaudited) *HK$'000*
Revenue	*2*	**16,832**	**23,783**	8,533	16,785
Cost of sales		**(13,447)**	**(17,660)**	(4,651)	(8,967)
Gross profit		**3,385**	**6,123**	3,882	7,818
Other revenue	*2*	**22**	**41**	22	46
Selling expenses		**(707)**	**(1,293)**	(942)	(1,543)
Administrative expenses		**(2,793)**	**(5,661)**	(3,846)	(7,663)
Operating loss	*4*	**(93)**	**(790)**	(884)	(1,342)
Finance costs	*5*	**(60)**	**(113)**	(136)	(244)
Loss before taxation		**(153)**	**(903)**	(1,020)	(1,586)
Income tax expenses	*3*	**–**	**–**	(320)	(407)
Loss attributable to shareholders		**(153)**	**(903)**	(1,340)	(1,993)
Basic loss per share	*6*	**HK(0.03) cents**	**HK(0.20) cents**	HK(0.30) cents	HK(0.44) cents

CONSOLIDATED BALANCE SHEET

	Note	**As at 30 September, 2006 (Unaudited) *HK$'000***	As at 31 March, 2006 (Audited) *HK$'000*
Non-current assets			
Intangible assets		**–**	–
Property, plant and equipment	*7*	**332**	444
Investment securities		**–**	–
		332	444
Current assets			
Inventories	*11*	**17,907**	16,532
Accounts receivable	*8*	**15,909**	15,264
Other receivable, deposits and prepayments		**3,771**	5,636
Bank balances and cash	*10*	**4,439**	3,799
		42,026	41,231
Current liabilities			
Accounts payable	*9*	**1,907**	1,986
Other payables and accruals		**2,730**	3,003
Receipt in advance		**590**	3,022
Taxation payable		**69**	10
Bank overdrafts		**2,687**	3,356
Short-term bank loans, secured		**4,432**	–
		12,415	11,377
Net current assets		**29,611**	29,854
Total assets less current liabilities		**29,943**	30,298
Non-current liabilities			
Deferred tax liabilities		**619**	608
Net assets		**29,324**	29,690
Share capital		**45,261**	45,261
Reserves		**(15,937)**	(15,571)
Shareholders' funds		**29,324**	29,690

RESERVES – UNAUDITED

	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	–	–	493	–	493
Loss for the period	–	–	–	(1,993)	(1,993)
At 30 September, 2005	1,194	(24,317)	502	7,447	(15,174)
At 1 April, 2006	1,194	(24,317)	757	6,795	(15,571)
Exchange difference	–	–	537	–	537
Loss for the period	–	–	–	(903)	(903)
At 30 September, 2006	1,194	(24,317)	1,294	5,892	(15,937)

* *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.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	From 1 April, 2006 to 30 September, 2006	From 1 April, 2005 to 30 September, 2005
	HK$'000	*HK$'000*
Total equity as at 1 April	**29,690**	31,587
Exchange differences arising on translation of the financial statements of foreign subsidiaries	**537**	493
Loss for the period	**(903)**	(1,993)
Total equity as at 30 September	**29,324**	30,087

CONSOLIDATED CASH FLOW STATEMENT

	Note	six months ended 30 September, 2006 (unaudited) *HK$'000*	2005 (unaudited) *HK$'000*
OPERATING ACTIVITIES			
Loss before taxation		**(903)**	(1,586)
Adjustment for:			
Depreciation	*4*	**199**	266
Provision for bad and doubtful debts	*4*	**–**	900
Provision for slow moving and obsolete inventories	*4*	**–**	1,000
Interest income	*2*	**(41)**	(46)
Interest expenses	*5*	**113**	244
Operating cash flows before movements in working capital		**(632)**	778
Increase in inventories		**(1,375)**	(1,883)
(Increase)/Decrease in accounts receivable		**(645)**	2,343
Decrease in other receivables, deposits and prepayments		**1,865**	1,851
Decrease in accounts payable		**(79)**	(1,063)
(Decrease)/Increase in other payables and accruals		**(273)**	2,108
Decrease in receipt in advance		**(2,432)**	(212)
Cash (used in)/generated from operations		**(3,571)**	3,922
Interest expenses	*5*	**(113)**	(244)
Overseas tax refund		**171**	–
Overseas taxation paid		**(101)**	(235)
Net cash (used in)/generated from operating activities		**(3,614)**	3,443
INVESTING ACTIVITIES			
Interest received	*2*	**41**	46
Purchase of property, plant and equipment	*7*	**(87)**	(44)
Decrease in pledged bank deposits		**–**	2,807
Net cash (used in)/generated from investing activities		**(46)**	2,809
FINANCING ACTIVITIES			
New bank loan drawn down		**4,432**	2,293
Repayment of amounts borrowed		**–**	(4,806)
Net cash generated from/(used in) financing activities		**4,432**	(2,513)
Net increase in cash and cash equivalents		**772**	3,739
Cash and cash equivalents at the beginning of the period		**443**	(447)
Effect of foreign exchange rate changes		**537**	493
Cash and cash equivalents at the end of the period		**1,752**	3,785
Cash and cash equivalents at the end of the period, represented by			
Bank balances and cash		**4,439**	7,689
Bank overdrafts		**(2,687)**	(3,904)
		1,752	3,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

