



SINO STRIDE

# SINO STRIDE

Technology (Holdings) Limited  
中程科技集團有限公司\*

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2004

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

The 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 the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risk arising out of the emerging nature of companies listed on the GEM, and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risk 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the 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 the GEM.

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

The Stock Exchange take no responsibility for the Content of this report, makes no representation as to its accuracy or completeness, and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

*This annual report, for which the director (the "Directors") of Sino Stride Technology (Holdings) Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to Sino Stride Technology (Holdings) Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# Corporate Information

## REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P. O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1208  
12th Floor, Harcourt House  
39 Gloucester Road  
Wan Chai  
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

Building G  
Zhejiang University  
National Science Park  
No. 525 Xi Xi Road  
Hangzhou  
The PRC  
PC: 310013

## COMPANY SECRETARY

Mr. Chow Shu Wing CPA

## QUALIFIED ACCOUNTANT

Mr. Chow Shu Wing CPA

## COMPLIANCE OFFICER

Mr. Chau Chit

## AUDIT COMMITTEE

Mr. Cai Xiao Fu  
Mr. Shi Jian Jun  
Mr. Li Xiaoqiang, Richard

## AUTHORISED REPRESENTATIVES

Mr. Chau Chit  
Mr. Wong Wai Tin

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

### **Butterfield Bank (Cayman) Limited**

Butterfield House  
Fort Street  
P. O. Box 705  
George Town  
Grand Cayman  
British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

### **Abacus Share Registrars Limited**

G/F Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## PRINCIPAL BANKERS

### **The Hongkong and Shanghai Banking Corporation Limited**

Tai Yau Street Branch  
26-28 Tai Yau Street  
San Po Kong  
Kowloon  
Hong Kong

### **Hangzhou City Commerce Bank**

Baochu Branch  
No. 87  
Baochu Road  
Hangzhou City  
The PRC

### **Shanghai Pudong Development Bank**

Wenhui Sub-branch  
Hangzhou Branch  
No. 98 Moganshan Road  
Hangzhou City  
The PRC

### **China Construction Bank**

Hangzhou Branch  
Hi-tech Banking Office  
No. 250  
Wensan Road  
Hangzhou City  
The PRC

## AUDITORS

### **Ernst & Young**

Certified Public Accountants  
15th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

# Chairman Statement

## TO OUR SHAREHOLDERS

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Sino Stride Technology (Holdings) Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2004.

## FINANCIAL PERFORMANCE

The Group's turnover in year 2004 rose 29% to RMB293 million in comparison to RMB227 million in year 2003. The Group's profit attributable to shareholders amounted to RMB22.9 million in year 2004 compared to RMB31.8 million in year 2003, representing a decrease of 27.9%.

## BUSINESS REVIEW

During the year under review, the Group has made a number of achievements in the area of business development, one of our intelligent buildings system solution project 紹興市中級人民法院 (Shaoxing intermediate People Court) was awarded 浙江省優秀安裝質量獎 (Zhejiang Province Premium Installation Quality Prize). Besides, the Group was awarded continuously 4 years (from 2001 to 2004) as one of the Top Ten Software Enterprise of Zhejiang Province. Moreover, on 1 March 2005, the Group emerged 1st ranking of PRC intelligent building system integration solution providers according to the research carried out by 中國建築業協會智能建築專業委員會. In December 2004, the Group emerged 224th ranking of "Deloitte Technology Fast 500 Asia Pacific 2004 Ranking" by Deloitte Touche Tohmatsu.

The Board will continue follow the Group's strategic direction towards specialist, excellence and coverage of whole PRC market. The Group targeted to enhance overall competitiveness through applying intelligent technology to traditional area like traffic controls management and medical services, developing self-propertied software technology and products with the brand name of "Sino Stride", as well as exploring opportunities to cooperate with reputable enterprises in Singapore, Korea, Europe and America.

### BUSINESS REVIEW (cont'd)

Concerning the development in intelligent building system and value added service projects markets, the Group has strengthened coverage outside Zhejiang Province. Through the joint ventures or branches of the Group located in Yuennam, Chongqing, Beijing, Shanghai, Jiangsu, Shenzhen, Hefei and Fujian, the Group successfully bided several large intelligent building system and value added service projects e.g. 山東省臨淄市工商行政管理局大樓(Shandong Province Lin Zi City Commerce and Industry Administration Bureau Building), 上海仁濟醫院二期外科病房大樓(Shanghai Renji Hospital Phase II Surgery Building), 重慶市國際會議展覽中心 (Chongqing International Conference and Exhibition Centre), 永康人民醫院 (Yong Kang People Hospital), 蘇州工業園區法院大樓(Suzhou Industrial Zone Legal Court Building), 鹽城市行政中心智能化系統工程 (Yancheng City Administration Centre intelligent building system projects), 福建省電力調度通信中心大樓智能化系統(Fujian Province Electricity Control and Communication Centre Building intelligence system) and 安徽省合肥市中級人民法院 (Anhui Province Hefei City intermediate People Court).

As for the provision of intelligent traffic system ([ITS]), the Group successfully bided for the project of 縉雲交通警察電子警察系統 (Jin Yu Electronic Traffic Police System) and 瑞安公安治安動態監控系統 (Rui On District Police Monitoring & Control System) and the project of providing optical fibre and computer network system equipment for 天津高速高路局 (Tin Jin Highway Bureau). Besides, the research and development of 中程智能交通卡口抓拍系統 (Sino Stride intelligent traffic control gate photo system) and 中程公路車輛智能監測記錄系統第一版 (Sino Stride intelligent highway vehicles monitoring and recording system version 1) were completed.

The Group has been actively exploring opportunities to cooperate with reputable enterprises. The Group has entered into the joint venture agreement (the "JV Agreement") on 21 December 2004 for the establishment of a Sino-foreign equity joint venture (the "JV"), namely 浙江星時達汽車專業維護有限公司 (STAR (Zhejiang) Automotive Center Co., Ltd) with Singapore Technologies Kinetics Limited ("ST Kinetics"), a fellow subsidiary of the Company's substantial shareholder, Singapore Technologies Electronics Limited ("ST Electronics"), and Zhejiang University Logistics and Investment Holdings Company. According to the JV Agreement, The Group will contributed RMB3,750,000 in cash, representing 25% of the registered capital of the JV. The Group is principally engaged in the development and provision of system integration solutions and software development including intelligent building system and intelligent traffic system in the PRC. The Directors believe that the JV will strengthen the Group's business in intelligent traffic system in the PRC.

### SHARES TRANSFER AMONG SUBSTANTIAL SHAREHOLDERS

Subsequent to the balance sheet date, on 23 February 2005, Mega Start Limited ("Mega Start"), the controlling shareholder of the Company, entered into a Share Purchase Agreement with ST Electronics that ST Electronics acquired approximately 8.12% shares of the issued share capital of the Company from Mega Start at a consideration of HK\$0.315 per shares. After the completion of the such share transfer, ST Electronics's shareholding in the Company increased from approximately 19.88% to 28% while Mega Start's shareholding in the Company decreased from approximately 49.71% to 41.59%.

### PROSPECT

Looking forward, the Group's development in intelligent building system and value added service market will become prosperous with the PRC's continuous economic growth, the accession of the PRC to the WTO, projects of 2008 Beijing Summer Olympic Games and greater demand for intelligent buildings. The Group will continuously utilize its greatest endeavor in bidding projects to expand market coverage. Leverage on the Group's strong commitment in research and development especially its co-operation with Zhejiang University in relation to research and development to cater for the changing needs of customers, the Group will utilize its greatest endeavor to increase shareholders' value and consistently achieve solid results in the year ahead.

### APPRECIATION

On behalf of the Board, I would like to extend gratitude to our suppliers, shareholders, investors and customers for their continued encouragement and support. I also take this opportunity to express my sincere thanks to our employees for their efforts and contribution to the Group.

**Chau Chit**

*Chairman*

29 March 2005

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Overview

For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB293 million, representing an increase of approximately 29% over the year ended 31 December 2003. The turnover of the Group for the year ended 31 December 2004 was primarily derived from the provision of system integration solution of approximately RMB185 million, computer network system integration solution of approximately RMB106 million and system software of approximately RMB2 million, respectively. The growth in the turnover of the Group for the year ended 31 December 2004 was mainly attributed to several large engagements in system integration solution projects including 蘇州國際博覽中心(Shuzou International Exhibition Centre), 深圳規劃大廈(Shenzhen City Guihua Building), 無錫市體育中心(Wuxi City Sport Complex) and 溫州市行政中心西樓(Wenzhou City Administration Building West Wing).

During the year ended 31 December 2004, the Group recorded a gross profit of approximately RMB68 million, representing a profit margin of approximately of 23% as compared to the gross profit margin of 26% for the year ended 31 December 2003. The decrease in gross profit margin was mainly attributable to (i) the sub-contracting and cooperation arrangement of smaller-sized projects. As the labour intensive system integration works of those smaller-sized projects were carried out by those sub-contractors and partners, the role of the Group therefore shifted towards focusing on the design of solutions, quality controls and project management. This arrangement enabled the Group bid for and focus its resources on larger-sized projects. However it also resulted in lower profit margin in smaller-sized projects; (ii) increased competition in the industry of system integration solution business; and (iii) the profit margin of increased sales through Beijing Sino Stride, was relatively lower than that of the Group. Beijing Sino Stride, served as a trading vehicle to procure hardware and software on behalf of the Group's customers. Due to its trading nature, gross profit margin of Beijing Sino Stride was relatively lower than that of the Group.

The percentage of selling and distribution expense to turnover remain stable at 4% for the year ended 31 December 2004.

Administrative costs for the year ended 31 December 2004 increased by RMB10.3 million because (i) the Company and its subsidiary in Hangzhou, Sino Stride Technology, incurred extra relocation expense for office removal during the year ended 31 December 2004; and (ii) Beijing Sino Stride, expand the scale of its operation during year 2004 while its scale of operation was relatively small in year 2003.

Other operating costs for the year ended 31 December 2004 increased by RMB2.1 million because additional professional costs were incurred for the Company's plan to list its shares on the Main Board of the Stock Exchange (the "Main Board") by way of introduction.



## Management Discussion and Analysis (cont'd)

The Group's net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 amounted to approximately RMB22.9 million, representing a decrease of approximately 27.9% over the year ended 31 December 2003.

