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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 (“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 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.



SOLUTECK HOLDINGS LIMITED

一創科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8111)

2005 INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2005

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

** For identification purpose only*

HIGHLIGHTS

- The net loss of the Group during the six months ended 30 September, 2005 was approximately HK\$2.0 million, as compared with net loss of approximately HK\$3.0 million for the same period in last year.
- Loss per Share during the six months ended 30 September, 2005 was approximately HK0.44 cents.
- The turnover of the Group during the six months ended 30 September, 2005 was approximately HK\$16.8 million, representing a decrease of approximately 56.8 per cent. as compared with the corresponding period in 2004.

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, 2005 (the “period”) as follows:–

CONSOLIDATED INCOME STATEMENT

| | | From 1 July, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 April, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 July, 2004 to 30 September, 2004 (unaudited) HK\$'000 | From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000 |
|---------------------------------------|--------------|---|--|---|--|
| | <i>Notes</i> | | | | |
| Turnover | 2 | 8,533 | 16,785 | 22,889 | 38,836 |
| Cost of sales | | <u>(4,651)</u> | <u>(8,967)</u> | <u>(18,939)</u> | <u>(29,728)</u> |
| Gross profit | | 3,882 | 7,818 | 3,950 | 9,108 |
| Other revenue | 2 | 22 | 46 | 25 | 40 |
| Selling expenses | | (942) | (1,543) | (1,322) | (2,522) |
| Administrative expenses | | <u>(3,846)</u> | <u>(7,663)</u> | <u>(5,161)</u> | <u>(9,121)</u> |
| Loss from operations | 4 | (884) | (1,342) | (2,508) | (2,495) |
| Finance costs | 5 | <u>(136)</u> | <u>(244)</u> | <u>(78)</u> | <u>(160)</u> |
| Loss before taxation | | (1,020) | (1,586) | (2,586) | (2,655) |
| Taxation | 3 | <u>(320)</u> | <u>(407)</u> | <u>(73)</u> | <u>(301)</u> |
| Net loss attributable to shareholders | | <u><u>(1,340)</u></u> | <u><u>(1,993)</u></u> | <u><u>(2,659)</u></u> | <u><u>(2,956)</u></u> |
| Basic loss per share | 6 | <u><u>HK(0.30) cents</u></u> | <u><u>HK(0.44) cents</u></u> | <u><u>HK(0.59) cents</u></u> | <u><u>HK(0.65) cents</u></u> |

CONSOLIDATED BALANCE SHEET

| | <i>Notes</i> | As at 30 September, 2005 (unaudited) <i>HK\$'000</i> | As at 31 March, 2005 (audited) <i>HK\$'000</i> |
|--|--------------|--|--|
| Non-current assets | | | |
| Fixed assets | 7 | 617 | 839 |
| Investment securities | | — | — |
| | | <u>617</u> | <u>839</u> |
| Current assets | | | |
| Inventories | 11 | 15,212 | 14,329 |
| Accounts receivable | 8 | 16,791 | 20,034 |
| Other receivables, deposits and prepayment | | 4,989 | 6,840 |
| Pledged bank deposits | | 2,300 | 5,107 |
| Bank balances and cash | 10 | 7,689 | 3,451 |
| | | <u>46,981</u> | <u>49,761</u> |
| Current liabilities | | | |
| Accounts payable | 9 | 3,469 | 4,532 |
| Other payables and accruals | | 4,716 | 2,608 |
| Receipt in advance | | 2,138 | 2,350 |
| Taxation payable | | 452 | 280 |
| Bank overdrafts | | 3,904 | 3,898 |
| Short-term bank loans, secured | | 2,293 | 4,806 |
| | | <u>16,972</u> | <u>18,474</u> |
| Net current assets | | <u>30,009</u> | 31,287 |
| Total assets less current liabilities | | <u>30,626</u> | 32,126 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | <u>539</u> | <u>539</u> |
| Net assets | | <u>30,087</u> | 31,587 |
| Share capital | | 45,261 | 45,261 |
| Reserves | | (15,174) | (13,674) |
| Shareholders' funds | | <u>30,087</u> | <u>31,587</u> |