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 periods 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 measurement of 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 the 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 expenses 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 AND SEGMENT INFORMATION

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:–

	From 1 July, 2006 to 30 September, 2006 (unaudited)	**From 1 April, 2006 to 30 September, 2006 (unaudited)**	From 1 July, 2005 to 30 September, 2005 (unaudited)	From 1 April, 2005 to 30 September, 2005 (unaudited)
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Revenue				
Sale of goods	**13,786**	**17,741**	4,322	8,181
Rendering of services	**3,046**	**6,042**	4,211	8,604
	16,832	**23,783**	8,533	16,785
Other revenue				
Interest income	**22**	**41**	22	46
Total revenue	**16,854**	**23,824**	8,555	16,831

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, property, plant and equipment, 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 and property, plant and equipment *(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 revenue and less than 10% of the operation loss of the Group are attributable to markets outside the People's Republic of China (the "PRC").

Primary reporting format – business segments

The Group is organised into two main business segments:–

i. Sales of goods – sale of self-service ATM systems and other systems

ii. Rendering of services – provision of hardware and software technical support services

	Sales of goods From 1 April, 2006 to 30 September, 2006 (unaudited) *HK$'000*	Rendering of service From 1 April, 2006 to 30 September, 2006 (unaudited) *HK$'000*	Group From 1 April, 2006 to 30 September, 2006 (unaudited) *HK$'000*
Revenue	17,741	6,042	23,783
Segment results	505	2,679	3,184
Other revenue			41
Unallocated costs			(4,015)
Operating loss			(790)
Finance costs			(113)
Loss before taxation			(903)
Income tax expenses			–
Loss attributable to shareholders			(903)
Segment assets	24,517	10,012	34,529
Unallocated assets			7,829
Total assets			42,358
Segment liabilities	1,907	1,153	3,060
Unallocated liabilities			9,974
Total liabilities			13,034
Capital expenditure	–	21	21
Unallocated capital expenditure			66
			87
Depreciation	–	20	20
Unallocated depreciation			179
			199
Other non-cash expenses			–

	Sales of goods From 1 April, 2005 to 30 September, 2005 (unaudited) *HK$'000*	Rendering of service From 1 April, 2005 to 30 September, 2005 (unaudited) *HK$'000*	Group From 1 April, 2005 to 30 September, 2005 (unaudited) *HK$'000*
Revenue	8,181	8,604	16,785
Segment results	668	3,076	3,744
Other revenue			46
Unallocated costs			(5,132)
Operating loss			(1,342)
Finance costs			(244)
Loss before taxation			(1,586)
Income tax expenses			(407)
Loss attributable to shareholders			(1,993)
Segment assets	21,381	11,292	32,673
Unallocated assets			14,925
Total assets			47,598
Segment liabilities	3,469	2,597	6,066
Unallocated liabilities			11,445
Total liabilities			17,511
Capital expenditure	–	19	19
Unallocated capital expenditure			25
			44
Depreciation	–	66	66
Unallocated depreciation			200
			266
Other non-cash expenses			1,900

3. INCOME TAX EXPENSES

There was no provision for Hong Kong profits tax as the Group has no assessable profit for the six months ended 30 September, 2006 (six months ended 30 September, 2005: Nil).