### *Liquidity, financial resources and debt ratio*

The Group generally finances its operations with internally generated financial resources, short-term bank loans and part of the proceeds from the placing of the Company's shares on 29 July 2002. As at 31 December 2004, the Group had outstanding bank borrowings of RMB68 million (2003: RMB83 million). The bank borrowing of RMB68 million (2003: RMB73 million) are unsecured and guaranteed by Sino Stride Technology or Xingda Computer. Bank borrowing of RMB10 million was secured by cash deposit as at 31 December 2003. During the year ended 31 December 2004, the Group did not create any mortgage.

As at 31 December 2004, the Group's cash and cash equivalents amounted to approximately RMB58 million (2003: RMB75 million).

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimize cost of funds, the Group's treasury activities are centralized. Cash is generally placed on deposits, mostly denominated in Renminbi and Hong Kong dollars. The Group's liquidity and financing arrangements are reviewed regularly.

### *Gearing ratio*

The Group expresses its gearing ratio as a percentage of bank borrowings over total assets. As at 31 December 2004, the Group's gearing ratio was 17% (2003: 24%). The decrease in gearing ratio was mainly due to repayment of borrowings during the year ended 31 December 2004.

### *Significant investments*

Save as those disclosed in the paragraph "OPERATIONS REVIEW", the Group did not hold any significant investment as at 31 December 2004.

### *Material acquisitions and disposals of subsidiaries and affiliated companies*

Save as those disclosed in the paragraph "OPERATIONS REVIEW", the Group did not make any material acquisitions or disposals of subsidiaries or affiliated companies during the year ended 31 December 2004.

## Management Discussion and Analysis (cont'd)

### *Exchange rate risk*

The Group's exposure to market risk for changes in foreign currency exchange rates relates primarily to the Group's operation in Hong Kong.

The Group has foreign currency risk as certain of its payables to suppliers, trade receivables and bank borrowings are denominated in foreign currencies, principally United States dollars. Fluctuations in exchange rates of Hong Kong Dollars and Renminbi against foreign currencies could affect the Group's results of operation.

### *Contingent liabilities*

As of the date of this results announcement and at 31 December 2004, the Board is not aware of any material contingent liabilities.

### *Segmental information*

Details of information relating to different business segments of the Group have been set out in Note 3 under "Notes to the Audited Financial Statements".

### *Charge on assets*

Other than the Group's bank deposits of RMB11,675,000 (2003: RMB18,151,000) which had been pledged to financial institutions for the issuance of letter of credits as at 31 December 2004, the Group did not have any charge on its assets.

### *Employees*

As at 31 December 2004, the Group had 351 (2003: 390) employees. The Board believes that the quality of its employees is the most important factor in sustaining the Group's growth and enhancing its profitability. Employees are remunerated according to their performance and working experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus.

### *Future plans for material investments or capital assets*

The Group intends to pursue strategic acquisitions of and/or investments in system integration business and relevant system software development business to strengthen or complement the Group's existing business. Up to the date of this results announcement, no such acquisitions and/or investments targets other than those mentioned in the paragraph "OPERATIONS REVIEW" have been located by the Group. Accordingly, the Group did not have intended plans for material investments or capital assets as at 31 December 2004.

### **OPERATIONS REVIEW**

For the year ended 31 December 2004, the Group has made a number of achievements in the area of business development. In March 2004, Sino Stride Technology was awarded as 2004浙江省軟件業十強企業 (2004 Zhejiang Province Top Ten Software Enterprise) by Zhejiang Province Information Technology Bureau. In June 2004, Sino Stride Technology was awarded 2004年中國軟件產業最大規模100強(Top 100 Large Scale PRC Software Enterprise in 2004) by the Ministry of Information Industry of the PRC ("MII"). In October 2004, Sino Stride Technology was awarded as 杭州市企業技術中心(Hangzhou Enterprise Technology Centre of Hangzhou) by 杭州經濟委員會(Hangzhou Economic Committee). In November 2004, one of our intelligent buildings system solution project 紹興市中級人民法院 (Shaoxing intermediate People Court) was awarded 浙江省優秀安裝質量獎(Zhejiang Province Premium Installation Quality Prize). In December 2004, the Group emerged 224th ranking of "Deloitte Technology Fast 500 Asia Pacific 2004 Ranking" by Deloitte Touche Tohmatsu. On 1 March 2005, the Group emerged 1st ranking of PRC intelligent building system integration solution providers according to the research carried out by 中國建築業協會智能建築專業委員會.

During the year ended 31 December 2004, the Group successfully bided for several large intelligent building system and value added service solution projects such as 山東省臨淄市工商行政管理局大樓(Shandong Province Lin Zi City Commerce and Industry Administration Bureau Building), 上海仁濟醫院二期外科病房大樓 (Shanghai Renji Hospital Phase II Surgery Building), 重慶市國際會議展覽中心(Chongqing International Conference and Exhibition Centre), 永康人民醫院 (Yong Kang People Hospital), 蘇州工業園區法院大樓 (Suzhou Industrial Zone Legal Court Building), 鹽城市行政中心智能化系統工程(Yancheng City Administration Centre intelligent building system projects), 福建省電力調度通信中心大樓智能化系統(Fujian Province Electricity Control and Communication Centre Building intelligence system) and 安徽省合肥市中級人民法院 (Anhui Province Hefei City intermediate People Court).

As for the provision of intelligent traffic system ("ITS"), the Group successfully bided for the project of 縉雲交通警察電子警察系統 (Jin Yu Electronic Traffic Police System) and 瑞安公安治安動態監控系統 (Rui On District Police Monitoring & Control System) and the project of providing optical fibre and computer network system equipment for 天津高速高路局 (Tin Jin Highway Bureau). Besides, the research and

## Management Discussion and Analysis (cont'd)

development of 中程智能交通卡口抓拍系統(Sino Stride intelligent traffic control gate photo system) and 中程公路車輛智能監測記錄系統第一版(Sino Stride intelligent highway vehicles monitoring and recording system version 1) were completed.

On 21 December 2004, the Group has entered into the joint venture agreement (the "JV Agreement") for the establishment of a Sino-foreign equity joint venture (the "JV"), namely 浙江星時達汽車專業維護有限公司(STAR (Zhejiang) Automotive Center Co., Ltd) with Singapore Technologies Kinetics Limited (ST Kinetics), a fellow subsidiary of the Company's substantial shareholder, Singapore Technologies Electronics Limited ("ST Electronics"), and Zhejiang University Logistics and Investment Holdings Company. According to the JV Agreement, the Group will contributed RMB3,750,000 in cash, representing 25% of the registered capital of the JV. The Group is principally engaged in the development and provision of system integration solutions and software development including intelligent building system and intelligent traffic system in the PRC. The Directors believe that the JV will strengthen the Group's business in intelligent traffic system in the PRC.

The Group will continue to explore the possibility of various forms of alliances with reputable enterprises and research institutions to further complement its existing business and to enhance its competitiveness in the industry.

### PROSPECTS

In light of the 2008 Beijing Summer Olympic Games, Expo 2010 Shanghai, PRC's entry to the WTO and PRC's continuous economic growth, the Directors believe that the demand for system integration solutions and value added service solutions will continue to grow with the prosperity of PRC property markets, increasing proportion of investments in intelligence buildings and necessity for PRC information network system to be in line with international standards. Moreover, the demand of traffic controls management system will increase with the surge in the number of motor vehicles in PRC and the implementation of the proposed new traffic controls regulations in near future. As the application of intelligence technologies in building, traffic and other relevant sectors in the PRC is still at early stage, there is a growth potential for the Group's business.

The Ministry of Construction ("MOC") and the Ministry of Information Industry ("MII") of the PRC promulgated market entry requirements and qualification verification process for system integration solutions and value added service solution providers respectively, new competitors without recognition are difficult to accumulate relevant experience and technology to fulfill the market entry requirements to enter this regulated market. Leveraging on the Group's compliance with the market entry requirements, grade A standard in system integration solutions and value added service solution, the prominent market position recognised by awards such as "Top Ten Software Enterprise" of Zhejiang Province and "Deloitte Technology Fast 500 Asia Pacific 2004 Ranking", the Group will continue to increase its marketing efforts, expand its market coverage to other provinces in the PRC.

### PROSPECTS (cont'd)

Unlike small system integration providers without self-developed products under their own brand name and technology know how, the cooperation with reputable enterprises and research institutions like Singapore Technologies Electronics Limited and Zhejiang University supply the Group with necessary human resources, research and development capabilities for developing proprietary software technology and products with the brand name of "Sino Stride" to satisfy market requirements in PRC market. To further enhance its competitiveness in the industry, the Group also intends to pursue strategic acquisitions of investments in system integration business and software development business in the future if such opportunities arise to strengthen and complement the Group's existing business.

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress and the business objectives set out on pages 95 to 98 of the Prospectus. To attain our long-term business goals, the Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

#### **Business objectives for the Review Period up as set out in the Prospectus**

#### **Actual business progress in the Review Period**

##### *Geographical expansion*

Promote SSMIS and PACS to hospital in Hangzhou and the neighboring cities.

The Group has continuously promoted SSMIS and PACS to hospital in Hangzhou and the neighboring cities.

##### *Marketing and promotion*

Promote GPS and GIS to Hangzhou, Huzhou and Ningbo.

As the markets of GPS and GIS in those areas are not yet mature, the Group decided to postpone the promotion activities.

Promote BFA, e-HIS and e-LIS to hospitals in Jiangsu, Jiangxi and Fujian Province.

As the markets in those province are not yet mature, the Group decided to postpone the promotion activities.

Promote urban traffic system integration to traffic departments in Yunan Province and Chongqing.

The Group has continuously promoted urban traffic system integration to traffic departments in Yunan Province and Chongqing.

## Management Discussion and Analysis (cont'd)

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (cont'd)

#### Business objectives for the Review Period up as set out in the Prospectus

Continue to promote traffic management software for light rail in Hangzhou

Continues to upgrade the designing capacity of the Group by acquiring relevant equipment, software and facilities.

Continue to upgrade the communication equipment and facilities between Hangzhou office and various branches and/or subsidiaries

#### *Research and development*

#### *Product Development of the Group*

Continue to upgrade existing e-HIS and e-LIS according to domestic medical reform and new development of hospital management

Continue to upgrade SSMIS and PACS.