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, 2004 | 1,194 | (24,317) | (4) | 23,589 | 462 |
| Exchange difference | – | – | 10 | – | 10 |
| Loss for the period | – | – | – | (2,956) | (2,956) |
| 2004 final dividend | – | – | – | (2,263) | (2,263) |
| | <u>1,194</u> | <u>(24,317)</u> | <u>6</u> | <u>18,370</u> | <u>(4,747)</u> |
| At 30 September, 2004 | <u>1,194</u> | <u>(24,317)</u> | <u>6</u> | <u>18,370</u> | <u>(4,747)</u> |
| 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) |
| | <u>1,194</u> | <u>(24,317)</u> | <u>502</u> | <u>7,447</u> | <u>(15,174)</u> |
| At 30 September, 2005 | <u>1,194</u> | <u>(24,317)</u> | <u>502</u> | <u>7,447</u> | <u>(15,174)</u> |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

| | From 1 April, 2005 to 30 September, 2005 HK\$'000 | From 1 April, 2004 to 30 September, 2004 HK\$'000 |
|---|---|---|
| Total equity as at 1 April | 31,587 | 45,723 |
| Exchange differences arising on translation of the financial statements of foreign subsidiaries | 493 | 10 |
| Loss for the period | (1,993) | (2,956) |
| Dividends | – | (2,263) |
| | <u>30,087</u> | <u>40,514</u> |
| Total equity as at 30 September | <u>30,087</u> | <u>40,514</u> |

CONSOLIDATED CASH FLOW STATEMENT

| | | Six months ended | |
|--|--------------|-------------------------|-----------------|
| | | 30 September, | |
| | | 2005 | 2004 |
| | | (unaudited) | (unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Operating activities | | | |
| Net cash inflow from operations | | 3,922 | 1,973 |
| Interest paid | 5 | (244) | (160) |
| Overseas taxation paid | | (235) | (226) |
| | | <hr/> | <hr/> |
| Net cash inflow from operating activities | | 3,443 | 1,587 |
| | | <hr/> | <hr/> |
| Investing activities | | | |
| Purchase of fixed assets | 7 | (44) | (388) |
| Interest received | 2 | 46 | 40 |
| Decrease/(increase) in pledged bank deposits | | 2,807 | (500) |
| | | <hr/> | <hr/> |
| Net cash inflow/(outflow) from investing activities | | 2,809 | (848) |
| | | <hr/> | <hr/> |
| Net cash inflow before financing | | 6,252 | 739 |
| | | <hr/> | <hr/> |
| Financing activities | | | |
| New bank loan drawn down | | 2,293 | 8,481 |
| Repayment of amounts borrowed | | (4,806) | (4,709) |
| Dividends paid | | - | (2,263) |
| | | <hr/> | <hr/> |
| Net cash (outflow)/inflow from financing | | (2,513) | 1,509 |
| | | <hr/> | <hr/> |
| Increase in cash and cash equivalents | | 3,739 | 2,248 |
| Cash and cash equivalents at the beginning of the period | | (447) | 4,355 |
| Effect of foreign exchange rate changes | | 493 | 10 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at the end of the period | | 3,785 | 6,613 |
| | | <hr/> | <hr/> |
| Analysis of balances of cash and cash equivalents | | | |
| Bank balances and cash | | 7,689 | 10,613 |
| Bank overdraft | | (3,904) | (4,000) |
| | | <hr/> | <hr/> |
| | | 3,785 | 6,613 |
| | | <hr/> | <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

1. Basis of preparation and accounting policies

- (i) Adoption of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (together as “New HKFRSs”).