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

The amount of income tax expenses charged to the consolidated income statement represents:–

	From 1 July, 2006 to 30 September, 2006 (unaudited)	**From 1 April, 2006 to 30 September, 2006 (unaudited)**	From 1 July, 2005 to 30 September, 2005 (unaudited)	From 1 April, 2005 to 30 September, 2005 (unaudited)
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Current taxation:				
– Hong Kong profits tax	**–**	**–**	–	–
– Overseas taxation	**–**	**171**	320	407
– Over provisions in prior years	**–**	**(171)**	–	–
Deferred taxation	**–**	**–**	–	–
Income tax expenses	**–**	**–**	320	407

4. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging:–

	From 1 July, 2006 to 30 September, 2006 (unaudited)	**From 1 April, 2006 to 30 September, 2006 (unaudited)**	From 1 July, 2005 to 30 September, 2005 (unaudited)	From 1 April, 2005 to 30 September, 2005 (unaudited)
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Cost of inventories sold	**12,698**	**16,371**	3,355	6,467
Depreciation	**98**	**199**	133	266
Provision for bad and doubtful debts	**–**	**–**	400	900
Provision for slow moving and obsolete inventories	**–**	**–**	500	1,000

5. FINANCE COSTS

	From 1 July, 2006 to 30 September, 2006 (unaudited)	**From 1 April, 2006 to 30 September, 2006 (unaudited)**	From 1 July, 2005 to 30 September, 2005 (unaudited)	From 1 April, 2005 to 30 September, 2005 (unaudited)
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Interest on bank loans and overdrafts	**60**	**113**	136	244

6. LOSS PER SHARE

The calculation of the basic loss per Share for the three months and six months ended 30 September, 2006 is based on the unaudited consolidated loss attributable to shareholders of approximately HK$153,000 and HK$903,000 (three months and six months ended 30 September, 2005: loss of HK$1,340,000 and HK$1,993,000) and 452,612,072 and 452,612,072 ordinary shares (three months and six months ended 30 September, 2005: 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, 2006 and 2005 are presented as the exercise of the outstanding options of the Company would have an anti-dilutive effect.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$87,000 (six months ended 30 September, 2005: HK$44,000) on the acquisition of property, plant and equipment.

8. ACCOUNTS RECEIVABLE

	As at 30 September, 2006 (unaudited)	As at 31 March, 2006 (audited)
	HK$'000	*HK$'000*
Accounts receivable	**17,609**	16,964
Less: Provision for bad and doubtful debt	**(1,700)**	(1,700)
	15,909	15,264

The majority of the Group's revenue is on credit terms stipulated on the sale agreement between the customers and the Group. At 30 September, 2006, the ageing analysis of the accounts receivable was as follows:

	As at 30 September, 2006 (unaudited)	As at 31 March, 2006 (audited)
	HK$'000	*HK$'000*
Current to 60 days	**6,879**	6,048
61 – 90 days	**1,347**	3,005
Over 90 days	**7,683**	6,211
	15,909	15,264

The directors consider that the carrying amount of the Group's accounts receivable approximates their fair value.

9. ACCOUNTS PAYABLE

	As at 30 September, 2006 (unaudited) ***HK$'000***	As at 31 March, 2006 (audited) *HK$'000*
Accounts payable	**1,907**	1,986

As at 30 September, 2006, the ageing analysis of the accounts payable was as follows:–

	As at 30 September, 2006 (unaudited) ***HK$'000***	As at 31 March, 2006 (audited) *HK$'000*
Current to 60 days	**266**	299
61 – 90 days	**26**	8
Over 90 days	**1,615**	1,679
	1,907	1,986

10. BANK BALANCES AND CASH

Included in the balance is approximately HK$2,647,000 (31 March, 2006: HK$2,215,000), 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.

11. INVENTORIES

	As at 30 September, 2006 (unaudited) ***HK$'000***	As at 31 March, 2006 (audited) *HK$'000*
Merchandise for re-sale	**16,033**	14,577
Spare parts	**3,874**	3,955
	19,907	18,532
Less: Provision for slow moving and obsolete inventories	**(2,000)**	(2,000)
	17,907	16,532

12. COMMITMENTS UNDER OPERATING LEASES – LAND AND BUILDING

At 30 September, 2006, the Group had future aggregate minimum lease payments under operating leases as follows:

	As at 30 September, 2006 (unaudited)	As at 31 March, 2006 (audited)
	HK$'000	*HK$'000*
Not later than one year	**790**	646
Later than one year and not later than five years	**355**	275
	1,145	921

13. RELATED PARTY TRANSACTIONS

(A) During the six months ended 30 September, 2006, the Group undertook the following material transactions with its related companies during the course of its business at terms of underlying agreements:–

	Note	**From 1 July, 2006 to 30 September, 2006 (unaudited)**	**From 1 April, 2006 to 30 September, 2006 (unaudited)**	From 1 July, 2005 to 30 September, 2005 (unaudited)	From 1 April, 2005 to 30 September, 2005 (unaudited)
		HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Rental paid to Directors	*(a)*	**17**	**34**	74	147
Rental paid to related companies	*(b)*	**102**	**204**	76	154

Note:

(a) The Group leased an office premise from Mr. Hou Hsiao Wen (an executive director of the Company) and Ms. Chung Yuk Hung (a former executive director of the Company resigned on 10 January 2005) in Beijing of the PRC for the Group's use at a half-year rental of HK$34,180 (six months ended 30 September, 2005: HK$146,592).