Continue/complete the development of price monitoring software for medicines and medical services

Continue to upgrade of GPS and GIS

Develop traffic management software for light rail construction project which is suitable to be used in the PRC

Continue development of electronic hospital information system platform

#### Actual business progress in the Review Period

The Group has continuously promoted traffic management software for light rail in Hangzhou.

The Group progressively added new features and modification to the existing equipment, software and facilities so as to enhance the designing capacity of the Group.

The Group has upgraded the communication equipment and facilities in Jiangsu and Chongqing offices.

As domestic medical reform and development of hospital management were in process, the Group delayed upgrading e-HIS and e-LIS until finalization of medical reform.

The Group has cooperated with 湖州市中心醫院 (Huzhou City Central Hospital) to develop PACS.

As the reform of hospital management was not yet finalized, the Group postponed the development of electronic hospital information system platform.

The Group cooperated with Singapore Technologies Electronics Limited to upgrade GPS and GIS.

The Group cooperated with Singapore Technologies Electronics Limited to develop traffic management software.

As the reform of hospital management was not yet finalized, the Group postponed the development of electronic hospital information system platform.

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (cont'd)

<b>Business objectives for the Review Period up as set out in the Prospectus</b>	<b>Actual business progress in the Review Period</b>
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*Strengthening of research and development capacity*

Continue to recruit research and development staff

The Group continued to recruit research and development staff.

Complete CMM assessment

The CMM assessment was in the final stage.

Continue to improve the research and development system

The research and development department of the Group continued to explore measures to improve the research and development system including purchase of new computer equipment and software for research and development purpose.

*Co-operation with Zhejiang University*

*For the development of the related technologies for digitized hospital systems and community medical services system*

Complete the research on electronic medical book

The research on electronic medical book was in the preliminary stage.

*For the development of the related technologies for medical information technology and system*

Continue to develop workshop for medical image network system and EEG Holter

The Group established a workshop for medical image network system and EEG Holter.

*Strategic investment and business collaboration*

Continue locating and discussing with reputable companies and research institutions

No strategic investment or business collaboration agreement agreements has been signed by the Group except for the above and those already disclosed in the paragraph "OPERATIONS REVIEW".

Continue negotiations and evaluation and enter into agreements if appropriate.

No acquisition and/or joint venture agreements has been signed by the Group except for the above and those already disclosed in the paragraph "OPERATIONS REVIEW".

# Profiles of Directors and Senior Management

## DIRECTORS

### *Executive Directors*

周哲先生 (**Mr. Chau Chit**), aged 39, is the chairman and chief executive officer of the Company. He was appointed as a Director on 15 January 2002. Mr. Chau is responsible for formulating the overall business planning and the corporate strategies of the Group. Mr. Chau graduated from Zhejiang University. He joined a foreign trade company in 1988 and had served as the import and export manager of the electrical and mechanical department. From 1997, Mr. Chau successively held the posts of vice-chairman and chairman of the board of Sino Stride Technology. Mr. Chau has been serving as the president in Sino Stride Technology since November 1998.

王惟天先生 (**Mr. Wong Wai Tin**), aged 38, is the vice-chairman of Sino Stride Technology. He was appointed as a Director on 22 February 2002. Mr. Wong joined the Group in June 1999 and is responsible for public relations and market planning of the Group. Mr. Wong studied at Hangzhou Radio and TV University majoring in finance in 1987 and worked for a commercial bank in China for five years. Prior to joining the Group, Mr. Wong was the general manager of an industrial and trading company and the manager of import/export division of a trading company.

沈越先生 (**Mr. Shen Yue**), aged 41, is the director and president of Sino Stride Technology. Mr. Shen was appointed as a Director on 23 June 2004. Mr. Shen graduated from Nanjing University in 1994 with a master degree in Economics. In 1985, Mr. Shen worked in Jiangsu Province Electrical Power Bureau and later worked for 江蘇信盛物貿公司 (Jiangsu Xin Sheng Trading Company) and 江蘇聯合電氣實業有限公司 (Jiangsu United electric industrial Co. Ltd) as director and general manager. In July 2002, Mr. Shen joined the Group as president and executive director of Sino Stride Technology. Mr. Shen is well experienced in management and marketing. Mr. Shen was awarded the 杭州高新區2003年經濟發展突出貢獻獎 (2003 Hangzhou Hi-Tech District Economic Development Contribution Award).

章曉峰先生 (**Mr. Zhang Xiao Feng**), aged 33, was an executive Director and vice-president of Sino Stride Technology and was resigned as executive Director on 16 July 2004.

### *Non-executive Directors*

黃種欽先生 (**Mr. Ng Chong Khim**), aged 47, joined the Company as a non-executive Director on 15 March 2002. Mr. Ng is the deputy president of the corporate services and marketing department and the president of communication and sensor system group in Singapore Technologies Electronics Limited ("ST Elect"). Mr. Ng holds a bachelor degree in electrical engineering and a master degree in science in industrial engineering from the National University of Singapore. Mr. Ng also holds a diploma in management studies from the Singapore Institute of Management and has completed the programme for management development at Harvard Business school. Mr. Ng has held senior management positions in various information technology and telecommunications companies before joining ST Elect in July 1997. Mr. Ng is also a member of various technology advisory committees of a number of academic institutions in Singapore.



## Profiles of Directors and Senior Management (cont'd)

王偉軍先生 (**Mr. Wong Wai Kwan**), aged 37, joined the Company as a non-executive Director on 26 April 2002. Mr. Wong graduated from the City University of Hong Kong with a bachelor degree in accountancy in 1992. Mr. Wong had worked in the Hong Kong and PRC offices of an international accounting firm for more than 7 years and is currently the managing director of SBA Stone Forest Corporate Advisory (Shanghai) Co., Ltd.. Mr. Wong is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

### *Independent non-executive directors*

蔡小富先生 (**Mr. Cai Xiao Fu**), aged 65, joined the Company as an independent non-executive Director on 26 April 2002. Mr. Cai graduated from the Tsinghua University in Beijing in 1963. Mr. Cai joined Cranfield Institute in the United Kingdom in 1980's as visiting scholar and engaged in the research of aircraft simulation device and computer simulation. After returning to the PRC, Mr. Cai had served as the factory manager of an aviation factory and as deputy director of Zhejiang Provincial Electronic Industry Bureau. At present, Mr. Cai is the chairman of Zhejiang Software Industry Association and is responsible for the development plan and implementation of Zhejiang's information technology industry including the telecommunications and computer software.

施建軍先生 (**Mr. Shi Jian Jun**), aged 50, hold a doctorate degree in economics. Mr. Shi graduated from Xiamen University in 1984 with a degree in statistics. He joined the Company as an independent non executive Director on 23 June 2004. After graduation, Mr. Shi took up the following positions at Nanjing University: Deputy Head of the Department of Management, Head of International Department, Assistant to the Principal, Chief Accountant and Deputy Principal, consecutively. Mr. Shi has been appointed as the Deputy Vice Principal of Nanjing University since January 2002.

李曉強先生 (**Mr. Li Xiaoqiang, Richard**), CPA, aged 42, joined the Company as an independent non-executive Director on 15 July 2004. Mr. Li is a member of the Institute of Chartered Accountants of New Zealand and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Li graduate from 中國華中科技大學 (Huazhong University of Science and Technology) in July 1985. Mr. Li received his Graduate Diploma in Accountancy from Waikato Institute of Technology in New Zealand in November 1997 and later received his Masters degree in Business Administration from Columbia Southern University in the U.S. in October 2002. Mr. Li was previously employed as an engineer by 中國江蘇省電力局計劃處 (the Planning Department of Jiangsu Provincial Electric Power Company) and he was previously a senior associate of PricewaterhouseCoopers in New Zealand from January 1998 to January 2001 and a manager of PricewaterhouseCoopers in Hong Kong from January 2001 to August 2002. He is currently the chief accountant of Guizhou CLP Power Company Limited.

吳明東先生 (**Mr. Wu Ming Dong**), age 38, was a non-executive Director of the Company and was resigned as non-executive Director on 23 June 2004.

## Profiles of Directors and Senior Management (cont'd)

### SENIOR MANAGEMENT

段會龍先生 (**Mr. Duan Hui Long**), aged 41, is the director and chief engineer of Sino Stride Technology. Mr. Duan graduated from Zhejiang University in 1991 with a doctorate degree. Mr. Duan did post-doctorate research at 浙江大學工業控制研究所 (Research Institute of Industrial Automation Control and teaching at 浙江大學生物醫學工程與儀器科學學院 (the College of Bio-medical Engineering and Instrument Science) of Zhejiang University. Mr. Duan joined the Group in February 2001. He is responsible for the technological work and the research and development of new products of Sino Stride Technology.

王寧先生 (**Mr. Wang Ning**), aged 37, is the director and vice-president of Sino Stride Technology. Mr. Wang graduated from Zhejiang University in 1991 with a bachelor degree. Mr. Wang taught for 2 years at 浙江大學光學儀器工程系 (Optical and Electric Engineering and Science Device Department) of Zhejiang University. Mr. Wang joined the Group in September 1993 and is responsible for the Group's market planning, management of new products development and corporate development.

郭尉先生 (**Mr. Guo Wei**), aged 41, is the director and vice-president of Sino Stride Technology. Mr. Guo graduated from Zhejiang University in 1991 with a master degree. Mr. Guo taught at 浙江大學光學儀器工程系 (Optical and Electric Engineering and Science Device Department) of Zhejiang University after his graduation and later worked for 浙江大學電腦公司 (Zhejiang University Computer Company) as the deputy general manager. Mr. Guo joined the Group in January 1998 as the deputy general manager of Sino Stride Technology and is responsible for strategic planning and cooperation with multinational enterprises.

胡光先生 (**Mr. Hu Guang**), aged 38, is the vice-president of Sino Stride Technology. Mr. Hu graduated from Zhejiang University in 1993 with a master degree. Mr. Hu taught at 黑龍江省齊齊哈爾輕工學院 (Heilongjiang Province Qiqihaer Light Industry College). From 1996 to 1999, Mr. Hu worked in a petrochemical company as the general manager of marketing development department. In February 2001, Mr. Hu joined the Group as an assistant to president of Sino Stride Technology being responsible for finance and investment of the Group.