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of New HKFRSs which are effective for accounting periods beginning on or after 1 January, 2005. The Group has adopted a number of New HKFRSs, for the first time, in the preparation of the financial statements for the period from 1 April, 2005 onward.

The comparative unaudited consolidated results for 2004 have been restated in accordance with the relevant requirements of the New HKFRSs, if applicable.

Except for the following, the adoption of the New HKFRSs did not result in substantial changes to the Group’s accounting policies, financial statement disclosures or presentation as compared to that used in the preparation of the annual financial statements as of and for the year ended 31 March, 2005.

The adoption of Hong Kong Financial Reporting Standard 2 – Share-based Payments (“HKFRS 2”) has resulted in a change in accounting policy for employee share options. Under HKFRS 2 the Group is required to determine the fair value of all share-based payments to employees as remuneration and recognise an expense in the profit and loss account. This treatment results in a reduction in profit or increase in loss as such items have not been recognised as expenses under the previous accounting policy. Under the specific transitional provisions of HKFRS 2, this treatment applies to equity-settled share-based payment transactions where shares, share options or other equity instruments were granted after 7 November, 2002 and had not yet vested by 1 January, 2005 and to liabilities arising from share-based payment transactions existing on 1 January, 2005.

The Directors consider that the share options granted to certain employees of the Group represent share-based payment. However, as no options have been granted since 7 November, 2002, the provision of HKFRS 2 are not applicable to the Group’s outstanding options.

- (ii) The unaudited consolidated results has been prepared under the historical cost convention, as modified by revaluation of financial assets which are classified as financial assets at fair value through profit or loss, if applicable.

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 provision for bad and doubtful debts, provision for slow moving and obsolete inventories, provision for taxation and provision for assets impairment.

- (iii) Certain comparative figures of operating expenses have been re-classified to conform to the current period’s presentation.

2. Turnover, 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, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 April, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 July, 2004 to 30 September, 2004 (unaudited) HK\$'000 | From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000 |
|-----------------------|---|--|---|--|
| Turnover | | | | |
| Sale of goods | 4,322 | 8,181 | 17,671 | 28,651 |
| Rendering of services | 4,211 | 8,604 | 5,218 | 10,185 |
| | <u>8,533</u> | <u>16,785</u> | <u>22,889</u> | <u>38,836</u> |
| Other revenue | | | | |
| Interest income | 22 | 46 | 25 | 40 |
| | <u>22</u> | <u>46</u> | <u>25</u> | <u>40</u> |
| Total revenue | <u><u>8,555</u></u> | <u><u>16,831</u></u> | <u><u>22,914</u></u> | <u><u>38,876</u></u> |

Segment reporting

In accordance with the Group's internal financial reporting structure, the Group has determined that business segments be presented as the primary reporting format and geographical segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (*Note 7*).

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

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

Primary reporting format – business segments

The Group is organised into two main business segments:–

- i. Sales of goods – sale of electronic banking systems, other banking equipment and systems
- ii. Rendering of services – provision of hardware and software technical support services

| | 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 |
|-----------------------------------|---|---|--|
| Turnover | 8,181 | 8,604 | 16,785 |
| Segment results | 668 | 3,076 | 3,744 |
| Other revenue | | | 46 |
| Unallocated costs | | | (5,132) |
| Loss from operations | | | (1,342) |
| Finance costs | | | (244) |
| Loss before taxation | | | (1,586) |
| Taxation | | | (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 |