(b) The Group leased an office premise from Dynatek Limited ("Dynatek") in Hong Kong at a half-year rental of HK$139,536 (six months ended 30 September, 2005: HK$94,200) for the Group's use. Dynatek is owned by Mr. Hou Hsiao Bing, the chairman and a shareholder of the Company.

Besides, the Group leased an office premise from Ms. Tsou Lo Nien and Ms. Chung Po Chu in Shanghai, the PRC, at a half-year rental of HK$64,000 (six months ended 30 September, 2005: HK$60,000). Ms. Chung Po Chu and Ms. Tsou Lo Nien are shareholders of the Company.

(B) **Compensation of Directors and Key Management Personnel**

	From 1 July, 2006 to 30 September, 2006 (unaudited)	**From 1 April, 2006 to 30 September, 2006 (unaudited)**	From 1 July, 2005 to 30 September, 2005 (unaudited)	From 1 April, 2005 to 30 September, 2005 (unaudited)
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Short-term benefits	**755**	**2,014**	1,043	2,137
Post-employment benefits	**9**	**18**	12	26
Termination benefits	**–**	**–**	–	–
	764	**2,032**	1,055	2,163

(C) **Guarantee provided by a related party to the Group**

During the six months ended 30 September 2006, Mr. Hou Hsiao Wen, a director of the Company, provided a personal guarantee to the extent of HK$4.4 million (31 March, 2006: Nil) to a bank for securing banking facilities granted to the Group. As at 30 September, 2006, the aforesaid banking facilities were utilized to the extent of HK$4.4 million.

14. CAPITAL COMMITMENTS

The Group and the Company did not have significant capital commitments as at 30 September, 2006.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

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, 2006, the Group recorded an increase of approximately 41.7 per cent. in turnover to approximately HK$23.8 million, compared with approximately HK$16.8 million for the corresponding period in 2005. It should be a result on the marketing effort the Group has put during the period.

The Group recorded a loss attributable to shareholders of approximately HK$0.9 million in the six months ended 30 September, 2006, compared with the loss attributable to shareholders of approximately HK$2.0 million for the corresponding period in last year. Loss per share during the six months ended 30 September, 2006 was approximately HK0.2 cents, compared with the loss per share of approximately HK0.44 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 98.9 per cent. of the Group's total turnover during the six months ended 30 September, 2006 (six months ended 30 September, 2005: 97.0 per cent.), representing an increase of approximately 44.5 per cent. as compared with the corresponding period in last year.

By having ATM service centers established in major cities in China including Ningbo, Guangxi, Hainan, Kunming, Hangzhou, Jinan, Chuanzhou, Guangzhou, Shanghai, Beijing, Chengdu, Shenyang, Qingdao, Zhengzhou, Wenzhou, Nanjing, Hefei, Xian, Chongqing, Fuzhou, Wuxi, Tianjin, Shenzhen, Yantai, Sanming, Suzhou, Dalian and Zhejiang, together with the ATM service centre newly established in Hubei, the Group has a network of ATM service centers covering a total of 29 strategic cities and locations currently.

PROVISION OF INFORMATION TECHNOLOGY AND BUSINESS SOLUTIONS

The provision of information technology and business solutions accounted for approximately 0.3 per cent. of the Group's turnover for the six months ended 30 September, 2006, compared with approximately 1.8 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.

OTHERS

Income generated from other businesses including the implementation of electronic postal automation systems, etc. accounted for approximately 0.8 per cent of the total turnover of the Group for the six months ended 30 September, 2006, as compared with approximately 1.2 per cent. for the corresponding period in last year. Since the development of electronic postal automation systems that include mailing finishing systems, volume mailing handling systems and franking machines are still greatly hindered by market competition and acceptance, the Group at this stage would not put any effort in any new development of this business stream.

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 25.4 per cent. of the total turnover of the Group for the six months ended 30 September, 2006, compared with approximately 51.3 per cent. for the corresponding period in last year.

GROSS PROFIT

During the six months ended 30 September, 2006, the Group's gross profit margin decreased to approximately 25.7 per cent. (six months ended 30 September, 2005: 46.6 per cent.). This was due to the decrease in the income generated from the provision of technical consultancy and support services (which contributed to a higher gross profit margin) by 29.8%, as compared with the corresponding period in last year, as a result of the keen competition among suppliers of ATM systems in the PRC during the period under review.