許東暉 (**Mr. Hsu Tung Hui**), aged 38, became the vice-president of Sino Stride Technology in March 2004. Mr. Hsu graduated from Zhejiang University in 1991 with a master's degree. Mr. Hsu later taught at 浙江大學光學儀器工程系 (Optical and Electric Engineering and Science Device Department) of Zhejiang University from 1986 to 1988 and then worked for Zhejiang University Software Development Centre from 1996 to 1999 as deputy general manager.

## Profiles of Directors and Senior Management (cont'd)

楊煒峰先生 (**Mr. Yang Han Fen**), aged 36, is the general manager of Xingda Computer. Mr. Yang graduated from Zhejiang University in 1994 with a master degree. Mr. Yang worked for several companies in the computer industry as general manager or deputy general manager. Mr. Yang joined the Group in December 2000 and is responsible for marketing and product development.

孟惠強先生 (**Mr. Meng Hui Qiang**), aged 39, had setup a joint venture named Beijing Sinostride Powerlink Technology Co. Ltd. with Sinostride Technology Co. Ltd. in Sept. 2003. Also he has been appointed as the General Manager of both Beijing Sinostride Powerlink Technology Co. Ltd. and Beijing Subsidiary, Sinostride Technology Co. Ltd. Mr. Meng graduated from Zhejiang University in 1987 with bachelor's degree. After 5 year's working experience in the Information Center of the State Planning Committee, he began his new career in foreign companies. From 1992 to 1995, he was the General Manager of Shanghai Branch, CL Computer Technology (China/Hong Kong) Co. Ltd. From 1995 to 2002, in IBM China, his position was the Channel Manager. From 2002 to 2003, he was the Executive Vice General Manager in EDI Computer Technology Co. Ltd.

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by geographical segments for the year ended 31 December 2004 is set out in note 3 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 82.

The directors recommend the payment of a final dividend of HK\$0.8 cent per ordinary share in respect of the year, to shareholders on the register of members on 6 June 2005. This recommendation has not been incorporated in the financial statements for the year ended 31 December 2004. Further details of dividends are set out in notes 10 and 31 to the financial statements.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on the Growth Enterprise Market (the "GEM") of the Hong Kong Stock Exchange Limited (the "Stock Exchange") on 29 July 2002, after the deduction of proceeds from the sales issue of 274,090,000 ordinary shares and related issue expenses, amounted to approximately RMB81,000,000.

The net proceeds from the initial public offering ("IPO") were used during the year ended 31 December 2004 in accordance with the proposed use of proceeds set out in the Company's prospectus dated 23 July 2002 (the "Prospectus") as follows:

	Notes	Use of proceeds up to 31 December 2004	
		Proposed use of proceeds as set out in the Prospectus RMB million	Actual use of proceeds RMB million
Geographical expansion		10.4	10.4
Marketing and promotion		8.7	8.5
Research and development	(i)	24.6	19.3
Strategic investment and business collaboration	(ii)	18.0	12.9
Repayment of bank loans		10.9	10.9
<b>Total</b>		<b>72.6</b>	<b>62.0</b>

Notes:

- (i) The Group has decided to postpone the research and development for a number of its medical service related products. Consequently, the proceeds from the IPO used for research and development as at 31 December 2004 is less than the amount proposed in the Prospectus. This is mainly due to the fact that the progress of the reformation of the medical service market and medical service related information system market was slower than previously estimated.
- (ii) Studies and evaluations in relation to the Group's planned strategic investment and business collaboration are in progress. As such, the use of proceeds as at 31 December 2004 was less than as planned. On 21 December 2004, Sino Stride Technology Co., Ltd. ("Sino Stride Technology"), a subsidiary of the Company, has entered into a joint venture agreement (the "JV Agreement") for the establishment of a Sino-Foreign Equity Joint Venture, known as STAR (Zhejiang) Automotive Center Co., Ltd. with Singapore Technologies Kinetics Limited ("ST Kinetics"), a fellow subsidiary of the Company's substantial shareholder, Singapore Technologies Electronics Limited ("ST Electronics"), and Zhejiang University Logistics and Investment Holdings Company. According to the JV Agreement, Sino Stride Technology will contribute RMB3,750,000 in cash in 2005, representing 25% of the registered capital of the joint venture.

The remaining net proceeds of RMB19,000,000 have been placed as short-term deposits for future use as set out in the paragraph under the heading of "Statement of Business Objectives" in the section headed "Mission and Business objectives" in the Prospectus.

## Report of the Directors (cont'd)

### SUMMARY FINANCIAL INFORMATION

A summary of the published audited results and assets, liabilities and minority interests of the Group for the last five years prepared on the basis set out in the note below is as follows:

#### RESULTS

	Year ended 31 December				
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
<b>Turnover</b>	<b>293,134</b>	227,023	200,423	95,615	44,004
Cost of sales	<b>(224,907)</b>	(167,067)	(139,540)	(64,344)	(29,210)
<b>Gross profit</b>	<b>68,227</b>	59,956	60,883	31,271	14,794
Other revenue	<b>880</b>	1,549	1,575	762	581
Selling and distribution costs	<b>(11,007)</b>	(8,872)	(9,327)	(6,073)	(3,123)
Administrative costs	<b>(22,716)</b>	(12,415)	(10,365)	(7,295)	(5,077)
Other operating costs	<b>(2,464)</b>	(354)	(647)	(1,477)	(920)
<b>Profit from operating activities</b>	<b>32,920</b>	39,864	42,119	17,188	6,255
Finance costs	<b>(3,860)</b>	(2,693)	(1,631)	(720)	(478)
Share of profits/(losses) of associates	<b>84</b>	(83)	–	(3)	71
<b>Profit before tax</b>	<b>29,144</b>	37,088	40,488	16,465	5,848
Income tax expense	<b>(5,366)</b>	(4,824)	(6,819)	(1,675)	(926)
<b>Profit for the year</b>	<b>23,778</b>	32,264	33,669	14,790	4,922
Attributable to:					
Shareholders of the Company	<b>22,943</b>	31,808	32,683	13,147	4,571
Minority interests	<b>835</b>	456	986	1,643	351
	<b>23,778</b>	32,264	33,669	14,790	4,922
<b>Dividends</b>	<b>13,790</b>	13,834	6,633	559	3,111
<b>Earnings per share</b>					
– Basic (RMB cents)	<b>2.1 cents</b>	2.9 cents	3.5 cents	1.6 cents	0.6 cents
– Diluted (RMB cents)	<b>2.1 cents</b>	2.9 cents	3.5 cents	1.6 cents	0.6 cents

## SUMMARY FINANCIAL INFORMATION (cont'd)

## ASSETS, LIABILITIES AND MINORITY INTERESTS

	Year ended 31 December				
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
<b>Total assets</b>	<b>394,526</b>	342,591	250,114	81,245	32,444
<b>Total liabilities</b>	<b>227,646</b>	186,699	115,297	52,963	18,136
<b>Minority interests</b>	<b>6,396</b>	5,717	2,856	3,662	2,842
<b>Net assets *</b>	<b>166,880</b>	155,892	134,817	28,282	14,308

\* inclusive of minority interests.

The pro forma combined results of the Group for the year ended 31 December 2000 and 2001 have been extracted from the Prospectus. The consolidated results of the Group for the years ended 31 December 2002 and 2003 have been extracted from the 2002 and 2003 annual reports with certain comparative amounts reclassified to conform with current year's presentation, while those for the year ended 31 December 2004 were prepared based on the consolidated income statement as set out on page 34 to the financial statements. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 12 to the financial statements.

## ISSUED CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options of the Company during the year are set out in the consolidated statement of changes in equity and notes 25 and note 26 to the financial statements, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and the consolidated statement of changes in equity, respectively.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2004, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to RMB97,168,000. Under the laws of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the People's Republic of China (the "PRC") can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC. These profits differ from those that are reflected in the Group's financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for 21% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 7% of the Group's total sales for the year.

Purchases from the Group's five largest suppliers accounted for 20% of the Group's total purchases for the year and the purchases from the largest supplier included therein accounted for 8% of the Group's total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which to the best of knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.



### DIRECTORS

The directors of the Company during the year were:

#### *Executive Directors:*

Mr. Chau Chit

Mr. Wong Wai Tin

Mr. Shen Yue

(appointed on 23 June 2004)

Mr. Zhang Xiao Feng

(resigned on 16 July 2004)

#### *Non-executive Directors:*

Mr. Wong Wai Kwan

Mr. Ng Chong Khim

#### *Independent Non-executive Directors:*

Mr. Cai Xiao Fu

Mr. Shi Jian Jun

(appointed on 23 June 2004)

Mr. Li Xiaoqiang, Richard

(appointed on 15 July 2004)

Mr. Wu Ming Dong

(resigned on 23 June 2004)

In accordance with Article 87 of the Company's Articles of Association, Mr. Shen Yue, Mr. Shi Jian Jun and Mr. Li Xiaoqiang, Richard will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors and independent non-executive directors are appointed for a respective period of 3 years.

The Company has received annual confirmations of independence from Mr. Cai Xiao Fu, Mr. Shi Jian Jun and Mr. Li Xiaoqiang, Richard, and still considers them to be independent.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 17 of the Annual Report.

### DIRECTORS' SERVICE CONTRACTS

Except for Mr. Ng Chong Khim, who has not entered into any service contract with the Company, each of the directors of the Company has entered into a service agreement with the Company with effect from the date of appointment of the respective directors for a fixed term of three years.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND LONG POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2004, the beneficial interests of the directors in the share capital of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (the "SFO"), which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions in which they are taken or deemed to have taken under such provisions of the SFO), or which will be required pursuant to Section 352 of the SFO to be entered in the register referred therein or required pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange are as follows:

Long positions in ordinary shares of the Company:

Name	Notes	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital as at 31 December 2004
		Directly beneficially owned	Through controlled corporation		
<b>Directors</b>					
Mr. Chau Chit	(a)	–	540,000,000	540,000,000	49.71%
Mr. Wong Wai Tin	(a)	–	540,000,000	540,000,000	49.71%
Mr. Wong Wai Tin	(a) & (b)	2,500,000	–	2,500,000	0.23%

The interests of the directors in the share options of the Company are separately disclosed in note 26 to the financial statements.

