



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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8111)

FIRST QUARTERLY REPORT 2004
FOR THE THREE MONTHS ENDED 30 JUNE, 2004

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

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

- The turnover of the Group during the three months ended 30 June, 2004 was approximately HK\$15.9 million, representing an increase of approximately 13.0 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, 2004 was approximately HK\$0.3 million.
- The Board does not recommend the payment of quarterly dividend for the three months ended 30 June, 2004.

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, 2004.

CHAIRMAN’S STATEMENT

Financial Performance

The Group recorded a loss attributable to shareholders of approximately HK\$0.3 million in the three months ended 30 June, 2004, compared with the loss attributable to shareholders of approximately HK\$1.5 million for the corresponding period in last year. Loss per share during the three months ended 30 June, 2004 was approximately HK0.07 cents, compared with approximately HK0.33 cents for the corresponding period in last year.

The turnover of the Group during the three months ended 30 June, 2004 was approximately HK\$15.9 million, representing an increase of approximately 13.0 per cent. as compared to the corresponding period in last year. The management believes that such a rise was mainly attributable to a recovery from the negative impact of the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in the corresponding period in last year and their effort put on marketing and business development in the period under review. The Group’s policy to undertake projects of higher profitability has also resulted in a rise in the Group’s gross profit margin for the period to approximately 32.3 per cent. when comparing with approximately 20.9 per cent. for the corresponding period in last year.

During the period under review the Group had undergone a corporate restructuring in its sales and management teams so as to enhance its sales and marketing efforts as well as its management capability and efficiency. As a result, selling and administrative expenses increased by approximately 34.1 per cent. and 12.1 per cent. respectively during the three months ended 30 June, 2004 as compared with the corresponding period in last year.

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).

Implementation of self-service ATM systems

Implementation of self-service ATM systems remained the Group's core business and accounted for approximately 93.3 per cent. of the Group's total turnover during the three months ended 30 June, 2004, as compared with approximately 95.3 per cent. in the corresponding period in last year.

The turnover generated from the implementation of self-service ATM systems amounted to approximately HK\$14.9 million, representing an increase of approximately 10.8 per cent. as compared with the corresponding period in last year. Such a rise was mainly attributable to the recovery from the negative impact of SARS in the corresponding period in last year and the result of the marketing and business development effort put by the management in the period under review.

Implementation of electronic postal automation systems

The implementation of electronic postal automation systems rose slightly in the three months ended 30 June, 2004, to approximately 2.0 per cent. of the total turnover of the Group, compared with approximately 1.2 per cent. for the corresponding period in last year. Although the development of electronic postal automation systems that include mailing finishing systems, volume mailing handling systems and franking machines still greatly hindered by market competition and acceptance, the Group will continue to identify niche business development and growth opportunities for this business stream in China market.

Provision of information technology and business solutions

The provision of information technology and business solutions accounted for approximately 4.7 per cent of the Group's turnover for the three months ended 30 June, 2004, compared with approximately 3.5 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 31.1 per cent. of the total turnover of the Group for the three months ended 30 June, 2004, compared with approximately 24.7 per cent. for the corresponding period in last year.

Business Outlook

As an authorised value-added reseller of self-service ATM systems of NCR (Hong Kong) Limited (“NCR”) and related applications software for commercial banks in China, the Group is fully committed 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, accompanied by its marketing effort boosted in the PRC to bring in new customers and broader business relationship, we can see the Group’s operation and its market share is expanding, and the Group’s carrying on updating itself on all latest developments in the industry will undoubtedly facilitate the consolidation of its existing activities.

With China’s being opened up to the global economic theater since its imminent entry into the World Trade Organisation (“WTO”), banks and postal bureaus in the PRC have put more emphasis on the importance of provision for quality and efficient information technology infrastructure in order to consolidate and strengthen their respective market standing. The Group believes that demand will keep on growing in China, especially with its non-stopping fast economic growth and the relaxation of travel restrictions on individual travelers from major cities in China, and this will definitely further benefit the Group’s business prospects.

Hou Hsiao Bing
Chairman
Soluteck Holdings Limited

Hong Kong, 11 August, 2004

RESULTS

The Board announces the unaudited consolidated results of the Group for the three months ended 30 June, 2004 (the “Period”) together with comparative unaudited consolidated results of the Group for the corresponding period in 2003 as follows:

| | | From 1 April, 2004 to 30 June, 2004 HK\$'000 | From 1 April, 2003 to 30 June, 2003 HK\$'000 |
|---------------------------------------|--------------|---------------------------------------------------------------------|----------------------------------------------------------|
| | <i>Notes</i> | | |
| Turnover | 2 | 15,947 | 14,107 |
| Cost of sales | | (10,789) | (11,162) |
| Gross profit | | 5,158 | 2,945 |
| Other revenue | 2 | 15 | 47 |
| Selling expenses | | (1,200) | (895) |
| Administrative expenses | | (3,960) | (3,534) |
| Profit/(Loss) from operations | 3 | 13 | (1,437) |
| Finance costs | 4 | (82) | (51) |
| Loss before taxation | | (69) | (1,488) |
| Taxation | 5 | (228) | – |
| Net Loss attributable to shareholders | | (297) | (1,488) |
| Loss per share | 6 | HK (0.07) cents | HK (0.33) cents |

Notes:–

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention.