| | Sales of goods From 1 April, 2004 to 30 September, 2004 (unaudited) <i>HK\$'000</i> | Rendering of service From 1 April, 2004 to 30 September, 2004 (unaudited) <i>HK\$'000</i> | Group From 1 April, 2004 to 30 September, 2004 (unaudited) <i>HK\$'000</i> |
|-----------------------------------|--|--|--|
| Turnover | <u>28,651</u> | <u>10,185</u> | <u>38,836</u> |
| Segment results | <u>432</u> | <u>3,929</u> | <u>4,361</u> |
| Other revenue | | | 40 |
| Unallocated costs | | | <u>(6,896)</u> |
| Loss from operations | | | (2,495) |
| Finance costs | | | <u>(160)</u> |
| Loss before taxation | | | (2,655) |
| Taxation | | | <u>(301)</u> |
| Loss attributable to shareholders | | | <u>(2,956)</u> |
| Segment assets | 20,131 | 12,261 | 32,392 |
| Unallocated assets | | | <u>28,628</u> |
| Total assets | | | <u>61,020</u> |
| Segment liabilities | 2,747 | 2,647 | 5,394 |
| Unallocated liabilities | | | <u>15,112</u> |
| Total liabilities | | | <u>20,506</u> |
| Capital expenditure | – | 317 | 317 |
| Unallocated capital expenditure | | | <u>71</u> |
| | | | <u>388</u> |
| Depreciation | – | 95 | 95 |
| Unallocated depreciation | | | <u>215</u> |
| | | | <u>310</u> |
| Other non-cash expenses | | | <u>1,087</u> |

3. Taxation

There was no provision for Hong Kong profits tax as the Group has no assessable profit for the six months ended 30 September, 2005 (six months ended 30 September, 2004: Nil).

Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the PRC in which the subsidiaries of the Group operate.

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

| | From 1 July, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 April, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 July, 2004 to 30 September, 2004 (unaudited) HK\$'000 | From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000 |
|-------------------------|---|--|---|--|
| Current taxation: | | | | |
| – Hong Kong profits tax | – | – | – | – |
| – Overseas taxation | 320 | 407 | 73 | 301 |
| Deferred taxation | – | – | – | – |
| Taxation charge | <u>320</u> | <u>407</u> | <u>73</u> | <u>301</u> |

4. Loss from Operations

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

| | From 1 July, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 April, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 July, 2004 to 30 September, 2004 (unaudited) HK\$'000 | From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000 |
|---|---|--|---|--|
| Cost of inventories sold | 3,355 | 6,467 | 16,388 | 25,940 |
| Depreciation | 133 | 266 | 183 | 310 |
| Amortisation of intangible assets | – | – | 43 | 87 |
| Provision for bad and doubtful debts | 400 | 900 | – | – |
| Provision for slow moving and obsolete inventories | 500 | 1,000 | 1,000 | 1,000 |
| | <u>500</u> | <u>1,000</u> | <u>1,000</u> | <u>1,000</u> |

5. Finance costs

| | From 1 July, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 April, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 July, 2004 to 30 September, 2004 (unaudited) HK\$'000 | From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000 |
|---------------------------------------|---|--|---|--|
| Interest on bank loans and overdrafts | <u>136</u> | <u>244</u> | <u>78</u> | <u>160</u> |

6. Loss per Share

The calculation of the basic loss per Share for the three months and six months ended 30 September, 2005 is based on the unaudited consolidated net loss attributable to shareholders of approximately HK\$1,340,000 and HK\$1,993,000 (2004: loss of HK\$2,659,000 and HK\$2,956,000) and 452,612,072 and 452,612,072 ordinary shares (2004: 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, 2005 and 2004 are presented as the exercise of the outstanding options of the Company would have an anti-dilutive effect.

7. Fixed assets

During the period, the Group spent approximately HK\$44,000 (six months ended 30 September, 2004: HK\$388,000) on the acquisition of fixed assets.