Notes:

- (a) Mega Start Limited ("Mega Start"), the ultimate holding company of the Company, is held by Mr. Chau Chit, a director, and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively.
- (b) On 8 January 2004, Mr. Wong Wai Tin personally purchased 2,500,000 shares representing approximately 0.23% of the issued share capital of the Company.

### **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND LONG POSITION IN SHARES AND UNDERLYING SHARES (cont'd)**

Save as disclosed above, as at 31 December 2004, none of the Directors or chief executive of the Company has any interests or short positions in the share, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred therein, or pursuant to the Rule 5.46 of the GEM Listing Rules relating to Securities transactions by Directors, to be notified to the Company and the Stock Exchange.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed in the share option scheme as defined below and as set out in note 26 to the financial statements, at no time during the year ended 31 December 2004 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

### **SHARE OPTION SCHEME**

Pursuant to written resolutions of the shareholders of the Company dated 16 July 2002, a share option scheme (the "Share Option Scheme") was approved and adopted. A summary of the terms of the Share Option Scheme is set out in Appendix V of the Prospectus.

Under the Share Option Scheme, the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The subscription price for shares under the Share Option Scheme will be determined by the directors, which shall be calculated with reference to the higher of (i) the closing price of the shares on GEM of the Stock Exchange of Hong Kong Limited on the date of grant of the option; (ii) the average closing price of the share on the GEM of the Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of a share.

### SHARE OPTION SCHEME (cont'd)

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not exceed 10% of the share capital of the Company in issue and may not exceed in nominal value 30% of the issued share capital of the Company in issue from time to time. The Share Option Scheme will remain in force for a period of 10 years commencing on 16 July 2002. No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme in any 12 month period up to the date of grant to such person exceeding 1% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Share Option Scheme, unless the proposed grant has been approved by the shareholders of the Company in a general meeting with the proposed grantee and his associate abstaining from voting.

On 27 August 2004, the board of directors resolved to amend Clauses 5.3(A) and (B) and Clause 9.2 of the rules of the Share Option Scheme to comply with the new requirements under rules 23.04(1) and 23.05(1) and (2) of the GEM Listing Rules. On the same day, the Company granted certain employees under the Share Option Scheme a total of 12,000,000 share options to subscribe for shares of HK\$0.01 each in the capital of the Company which are exercisable at any time from 27 August 2004 to 26 August 2014 at an exercise price of HK\$0.34 per share. The exercise price is HK\$0.34 per share, which is the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant. Share options do not confer rights on the holders to dividends or vote at shareholders' meetings.

On 27 September 2004, options were exercised by certain employee to subscribe for 2,210,000 shares at a consideration of HK\$0.34 per share.

Movements of the Share Options granted during the year are set out in note 26 to the financial statements.

Concerning the share options granted during the year to the directors and employees, as detailed in notes 7 and 8 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because, in the absence of a market value of the share options over the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2004, the following persons or companies had interests in shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO:

Long positions in ordinary shares:

Substantial shareholders	Notes	Capacity and nature of interest	Number of ordinary shares/issued capital held	Percentage of the company's issued share capital as at 31 December 2004
<b>The Company</b>				
Mega Start	(a)	Directly beneficially owned	540,000,000	49.71%
Mr. Chau Chit	(a)	Through a controlled corporation	540,000,000	49.71%
Ms. Ting Hiu Wan	(a)	Through a controlled corporation	540,000,000	49.71%
Mr. Wong Wai Tin	(a)	Through a controlled corporation	540,000,000	49.71%
	(a)	Directly beneficially owned	2,500,000	0.23%
Singapore Technologies Electronics Limited ("ST Electronics")	(b)	Directly beneficially owned	216,000,000	19.88%
Singapore Technologies Engineering Ltd. ("ST Engineering")	(b)	Through a controlled corporation	216,000,000	19.88%

## Report of the Directors (cont'd)

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)

Substantial shareholders	Notes	Capacity and nature of interest	Number of ordinary shares/issued capital held	Percentage of the company's issued share capital as at 31 December 2004
<b>The Company (cont'd)</b>				
Singapore Technologies Pte. Ltd. ("STPL")	(b)	Through a controlled corporation	216,000,000	19.88%
Temasek Holdings (Private) Ltd. ("Temasek Holdings")	(b)	Through a controlled corporation	216,000,000	19.88%
<b>Subsidiaries</b>				
Beijing Sino Stride Powerlink Technology Co., Ltd.				
Meng Hui Qiang	(c)	Directly beneficially owned	RMB2,500,000	25.00%
Hangzhou Vico Software Engineering Co., Ltd.				
Zheng You Xiang	(d)	Directly beneficially owned	RMB225,000	15.00%
Duan Hui Long	(d)	Directly beneficially owned	RMB225,000	15.00%
Lu Su Ying	(d)	Directly beneficially owned	RMB150,000	10.00%

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)

Long position in share options held:

	Notes	Capacity and nature of interest	Number of share options held	Percentage of the company's issued share capital as at 31 December 2004
<b>The Company</b>				
Mr. Chau Chit	(e)	Directly beneficially owned	3,000,000	0.28%
Mr. Wong Wai Tin	(e)	Directly beneficially owned	2,000,000	0.18%
Mr. Shen Yue	(e)	Directly beneficially owned	1,000,000	0.09%

Notes:

- (a) Mega Start Limited ("Mega Start"), the ultimate holding company of the Company, is held by Mr. Chau Chit, a director, and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively.
- (b) ST Electronics is a wholly-owned subsidiary of ST Engineering whose shares are listed on the Singapore Exchange Securities Trading Limited. Temasek Holdings holds controlling interest in STPL which, in turn, holds controlling interest in ST Engineering. Pursuant to Part XV of the SFO, ST Engineering, STPL and Temasek Holdings are taken to be interested in the shares held by ST Electronics.
- (c) The issued capital of Beijing Sino Stride Powerlink Technology Co., Ltd. is beneficially owned by Sino Stride Technology Co., Ltd., a subsidiary company of the Company, and Mr. Meng Hui Qiang.
- (d) The issued capital of Hangzhou Vico Software Engineering Co., Ltd. is beneficially owned by Sino Stride Technology Co., Ltd., a subsidiary of the Company, Mr. Zheng You Xiang, Mr. Duan Hui Long and Mr. Lu Su Ying.
- (e) On 27 August 2004, share options were granted to certain directors (Mr. Chau Chit, Mr. Wong Wai Tin and Mr. Shen Yue) in respect of their services to the Group under the Share Option Scheme of the Company.

Save as disclosed above, as at 31 December 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and Substantial Shareholders' Interests in Shares and Underlying Shares" above, had registered an interest or long positions in the shares or underlying shares of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded pursuant to Section 336 of the SFO.

### CONNECTED TRANSACTIONS

- A. On 19 April 2002, Sino Stride Holdings Limited ("HKSS"), a company beneficially owned by Mr. Chau Chit, a director, Ms Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively, as landlords, entered into two leases with the Company as tenant in respect of:
- i. the premises located at Rooms 3113, 3115 and 3116, 31/F, New Tech Plaza, 34 Tai Yau Street, San Po Kong, Kowloon, Hong Kong for use as its Hong Kong office at monthly rentals of HK\$21,000, as determined based on approximate prevailing market prices; and
  - ii. an apartment located at Flat F, 22/F, Tower One, Park Tower, 1 King's road, Causeway Bay, Hong Kong, for use as living quarters for the directors for a term of five years each commencing from 19 April 2002, at monthly rentals of HK\$26,000, as determined based on approximate prevailing market prices.

The lease in respect of the premises located at Rooms 3113, 3115 and 3116, 31/F, New Tech Plaza, 34 Tai Yau Street, San Po Kong, Kowloon, Hong Kong was terminated through a deed of surrender signed by the HKSS and the Company on 19 September 2004.

The corresponding rental expenses of the Group for the year ended 31 December 2004 amounted to RMB553,000 (2003: RMB600,000).

- B. On 21 December 2004, Sino Stride Technology Co., Ltd. ("Sino Stride Technology"), a subsidiary of the Company, has entered into a joint venture agreement (the "JV Agreement") for the establishment of a Sino-foreign equity joint venture, known as STAR (Zhejiang) Automotive Center Co., Ltd. with ST Kinetics, a fellow subsidiary of the Company's substantial shareholder of ST Electronics, and Zhejiang University Logistics and Investment Holdings Company. According to the JV Agreement, Sino Stride Technology will contributed RMB3,750,000 in cash, representing 25% of the registered capital of the joint venture. The transaction constitutes a connected transaction under Chapter 20 of the GEM Listing Rules and is subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules.
- C. On 27 August 2004, 3,000,000, 2,000,000 and 1,000,000 share options were granted to the directors of the Company, Mr. Chau Chit, Mr. Wong Wai Tin and Mr. Shen Yue, respectively, in respect of their services to the Group under the Company's Share Option Scheme. The theoretical values of the shares are RMB1,020,000, RMB680,000 and RMB340,000, respectively, which are computed based on the exercise price of HK\$0.34 per share. The exercise price was determined with reference to the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.



### DIRECTORS' INTERESTS IN COMPETING BUSINESS

ST Electronics (Shanghai) Co., Ltd., a wholly foreign-owned enterprise established by ST Electronics in Shanghai, the PRC, is also engaged in the business of intelligent building management systems and home automation systems in the PRC. Mr. Ng Chong Khim, a senior management of ST Electronics, was appointed as a non-executive director of the Company on 15 March 2002. Through the Share Option Scheme of ST Engineering (which owns 100% of ST Electronics), Mr. Ng Chong Khim may from time to time owns shares or share options in ST Engineering.

Save as disclosed above, none of the directors or the substantial shareholders or the management shareholders of the Company or their respective associates had an interest in a business that competes or is likely to compete, directly or indirectly, with the business of the Group as at 31 December 2004.

### SPONSOR'S INTEREST

As at 31 December 2004, neither South China Capital Limited (the "Sponsor") nor its directors or employees or associates, had any interest in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to an agreement (the "Sponsor Agreement") dated 23 July 2002, entered into between the Company and the Sponsor, the Sponsor has agreed to act as a sponsor to the Company for the purpose of the meeting the requirement of GEM Listing Rules for a fee for the period from the date on which dealings in shares on GEM commence, i.e. 29 July 2002, to 31 December 2004 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein. The Sponsor Agreement expired on 31 December 2004.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

### BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, the Company complied with the requirements of board practices and procedures of rules 5.34 to 5.45 of the GEM Listing Rules for the year ended 31 December 2004.

### CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2004, the Company adopted a code of conduct regarding dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiries with all 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.

### SUBMISSION OF AN ADVANCE BOOKING FORM FOR THE PROPOSED LISTING ON THE MAIN BOARD BY WAY OF INTRODUCTION

On 30 July 2004, the directors applied to list the shares of the Company on the Main Board of the Stock Exchange by way of introduction. An advanced booking form for the proposed listing on the Main Board by way of introduction was submitted to the Stock Exchange on 30 July 2004.

As at the date of this report, the Company's listing application has remained outstanding for more than six months after the filing of the advanced booking form. Hence, the Company has to re-submit a new advanced booking form together with a non-refundable listing fee and a revised timetable pursuant to Rule 9.03 of the Hong Kong Listing Rules if the Company's directors decide to proceed with its proposed listing on the Main Board of the Stock Exchange.

### AUDIT COMMITTEE

The Company established an audit committee on 16 July 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the board of Directors. The audit committee is also responsible for reviewing the financial reporting process and internal control system of the Group. The Group's financial statements for the year ended 31 December 2004 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures had been made.

The audit committee has three members comprising the three independent non-executive Directors, Mr. Cai Xiao Fu, Mr. Shi Jian Jun and Mr. Li Xiaoqiang, Richard. The audit committee held four meetings during the year ended 31 December 2004 to perform the functions specified in the GEM Listing Rules.

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chau Chit**

*Chairman*

Hong Kong

29 March 2005

# Report of the Auditors



安永會計師事務所

To the members

**Sino Stride Technology (Holdings) Limited**

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 34 to 82 which have been prepared in accordance with International Financial Reporting Standards.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

29 March 2005

# Consolidated Income Statement

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>Turnover</b>	4	<b>293,134</b>	227,023
Cost of sales	5	<b>(224,907)</b>	(167,067)
<b>Gross profit</b>		<b>68,227</b>	59,956
Other revenue	4	<b>880</b>	1,549
Selling and distribution costs		<b>(11,007)</b>	(8,872)
Administrative costs		<b>(22,716)</b>	(12,415)
Other operating costs		<b>(2,464)</b>	(354)
<b>Profit from operating activities</b>	5	<b>32,920</b>	39,864
Finance costs	6	<b>(3,860)</b>	(2,693)
Share of profits/(losses) of associates		<b>84</b>	(83)
<b>Profit before tax</b>		<b>29,144</b>	37,088
Income tax expense	9	<b>(5,366)</b>	(4,824)
<b>Profit for the year</b>		<b>23,778</b>	32,264
Attributable to:			
Shareholders of the Company		<b>22,943</b>	31,808
Minority interests		<b>835</b>	456
		<b>23,778</b>	32,264
<b>Dividends</b>	10	<b>13,790</b>	13,834
<b>Earnings per share</b>			
– Basic (RMB cents)	11	<b>2.1 cents</b>	2.9 cents
– Diluted (RMB cents)	11	<b>2.1 cents</b>	2.9 cents

The accompanying notes form an integral part of the financial statements.

# Consolidated Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	12	10,796	8,471
Intangible assets	13	8,435	7,019
Goodwill:			
Goodwill	14	163	257
Negative goodwill	14	–	(586)
Investments in associates	16	2,662	2,577
Long term investments	17	2,500	2,500
<b>Total non-current assets</b>		<b>24,556</b>	20,238
<b>Current assets</b>			
Cash and cash equivalents		58,178	74,792
Deposits pledged with financial institutions	18	11,675	18,151
Trade receivables	19	84,548	55,556
Prepayments, deposits and other receivables		51,069	49,301
Unbilled amounts due from customers for contract works	20	146,041	108,203
Inventories	21	18,459	16,350
<b>Total current assets</b>		<b>369,970</b>	322,353
<b>Current liabilities</b>			
Bank loans	22	67,873	82,853
Trade and notes payables	23	101,240	69,412
Accrued liabilities and other payables		51,391	26,148
Tax payable		7,047	8,131
<b>Total current liabilities</b>		<b>227,551</b>	186,544
<b>Net current assets</b>		<b>142,419</b>	135,809
<b>Total assets less current liabilities</b>		<b>166,975</b>	156,047
<b>Non-current liability</b>			
Deferred income	24	95	155
<b>Net assets</b>		<b>166,880</b>	155,892
<b>Total equity</b>			
Issued capital	25	11,514	11,491
Reserves		148,970	138,684
		160,484	150,175
Minority interests		6,396	5,717
<b>Total equity</b>		<b>166,880</b>	155,892

**Chau Chit**  
Director

**Wong Wai Tin**  
Director

The accompanying notes form an integral part of the financial statements.

# Consolidated Cash Flow Statement

Year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
<b>Cash flows from operating activities</b>		
Profit before taxation and minority interests	<b>29,144</b>	37,088
Adjustments for:		
Depreciation of property, plant and equipment	<b>2,323</b>	1,904
Loss on disposal of property, plant and equipment	<b>650</b>	–
Share of (profit)/loss of associates	<b>(84)</b>	83
Interest expense	<b>3,620</b>	2,450
Interest income	<b>(308)</b>	(415)
Gain on disposal of subsidiaries	–	(244)
Amortisation of goodwill	–	24
Provision for impairment loss of goodwill	<b>94</b>	–
Amortisation of negative goodwill	–	(352)
Amortisation of intangible assets	<b>1,073</b>	70
Provision for bad and doubtful debts	<b>21</b>	–
Cash inflows from operations before working capital changes	<b>36,533</b>	40,608
Increase in trade receivables	<b>(29,013)</b>	(28,681)
Increase in unbilled amounts due from customers for contract works	<b>(37,838)</b>	(19,696)
Increase in inventories	<b>(2,109)</b>	(10,062)
Increase in prepayments, deposits and other receivables	<b>(1,768)</b>	(31,637)
Increase in trade and notes payables	<b>31,828</b>	28,016
Increase/(decrease) in accrued liabilities and other payables	<b>25,243</b>	(605)
Decrease/(increase) in deposits pledged with financial institutions	<b>6,476</b>	(16,044)
(Decrease)/increase in deferred income	<b>(60)</b>	155
Cash inflows/(outflows) from operating activities	<b>29,292</b>	(37,946)
Tax paid	<b>(6,450)</b>	(3,438)
Net cash inflows/(outflows) from operating activities	<b>22,842</b>	(41,384)

The accompanying notes form an integral part of the financial statements.

## Consolidated Cash Flow Statement (cont'd)

Year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
Net cash inflows/(outflows) from operating activities	<b>22,842</b>	(41,384)
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	<b>(5,303)</b>	(2,464)
Acquisition of associates	–	(2,360)
Interest income	<b>308</b>	415
Acquisition of a subsidiary	–	(365)
Disposal of subsidiaries	–	440
Additions to intangible assets	<b>(2,489)</b>	(6,019)
Net cash used in investing activities	<b>(7,484)</b>	(10,353)
<b>Net cash inflows/(outflows) before financing activities</b>	<b>15,358</b>	(51,737)
<b>Cash flows from financing activities</b>		
Interest paid	<b>(3,620)</b>	(2,450)
Dividends paid	<b>(13,790)</b>	(13,834)
Dividends paid to minority interests	<b>(157)</b>	(952)
Additions of new bank loans	<b>91,372</b>	136,200
Repayment of term loans	<b>(106,352)</b>	(91,347)
Contribution by minority interests	–	2,500
Proceeds from issuance of share capital	<b>796</b>	–
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(31,751)</b>	30,117
Net decrease in cash and cash equivalents	<b>(16,393)</b>	(21,620)
Cash and cash equivalents at 1 January	<b>74,792</b>	96,176
Effect of foreign exchange rate changes, net	<b>(221)</b>	236
<b>Cash and cash equivalents at 31 December</b>	<b>58,178</b>	74,792
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>58,178</b>	74,792

The accompanying notes form an integral part of the financial statements.

# Consolidated Statement of Changes in Equity

Year ended 31 December 2004

Group	Notes	Year ended 31 December 2004			Year ended 31 December 2003		
		Shareholders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000	Shareholders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000
<b>CAPITAL</b>							
<b>Issued and fully paid capital</b>	25						
<i>Ordinary shares of HK\$0.01 each</i>							
At beginning of year		11,491	-	11,491	11,491	-	11,491
Issuance of shares pursuant to share options exercised	26	23	-	23	-	-	-
At end of year		11,514	-	11,514	11,491	-	11,491
<b>RESERVES</b>							
<b>Share premium</b>							
At beginning of year		69,800	-	69,800	69,800	-	69,800
Issuance of shares pursuant to share options exercised	26	773	-	773	-	-	-
At end of year		70,573	-	70,573	69,800	-	69,800
<b>Contribution surplus</b>							
At beginning and end of year	27(a)	13,499	-	13,499	13,499	-	13,499
<b>Statutory surplus reserve</b>							
At beginning of year	27(b)	2,480	69	2,549	1,785	50	1,835
Transferred from retained profits		750	23	773	695	19	714
At end of year		3,230	92	3,322	2,480	69	2,549
<b>Enterprise expansion fund</b>							
At beginning of year	27(c)	1,611	43	1,654	951	26	977
Transferred from retained profits		738	18	756	660	17	677
At end of year		2,349	61	2,410	1,611	43	1,654
<b>Exchange fluctuation reserve</b>							
At beginning of year		240	-	240	-	-	-
Exchange realignment		(226)	1	(225)	240	-	240
At end of year		14	1	15	240	-	240

The accompanying notes form an integral part of the financial statements.