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

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

The unaudited consolidated accounts include the accounts of the Company and its subsidiaries made up to 30 June.

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

2. Turnover and revenue

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 April, 2004 to 30 June, 2004 HK\$'000 | From 1 April, 2003 to 30 June, 2003 HK\$'000 |
|-----------------------|---------------------------------------------------------------------|----------------------------------------------------------|
| Turnover | | |
| Sales of goods | 10,980 | 10,623 |
| Rendering of services | 4,967 | 3,484 |
| | 15,947 | 14,107 |
| Other revenue | | |
| Interest income | 15 | 47 |
| Total revenue | 15,962 | 14,154 |

3. Profit/(Loss) from operations

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

| | From 1 April, 2004 to 30 June, 2004 HK\$'000 | From 1 April, 2003 to 30 June, 2003 HK\$'000 |
|-----------------------------------|---------------------------------------------------------------------|----------------------------------------------------------|
| Amortisation of intangible assets | 44 | 25 |
| Cost of inventories | 9,552 | 9,101 |
| Depreciation | 127 | 232 |

4. Finance costs

| | From 1 April, 2004 to 30 June, 2004 HK\$'000 | From 1 April, 2003 to 30 June, 2003 HK\$'000 |
|------------------------|---------------------------------------------------------------------|----------------------------------------------------------|
| Interest on bank loans | 82 | 51 |

5. Taxation

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

Taxation 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 taxation charged to the consolidated profit and loss account represents:-

| From 1 April, 2004 to 30 June, 2004 HK\$'000 | From 1 April, 2003 to 30 June, 2003 HK\$'000 |
|---------------------------------------------------------------------|----------------------------------------------------------|
|---------------------------------------------------------------------|----------------------------------------------------------|

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

| | | |
|----------------------------------|--------------|-------------|
| – Hong Kong profits tax | – | – |
| – Overseas taxation | (228) | (17) |
| – Over provisions in prior years | – | 17 |
| | <hr/> | <hr/> |
| | (228) | – |
| | <hr/> <hr/> | <hr/> <hr/> |

6. Loss per share

The calculation of basic loss per share for the three months ended 30 June, 2004 is based on the Group's loss attributable to shareholders of approximately HK\$297,000 (2003: loss of approximately HK\$1,488,000) and the weighted average of 452,612,072 (2003: 452,612,072) shares in issue during the period.

No diluted loss per share for the three months ended 30 June, 2004 and 2003 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, 2004, the Group had cash and bank balances amounting to a total of approximately HK\$18.1 million (2003: HK\$24.8 million) and had outstanding bank overdraft of approximately HK\$2.2 million (2003: Nil) and outstanding short-term bank loan of approximately HK\$4.7 million (2003: HK\$3.8 million) which represented the total borrowings of the Group as at that date. The bank overdraft was at 0.75% per annum over Hong Kong Dollar prime rate while the short-term loan was repayable within 1 year and at interest rate of approximately 5 per cent. over the base rate announced by People's Bank of China.

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.

MOVEMENT OF RESERVE

Apart from the exchange fluctuation reserve of approximately HK\$12,883 (2003: HK\$8,092), there is no other movement to and from reserve.

QUARTERLY DIVIDEND

The Board does not recommend the payment of quarterly dividend for the period from 1 April, 2004 to 30 June, 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 June, 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

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 30.6.2004 | 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: | | | | | |
| – Director of a subsidiary: | | | | | |
| LAM Shut Chun | 500,000 | Nil | Nil | 500,000 | Nil |
| – Other Employees | 5,100,000 | Nil | (300,000) | 4,800,000 | 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>(300,000)</u> | <u>15,700,000</u> | |

Notes:–

1. During the first three months ended 30 June, 2004, 300,000 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, 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 June, 2004, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:—

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

Notes:—

1. Mr. Chung Lok Fai is the spouse of Ms. Tsou Lo Nien. Accordingly, Mr. Chung Lok Fai is deemed, by virtue of Part XV of the SFO, to be interested in all the Shares in which Ms. Tsou Lo Nien is interested. Together with the 45,125,000 Shares registered in his own name, Mr. Chung Lok Fai is deemed, by virtue of Part XV of the SFO, to be interested in 80,370,000 Shares, representing approximately 17.76 per cent. of the Shares in issue.
2. Ms. Tsou Lo Nien is the spouse of Mr. Chung Lok Fai. Accordingly, Ms. Tsou Lo Nien is deemed, by virtue of Part XV of the SFO, to be interested in all the Shares in which Mr. Chung Lok Fai is interested. Together with the 35,245,000 Shares registered in her own name, Ms. Tsou Lo Nien is deemed, by virtue of Part XV of the SFO, to be interested in 80,370,000 Shares, representing approximately 17.76 per cent. of the Shares in issue.

Save as disclosed above, as at 30 June, 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 Society of 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 advice and comments thereon. The Committee comprises two independent non-executive Directors, namely Ms. Lui Ming, Rosita and Mr. Ho Wai Wing, Raymond. The draft of this report has been reviewed and approved by the Audit Committee of the Board.

COMPETING INTERESTS

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, 2004. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the three months ended 30 June, 2004.

On behalf of the Board

Hou Hsiao Bing

Chairman

Hong Kong, 11 August, 2004

This announcement will remain on the website of the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited with the domain name of www.hkgem.com on the "Latest Company Announcements" page for not less than seven days from the day of its posting.