8. Accounts receivable

The majority of the Group's turnover is on credit terms ranging from sixty to ninety days. As at 30 September, 2005, the ageing analysis of the accounts receivable was as follows:–

| | As at 30 September, 2005 (unaudited) HK\$'000 | As at 31 March, 2005 (audited) HK\$'000 |
|--------------------|--|--|
| Current to 60 days | 7,041 | 10,338 |
| 61 – 90 days | 1,502 | 2,931 |
| Over 90 days | 8,248 | 6,765 |
| | <u>16,791</u> | <u>20,034</u> |

9. Accounts payable

As at 30 September, 2005, the ageing analysis of the accounts payable was as follows:–

| | As at 30 September, 2005 (unaudited) HK\$'000 | As at 31 March, 2005 (audited) HK\$'000 |
|--------------------|--|--|
| Current to 60 days | 863 | 3,254 |
| 61 – 90 days | 1,415 | 10 |
| Over 90 days | 1,191 | 1,268 |
| | <u>3,469</u> | <u>4,532</u> |

10. Bank balances and cash

Included in the balance is approximately HK\$5,008,000 (31 March, 2005: HK\$1,168,000), 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, 2005 (unaudited) <i>HK\$'000</i> | As at 31 March, 2005 (audited) <i>HK\$'000</i> |
|---|--|--|
| Merchandise for re-sale | 12,994 | 11,470 |
| Spare parts | 4,218 | 3,859 |
| | <hr/> | <hr/> |
| | 17,212 | 15,329 |
| Less: Provision for slow moving and obsolete inventories | (2,000) | (1,000) |
| | <hr/> | <hr/> |
| | 15,212 | 14,329 |
| | <hr/> <hr/> | <hr/> <hr/> |

12. Commitments under operating leases – land and building

At 30 September, 2005, the Group had future aggregate minimum lease payments under operating leases as follows:

| | As at 30 September, 2005 (unaudited) <i>HK\$'000</i> | As at 31 March, 2005 (audited) <i>HK\$'000</i> |
|---|--|--|
| Not later than one year | 717 | 852 |
| Later than one year and not later than five years | 501 | 250 |
| | <hr/> | <hr/> |
| | 1,218 | 1,102 |
| | <hr/> <hr/> | <hr/> <hr/> |

13. Related party transactions

During the six months ended 30 September, 2005, the Group undertook the following material transactions with its related companies during the course of its business at terms of underlying agreements:

| | | From 1 July, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 April, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 July, 2004 to 30 September, 2004 (unaudited) HK\$'000 | From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000 |
|--------------------------------------|-------------|---|--|---|--|
| | <i>Note</i> | | | | |
| Rental paid to Directors | <i>(a)</i> | 120 | 241 | 46 | 147 |
| Rental paid to the related companies | <i>(b)</i> | 30 | 60 | 53 | 137 |

Note:

- (a) The Group leased an office premise from an executive director of the Company, Mr. Hou Hsiao Wen, and Ms. Chung Yuk Hung, Yvonne (a former executive director of the Company) in Beijing of the PRC for the Group's use at a half-year rental of HK\$146,592 (six months ended 30 September, 2004: HK\$54,000).

The Group leased an office premise from Dynatek Limited ("Dynatek") in Hong Kong at a half-year rental of HK\$94,200 (six months ended 30 September, 2004: HK\$92,550). Dynatek is owned by Mr. Hou Hsiao Bing, an executive director of the Company, and his father, Mr. Hou Chung. Mr. Hou Chung is a shareholder of the Company.

- (b) 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\$60,000 (six months ended 30 September, 2004: HK\$44,700). San Yee Investment Limited ("San Yee") is owned by Mr. Chung Lok Fai and his wife, Ms. Tsou Lo Nien. Mr. Chung Lok Fai was a former executive director of the Company. Ms. Chung Po Chu and Ms. Tsou Lo Nien are shareholders of the Company.

The Group has not leased any office premise from San Yee in Hong Kong for the six months ended 30 September, 2005 (six months ended 30 September, 2004: rental of approximately HK\$92,550).