## Consolidated Statement of Changes in Equity (cont'd)

Year ended 31 December 2004

Group	Year ended 31 December 2004			Year ended 31 December 2003			
	Notes	Attributable to		Shareholders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000	
		Shareholders of the Company RMB'000	Minority interests RMB'000				Shareholders of the Company RMB'000
<b>Retained profits</b>							
At beginning of year		51,054	780	51,834	34,435	231	34,666
Profit for the year		22,943	835	23,778	31,808	456	32,264
Transferred to statutory surplus reserve		(750)	(23)	(773)	(695)	(19)	(714)
Transferred to enterprise expansion fund		(738)	(18)	(756)	(660)	(17)	(677)
Acquisition of a subsidiary		-	-	-	-	(230)	(230)
Disposals of subsidiaries		-	-	-	-	574	574
Derecognition of negative goodwill		586	-	586	-	-	-
Dividends		(13,790)	(157)	(13,947)	(13,834)	(215)	(14,049)
At end of year		59,305	1,417	60,722	51,054	780	51,834
Total reserves		148,970	1,571	150,541	138,684	892	139,576
<b>Minority interests in the capital of subsidiaries</b>							
At beginning of year		-	4,825	4,825	-	2,549	2,549
Disposals of subsidiaries		-	-	-	-	(899)	(899)
Capital contribution		-	-	-	-	3,175	3,175
At end of year		-	4,825	4,825	-	4,825	4,825
Total equity		160,484	6,396	166,880	150,175	5,717	155,892

The accompanying notes form an integral part of the financial statements.

# Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	12	74	502
Interest in subsidiaries	15	108,013	84,513
Total non-current assets		108,087	85,015
<b>Current assets</b>			
Cash and cash equivalents		3,169	1,283
Deposits pledged with financial institutions	18	–	15,986
Prepayments, deposits and other receivables		224	5,398
Total current assets		3,393	22,667
<b>Current liabilities</b>			
Accrued liabilities and other payables		2,798	1,223
Total current liabilities		2,798	1,223
<b>Net current assets</b>			
		595	21,444
<b>Total assets less current liabilities</b>		<b>108,682</b>	106,459
<b>Total equity</b>			
Issued capital	25	11,514	11,491
Reserves	27	97,168	94,968
<b>Total equity</b>		<b>108,682</b>	106,459

**Chau Chit**  
Director

**Wong Wai Tin**  
Director

The accompanying notes form an integral part of the financial statements.

# Notes to the Financial Statements

31 December 2004

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 December 2001 under the Companies Law (2002 Second Revision) of the Cayman Islands.

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies, the Cayman Islands. The principal place of business of the Group is Building G, Zhejiang University, National Science Park, No. 525 Xi Xi Road, Hangzhou, the People's Republic of China (the "PRC").

The principal activity of the Company is investment holding. During the year, the Group was principally engaged in the development and provision of system integration solutions in the PRC and the Hong Kong Special Administrative Region (the "Hong Kong SAR").

Mega Start Limited, a company incorporated in the British Virgin Islands, held by Mr. Chau Chit, a director, and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively, is the ultimate holding company of the Company.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of preparation*

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance.

### *Changes in accounting policies*

The accounting policies adopted are consistent with those adopted in the previous year except that the Group has early adopted the following accounting standards which are mandatory for the financial years beginning on and after 1 January 2005. The principal effect of this decision is discussed below:

*IFRS 3 "Business Combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets"*

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after 31 March 2004. The effect of the adoption of IFRS 3 upon the Group's accounting policies has impacted the recognition of negative goodwill arising upon an acquisition. According to IFRS 3, the carrying amount of negative goodwill previously recognized is derecognised and credited to retained profits. Negative goodwill is recognised in the income statement immediately.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Changes in accounting policies (cont'd)*

Additionally, the adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing annual goodwill amortisation and to test for impairment annually at the cash-generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently) from 1 January 2004.

Moreover, the useful life of intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has been amortised over its useful life. Amortisation periods and methods for intangible assets with finite useful lives are reviewed annually or earlier where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortised, as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. However, intangibles with indefinite useful lives are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present.

The effect of the revised accounting policy has resulted in the negative goodwill amounting to RMB586,000 being derecognised and credited to retained profits as at 1 January 2004.

#### *Early adoption of other IFRS*

The Group has resolved to early adopt the following revised standards from 1 January 2004 for the preparation of these financial statements and comparative figures have been amended as required:

- IAS 1 – Presentation of Financial Statements (amended 2004);
- IAS 2 – Inventories (revised 2003);
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (revised 2003);
- IAS 10 – Events after the Balance Sheet Date (amended 2004);
- IAS 16 – Property, Plant and Equipment (amended 2004);
- IAS 17 – Leases (amended 2004);
- IAS 24 – Related Party Disclosures (revised 2003);
- IAS 27 – Consolidated and Separate Financial Statements (amended 2004);
- IAS 28 – Investments in Associates (amended 2004);
- IAS 32 – Financial Instruments: Disclosure and Presentation (amended 2004);
- IAS 33 – Earnings per Share (amended 2004); and
- IAS 39 – Financial instruments: Recognition and Measurement (amended 2004).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Impact of recently issued IFRS but not early adopted*

The following new standards which are generally effective for accounting periods beginning on or after 1 January 2005 may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented:

- IFRS 2 – Share-based Payment; and
- IFRS 5 – Non-Current Assets Held For Sale and Discontinued Operations.

#### *IFRS 2 "Share-based Payment"*

IFRS 2 is applicable for accounting periods beginning on or after 1 January 2005 and requires the Group to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. For equity-settled share-based payment transactions, IFRS 2 requires an entity to measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group is required to measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, IFRS 2 requires an entity to measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group is required to remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in profit or loss for the period. For share-based payment transactions in which the terms of the arrangement provide either the Group or the supplier of goods or services with a choice of whether the Group settles the transaction in cash or by issuing equity instruments, the Group is required to account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash (or other assets), or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred. The provisions of IFRS 2 will apply for grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not yet vested at the beginning on or after 1 January 2005. The Group does not expect IFRS 2 to have a material effect on its results of operations and financial position.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Impact of recently issued IFRS but not early adopted (cont'd)*

##### *IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"*

IFRS 5 is applicable for accounting periods beginning on or after 1 January 2005 and requires an operation to be classified as discontinued when the criteria to be classified as held for sale have been met or the Group has disposed off the operation. Held for sale is when the carrying amount of an operation will be recovered principally through a sale transaction and not through continuing use.

Under the superseded IAS 35, the Group would have previously recognised a discontinued operation at the earlier of:

- when the Group enters into a binding sale agreement; and
- the board of directors have approved and announced a formal disposal plan.

The result of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than under IAS 35 due to the recognition criteria being stricter under IFRS 5. The Group does not expect IFRS 5 to have a material effect on its results of operations and financial position.

#### *Basis of consolidation and presentation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed off during the year are consolidated with reference to their effective dates of acquisition or disposal, respectively. All inter company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

#### *Subsidiaries*

A subsidiary is a company over which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities. A subsidiary is excluded from consolidation if it operates under severe long term restrictions which may impair its ability to transfer funds to the Company or it is acquired and held exclusively with a view to subsequent disposal in the near future.

In the Company's balance sheet, interests in subsidiaries are stated at cost less any impairment losses. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Associates*

An associate is a company, not being a subsidiary, in which the Group has a long term interest of not less than 20% of its equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of the associates are included in the consolidated income statement and consolidated reserves, respectively. The Group's investments in the associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. The Group's interests in associates include goodwill on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

#### *Goodwill*

##### *On and before 1 January 2004*

Goodwill arising on the acquisition of subsidiaries and associates represents the excess purchase consideration paid over the Group's share of the fair value of the identifiable assets and liabilities acquired as at the date of acquisition on or before 1 January 2004. Goodwill is amortised on the straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortisation and any impairment in value.

##### *On and after 1 January 2004*

IFRS 3 "Business Combinations" was adopted on 1 January 2004. On and after 1 January 2004, goodwill is stated at cost less any impairment in value.

At each balance sheet date, the management of the Company assesses whether there is any indication of impairment. If any such indication exists, the recoverable amounts will be estimated.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Negative goodwill*

##### *On and before 1 January 2004*

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill related to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identified expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets as at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated income statement.

##### *On and after 1 January 2004*

IFRS 3 "Business Combinations" was adopted on 1 January 2004. On 1 January 2004, the carrying amount of negative goodwill previously recognized is derecognised and credited to retained profits.

On and after 1 January 2004, negative goodwill is recognised in the consolidated income statements immediately.

#### *Investments*

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investments.

The Group's investment in the paid-up capital of an unlisted company held on a long term basis that does not have fixed maturity and quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost less any provision for impairment losses deemed necessary by the directors, on an individual investment basis.



### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Unbilled amounts due from customers for contract works*

Contract revenue on the rendering of installation, system development, system integration, system design and related services comprises the following contract amounts:

- sale of hardware (including computer hardware, purchased computer software, parts and components and equipment, hereinafter collectively referred to as “System Hardware”); and
- provision of services (installation, system development, system integration, system design and related services, hereinafter collectively referred to as “System Services”).

Cost of sales of System Hardware comprises, inter alia, the costs of computer hardware, purchased computer software, parts and components and equipment. Cost of provision of System Services comprises, inter alia, labour and other costs of personnel directly engaged in providing System Services and attributable overheads.

Revenue from the rendering of System Services is recognised based on the percentage of completion of the respective contracts, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably.

The percentage of completion of a contract is determined based on the survey of the work performed, which approximates the percentage determined based on costs incurred.

Unbilled amounts due from customers for contract works are recorded in the balance sheet at the amounts of contract costs incurred plus attributable profits less provisions for foreseeable losses and progress billings.

The directors review contract works on a regular basis. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Revenue recognition*

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods and System Hardware, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of System Services, when the relevant System Services have been rendered on the basis as explained in the accounting policy for "Unbilled amounts due from customers for contract works" above;
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise.

The gain or loss on disposal or retirement of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Property, plant and equipment (cont'd)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Leasehold improvements	Over the lease terms
Computer and office equipment	5 years
Motor vehicles	5 years

The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether they are recorded in excess of their recoverable amounts, and where carrying amounts exceed these recoverable amounts, assets are written down to their recoverable values.

### *Impairment of assets*

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is calculated as the higher of its value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Intangible assets*

All research costs are charged to the income statement as incurred.

Development costs incurred on projects to develop new products are capitalised and deferred only when the projects are clearly defined, the costs are separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditures which do not meet these criteria are expensed when incurred.

Deferred development costs are amortised on the straight-line basis over the commercial lives of the underlying products of not exceeding five years commencing from the date when the products are put into commercial production.