SELLING EXPENSES

Selling expenses incurred by the Group for the six months ended 30 September, 2006 amounted to approximately HK$1.3 million (six months ended 30 September, 2005: HK$1.5 million), representing a decrease of approximately 16.2 per cent.. This should be a result of the Group's policy on cost control.

ADMINISTRATIVE EXPENSES

Administrative expenses incurred by the Group for the six months ended 30 September, 2006 amounted to approximately HK$5.7 million (six months ended 30 September, 2005: HK$7.7 million), representing a decrease of approximately 26.1 per cent. mainly because the Group, after careful consideration, had not made additional allowance for bad and doubtful debts and inventories during the six months ended 30 September, 2006 (six months ended 30 September, 2005: allowance for bad and doubtful debts and inventories of approximately HK$0.9 million and HK$1.0 million respectively).

FINANCE COSTS

The finance costs of the Group for the six months ended 30 September, 2006 decreased to HK$113,000 (six months ended 30 September, 2005: HK$244,000).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow. As at 30 September, 2006, the Group had cash and bank balances amounting to a total of approximately HK$4.4 million (31 March, 2006: HK$3.8 million) and had outstanding bank overdraft of approximately HK$2.7 million (31 March, 2006: HK$3.4 million) and short-term bank loan of approximately HK$4.4 million (31 March, 2006: HK$Nil) 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 6 months and at an annual interest rate of approximately 6.12 per cent.

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.

CURRENT RATIO

As at 30 September, 2006, the Group's current ratio, represented by a ratio of current assets to current liabilities, was approximately 3.4 (31 March, 2006: approximately 3.6).

GEARING RATIO

As at 30 September, 2006, the gearing ratio of the Group, based on total liabilities over total assets was approximately 30.8 per cent. (31 March, 2006: approximately 28.8 per cent.).

DIRECTORS' OPINION ON SUFFICIENCY OF WORKING CAPITAL

In view of the Group's financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

BANKING FACILITIES

As at 30 September, 2006, the Group's banking facilities of approximately HK$7.0 million (31 March, 2006: HK$9.0 million) were secured by the:

(a) corporate guarantees by the Company and its subsidiaries of approximately HK$15.0 million (31 March, 2006: HK$15.0 million); and

(b) personal guarantee given by a director of the Company of approximately HK$4.4 million (31 March, 2006: Nil).

CHARGES ON ASSETS

As at 30 September, 2006, there was no significant charges on assets of the Group.

CONTINGENT LIABILITIES

As at 30 September, 2006, the Group did not have any significant contingent liabilities.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC with transactions settled in RMB principally and did not have any significant exposure to foreign exchange risk during the period.

EMPLOYEES

As at 30 September, 2006, the Group employed 127 and 10 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. Staff cost, including directors' emoluments, was approximately HK$4.1 million for the six months ended 30 September, 2006 (six months ended 30 September, 2005: approximately HK$4.5 million).

Share options may be granted to Directors and employees of the Group to subscribe for shares in the Company. Particulars of the scheme are set out in the relevant sections of this report.

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

In the presence of a strategic partnership agreement which has been signed by the Group with a subsidiary of NCR Corporation in China in April 2006, and the Group being a prestigious and experienced professional ATM software, hardware and services company in the ATM sector, together with 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. In addition, it will also persist 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, besides the Group will continue to keep 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), it will also keep on boosting its marketing effort in China to bring in new customers and 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.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period from 1 April, 2006 to 30 September, 2006 (six months ended 30 September, 2005: 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, 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 *(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.

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 Granted during the period	Lapsed during the period	Outstanding at 30.9.2006	Closing price per share immediately Options before the date of grant *(HK$)* *(Note 2)*
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 six months ended 30 September, 2006, 200,000 share options were lapsed upon the resignation of the relevant employees and executive directors 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, 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 OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September, 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 September, 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 INTERESTS

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 six months ended 30 September, 2006. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the six months ended 30 September, 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.

REPORT ON CORPORATE GOVERNANCE

In line with the increasing regulatory and investor focus on corporate governance standards, the Stock Exchange has issued a new Code on Corporate Governance Practices and Corporate Governance Report (the "Code"). We have embraced the terms of the Code, and combined these with our existing principles and practices – all with the objective of taking forward a corporate governance structure which builds on Soluteck's own standards and experience, whilst respecting the benchmarks set in the Code. We will explain in this Corporate Governance Report where our approach deviates from the Code. Unless otherwise disclosed herein, the Company has complied with the Code throughout the six months ended 30 September, 2006.

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, 13 November, 2006

As of the date hereof, the executive directors are Mr. Hou Hsiao Bing, 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.