14. Key management compensation

| | From 1 July, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 April, 2005 to 30 September, 2005 (unaudited) HK\$'000 | From 1 July, 2004 to 30 September, 2004 (unaudited) HK\$'000 | From 1 April, 2004 to 30 September, 2004 (unaudited) HK\$'000 |
|---|---|--|---|--|
| Independent non-executive directors | | | | |
| Fees | 45 | 90 | 30 | 60 |
| Basic salaries, allowances and benefits in kind | - | - | - | - |
| Executive directors | | | | |
| Fees | - | - | - | - |
| Basic salaries, allowances and benefits in kind | 390 | 780 | 540 | 1,080 |
| Termination benefits | - | - | - | - |
| Contribution to pensions schemes | 6 | 12 | 12 | 24 |
| | 441 | 882 | 582 | 1,164 |

As at 30 September, 2005, the executive directors of the Company 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.

As at 30 September, 2004, the executive directors are Mr. Hou Hsiao Bing, Mr. Hou Hsiao Wen, Ms. Chung Yuk Hung and Mr. Chung Yuk Man; and the independent non-executive directors are Ms. Lui, Ming Rosita, and Mr. Ho Wai Wing, Raymond.

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, 2005, the Group recorded a drop of approximately 56.8 per cent. in turnover to approximately HK\$16.8 million, compared with approximately HK\$38.8 million for the corresponding period in 2004. The turnover decrease was largely a result of the competition in the PRC remains fierce.

The Group recorded a loss attributable to shareholders of approximately HK\$2.0 million in the six months ended 30 September, 2005, compared with the loss attributable to shareholders of approximately HK\$3.0 million for the corresponding period in last year. Loss per share during the six months ended 30 September, 2005 was approximately HK0.44 cents, compared with loss per share of approximately HK0.65 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 97.0 per cent. of the Group's total turnover during the six months ended 30 September, 2005 (six months ended 30 September, 2004: 92.6 per cent.), representing a decrease of approximately 54.7 per cent. as compared with the corresponding period in last year. The Group believes that such a decrease was mainly attributable to the keen competition in the PRC.

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, Nan Chang, Yantai, Sanming, Suzhou, Dalian and Zhuhai, 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 1.8 per cent. of the Group's turnover for the six months ended 30 September, 2005, compared with approximately 4.6 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. was approximately 1.2 per cent of the total turnover of the Group for the six months ended 30 September, 2005, as compared with approximately 2.8 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 51.3 per cent. of the total turnover of the Group for the six months ended 30 September, 2005, compared with approximately 26.2 per cent. for the corresponding period in last year.

Gross profit

During the six months ended 30 September, 2005, the Group managed to improve its gross profit margin by promoting its maintenance and technical support services. The gross profit margin increased to approximately 46.6 per cent. (six months ended 30 September, 2004: 23.5 per cent), albeit that there was a decrease in the amount of gross profit, as compared to the same period in last year.

Selling expenses

Selling expenses incurred by the Group for the six months ended 30 September, 2005 amounted to approximately HK\$1.5 million (six months ended 30 September, 2004: HK\$2.5 million), representing a decrease of approximately 38.8 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, 2005 amounted to approximately HK\$7.7 million (six months ended 30 September, 2004: HK\$9.1 million), representing a decrease of approximately 16.0 per cent.. This should be a result of the Group's policy on cost control.

Finance costs

The finance costs of the Group for the six months ended 30 September, 2005 increased slightly to HK\$244,000 (six months ended 30 September, 2004: HK\$160,000). Such an increase was mainly attributable to the increase in the use of banking facilities.

Liquidity and financial resources

The Group generally finances its operations with internally generated cash flow. As at 30 September, 2005, the Group had cash and bank balances (including pledged bank deposits) amounting to a total of approximately HK\$10.0 million (31 March, 2005: HK\$8.6 million) and had outstanding bank overdraft of approximately HK\$3.9 million (31 March, 2005: HK\$3.9 million) and short-term bank loan of approximately HK\$2.3 million (31 March, 2005: HK\$4.8 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.

Current ratio

As at 30 September, 2005, the Group's current ratio, represented by a ratio of current assets to current liabilities, was approximately 2.8 (31 March, 2005: approximately 2.7).

Gearing ratio

As at 30 September, 2005, the gearing ratio of the Group, based on total liabilities over total assets was approximately 36.8 per cent. (31 March, 2005: approximately 37.6 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, 2005, the Group's banking facilities of approximately HK\$28.0 million (31 March, 2005: HK\$28.0 million) are secured by the followings:—

- (a) pledged deposits of HK\$2.3 million (31 March, 2005: HK\$5.1 million); and
- (b) corporate guarantees by the Company and its subsidiaries of approximately HK\$32.0 million (31 March, 2005: HK\$32.0 million).

Charges on assets

As at 30 September, 2005, the Group had an approximately HK\$28.0 million (31 March, 2005: HK\$28.0 million) banking facilities with banks in Hong Kong, which were secured by a pledge of the Group's deposits of approximately HK\$2.3 million (31 March, 2005: HK\$5.1 million) at the banks.

Except for the aforementioned, there are no other charges on assets.

Contingent liabilities

As at 30 September, 2005, the Group did not have any significant contingent liabilities.

Exposure to foreign exchange risk

The Group is exposed to foreign currency risk as most of its payable to hardware suppliers and accounts receivable from the PRC sales are denominated in Renminbi. Fluctuation of exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

Employees

As at 30 September, 2005, the Group employed 120 and 13 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\$4.5 million for the six months ended 30 September, 2005 (six months ended 30 September, 2004: approximately HK\$6.4 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

Financial enterprises including banks and postal bureaus in China have been experiencing phenomenal growth. The Group, having its existing prestige as an authorized value-added reseller of self-service ATM systems of NCR (Hong Kong) Limited (“NCR”) and related applications software for commercial banks in China, will definitely take the advantage derived from the aforesaid circumstances.

Looking ahead, as to fully committed itself to be one of the leading Total Solution Providers for the banking 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, the Group, on top with its strong presence and a solid clientele in China, and a closer business relationship with NCR already established, will further capitalize and enhance its professional strengths, fast responses and dedicated services. Together with the increase in the offering of its maintenance services to a broader range of self-service products in the PRC and to boost its marketing effort in the PRC aiming to bring in more new orders and clients and to broaden business relationship, and to continuously intensify its internal cost control management in order to increase capital utilization efficiency, the Group’s existing activities will further be consolidated. In addition to its carrying on updating itself on all latest developments in the industry, and it is preparing to review and expand its operation according to the needs of the market, the Group will of no doubt uplift its competitiveness in the banking and finance sector of China, which will facilitate the expansion of the Group’s market share in China and ultimately the shareholder’s value.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period from 1 April, 2005 to 30 September, 2005 (2004: 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, 2005, 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:—

- The letter "L" represents the Director's interests in the shares and underlying shares of the Company or its associated corporations.
- 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.
- 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 1.4.2005 | Number of Options | | Outstanding at 30.9.2005 | 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 | 2,400,000 | Nil | (1,150,000) | 1,250,000 | 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 |
| – Former Executive Directors | | | | | |
| CHUNG Yuk Hung, Yvonne | 2,000,000 | Nil | (2,000,000) | Nil | Nil |
| CHUNG Yuk Man, Kevin | 2,000,000 | Nil | (2,000,000) | Nil | Nil |
| – Other Employees | 2,400,000 | Nil | Nil | 2,400,000 | Nil |
| | <u>12,800,000</u> | <u>Nil</u> | <u>(5,150,000)</u> | <u>7,650,000</u> | |

Notes:–

1. During the six months ended 30 September, 2005, 5,150,000 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, 2005.

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

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

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

As at 30 September, 2005, 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, 2005, 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, 2005. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the six months ended 30 September, 2005.

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, 2005.

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 November, 2005

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.

This announcement will remain on the Company's website and on the GEM website with the domain name of www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.