At each balance sheet date, the management of the Company assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount will be estimated.

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, subcontracting fee and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

#### *Trade and other receivables*

Trade receivables, which generally have credit terms ranging from 30 to 120 days, are recognised and carried at the original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognised and carried at cost less allowances for uncollectible amounts.

Receivables from related parties are recognised and carried at cost.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Trade and other payables*

Liabilities for trade and other amounts payable which are normally settled on terms ranging from 30 to 180 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to related parties are recognised and carried at cost.

#### *Loans and borrowings*

All loans and borrowings, which are interest-bearing and held to maturity, are initially recognised at cost, being the fair value of the consideration received, and are subsequently measured at amortised cost.

#### *Borrowing costs*

Borrowing costs are recognised as an expense in the period in which they are incurred.

#### *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the income statement on the straight-line basis over the lease terms.

#### *Income tax*

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Tax rates that have been enacted are used to determine deferred tax.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable (greater than 50%) that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Retirement benefits*

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

#### *Accommodation benefits*

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre of the PRC are charged to the income statement as incurred.

#### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the consolidated income statement or consolidated balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### *Government grants and subsidies*

Grants and subsidies from the government are recognised at their fair values where there is reasonable assurance that the grant or subsidy will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted on arriving at the carrying amount of the related assets.

#### *Foreign currencies*

The functional currency of the Company and its subsidiaries incorporated outside the PRC is Hong Kong dollars ("HK\$"). The functional currency of the PRC subsidiaries is Renminbi ("RMB"). The Group's presentation currency is RMB.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the respective functional currencies at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *Foreign currencies (cont'd)*

On consolidation, the assets and liabilities, both monetary and non-monetary, and the income and expense items of the Company and its subsidiaries incorporated outside the PRC are translated into RMB at the closing rates and the average rates, respectively. The resulting translation differences are dealt with in the exchange fluctuation reserve.

#### *Cash and cash equivalents*

Cash on hand and in banks and short term deposits which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks.

For the purpose of the consolidated cashflow statement, cash and cash equivalents consist of cash on hand and deposit in banks.

### 3. SEGMENT INFORMATION

#### *a. Business segment*

The Group is principally engaged in the development and provision of solutions for software, hardware and value-added service in the intelligent information industry. The products and services of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment.

#### *b. Geographical segment*

The following table presents revenue, profits, certain assets, liabilities and expenditure information for the Group's geographical segments for the years ended 31 December 2004 and 2003.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 3. SEGMENT INFORMATION (cont'd)

#### b. Geographical segment (cont'd)

Year ended 31 December 2004

	Hong Kong SAR RMB'000	The Mainland of the PRC RMB'000	Consolidated RMB'000
Segment revenue	46,079	247,055	293,134
Segment results	13,566	23,045	36,611
Unallocated corporate expenses			(3,755)
Provision for impairment loss of goodwill			(94)
Other income			158
Profit from operating activities			32,920
Finance costs			(3,860)
Share of profit of associates			84
Profit before tax			29,144
Income tax expense			(5,366)
Profit for the year			23,778
Attributable to:			
Shareholders of the Company			22,943
Minority interests			835
			23,778
Other segment information			
Segment assets	31,612	325,519	357,131
Unallocated corporate assets			37,395
Consolidated total assets			394,526
Segment liabilities	2,608	222,238	224,846
Unallocated corporate liabilities			2,800
Consolidated total liabilities			227,646
Capital expenditures	5,290	13	5,303
Depreciation of property, plant and equipment	2,076	247	2,323
Other non cash expenses:			
Loss on disposal of property, plant and equipment	310	340	650
Provision for impairment loss of goodwill	–	94	94
Amortisation of intangible assets	–	1,073	1,073
Provision for bad and doubtful debts	–	21	21



## 3. SEGMENT INFORMATION (cont'd)

## b. Geographical segment (cont'd)

Year ended 31 December 2003	Hong Kong SAR 2003 RMB'000	The Mainland of the PRC 2003 RMB'000	Consolidated 2003 RMB'000
Segment revenue	48,565	178,458	227,023
Segment results	13,388	29,316	42,704
Unallocated corporate expenses			(3,289)
Amortisation of negative goodwill			352
Amortisation of goodwill			(24)
Other revenue			121
Profit from operating activities			39,864
Finance costs			(2,693)
Share of loss of associates			(83)
Profit before tax			37,088
Income tax expense			(4,824)
Profit for the year			32,264
Attributable to:			
Shareholders of the Company			31,808
Minority interests			456
			32,264
<b>Other segment information</b>			
Segment assets	39,817	278,430	318,247
Unallocated corporate assets			24,344
Consolidated total assets			342,591
Segment liabilities	16,305	169,170	185,475
Unallocated corporate liabilities			1,224
Consolidated total liabilities			186,699
Capital expenditures	606	1,858	2,464
Depreciation of property, plant and equipment	267	1,637	1,904
Other non cash expenses:			
Gain on disposal of subsidiaries	–	(244)	(244)
Amortisation of goodwill	–	24	24
Amortisation of negative goodwill	–	(352)	(352)
Amortisation of intangible assets	–	70	70

## Notes to the Financial Statements (cont'd)

31 December 2004

### 4. TURNOVER AND OTHER REVENUE

Revenue represents the net invoice value of goods sold and contract revenue on the rendering of installation, system development, system integration, system design and related services, net of value-added tax, after allowances for returns, trade discounts and various types of revenue taxes where applicable. All inter company transactions are eliminated on consolidation.

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Turnover	<b>293,134</b>	227,023
Amortisation of negative goodwill	–	352
Interest income	<b>308</b>	415
Government grants and subsidies	<b>550</b>	496
Gain on disposal of subsidiaries	–	244
Others	<b>22</b>	42
Other revenue	<b>880</b>	1,549
Total revenue	<b>294,014</b>	228,572

**5. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities is arrived at after charging/(crediting):

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Cost of sales	<b>224,907</b>	167,067
Auditors' remuneration	<b>1,006</b>	717
Amortisation of intangible assets	<b>1,073</b>	70
Amortisation of negative goodwill	–	(352)
Provision for impairment loss of goodwill	<b>94</b>	–
Amortisation of goodwill	–	24
Depreciation of property, plant and equipment	<b>2,323</b>	1,904
Inventory written down/(reversal)	<b>86</b>	(32)
Minimum lease payments under operating leases for buildings	<b>2,488</b>	1,418
Provision for bad and doubtful debts	<b>21</b>	–
Interest income	<b>(308)</b>	(415)
Loss on disposal of property, plant and equipment	<b>650</b>	–
Gain on disposal of subsidiaries	–	(244)
Research and development costs	<b>365</b>	284
Staff costs:		
Retirement benefits	<b>466</b>	495
Accommodation benefits	<b>360</b>	262
Other staff costs (including directors and senior executives emoluments as set out in notes 7 and 8)	<b>15,484</b>	11,985
Total Staff costs	<b>16,310</b>	12,742
Less: Amounts classified as deferred development costs	<b>(1,672)</b>	(2,143)
	<b>14,638</b>	10,599

## Notes to the Financial Statements (cont'd)

31 December 2004

### 6. FINANCE COSTS

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Interest on bank loans	<b>3,620</b>	2,450
Bank charges and commissions	<b>240</b>	243
	<b>3,860</b>	2,693

### 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year disclosed pursuant to the Rules Governing the Listing of Securities on the GEM and Section 161 of the Companies Ordinance is as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Fees	<b>248</b>	232
Basic salaries and other benefits	<b>876</b>	793
Pension scheme contributions	<b>26</b>	47
	<b>1,150</b>	1,072

**7. DIRECTORS' REMUNERATION (cont'd)**

	<b>2004</b>	2003
Directors' remuneration by each individual:	<b>RMB'000</b>	RMB'000
Mr. Chau Chit	<b>379</b>	439
Mr. Wong Wai Tin	<b>249</b>	258
Mr. Shen Yue	<b>254</b>	–
Mr. Zhang Xiao Feng	<b>20</b>	143
Mr. Wong Wai Kwan	<b>106</b>	106
Mr. Cai Xiao Fu	<b>21</b>	20
Mr. Shi Jian Jun	<b>15</b>	–
Mr. Li Xiaoqiang, Richard	<b>53</b>	–
Mr. Wu Ming Dong	<b>53</b>	106
<b>Total</b>	<b>1,150</b>	1,072

All of the directors' remuneration fell within the nil to HK\$1,000,000 band for the two years.

On 27 August 2004, 6,000,000 share options were granted to certain directors in respect of their services to the Group under the share option scheme of the Company, further details are set out in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above directors' remuneration disclosures.

**8. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees of the Group included three (2003: three) directors during the year, details of whose remuneration are set out in note 7 above.

Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Basic salaries and other benefits	<b>561</b>	540
Pension scheme contributions	<b>13</b>	25
	<b>574</b>	565

## Notes to the Financial Statements (cont'd)

31 December 2004

### 8. FIVE HIGHEST PAID EMPLOYEES (cont'd)

The remuneration of the two non-director, highest paid employees fell within the nil to HK\$1,000,000 band.

During the year, 100,000 share options were granted to one of the highest paid employees in respect of his service provide to the Group, further details are set out in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

### 9. INCOME TAX EXPENSE

	2004 RMB'000	2003 RMB'000
Current year income tax charge:		
– Hong Kong SAR	1,296	1,839
– The Mainland of the PRC	4,014	2,985
	<b>5,310</b>	4,824
Underprovision in prior year – Hong Kong SAR	56	–
Total	<b>5,366</b>	4,824

Hong Kong taxable profit has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**9. INCOME TAX EXPENSE (cont'd)**

A reconciliation of accounting profits and tax expenses is as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Accounting profits	<b>29,144</b>	37,088
Non-deductible tax losses of consolidated subsidiaries, the holding company and associates	<b>2,300</b>	1,303
Non-taxable profits of consolidated subsidiaries	<b>(5,045)</b>	–
Profits of the Group subject to income tax	<b>26,399</b>	38,391
Tax expenses at applicable income tax rate of 15% in the PRC (2003: 10%)	<b>2,985</b>	2,645
Tax expenses at applicable income tax rate of 15% in the PRC (2003: 15%)	<b>33</b>	190
Tax expenses at applicable income tax rate of 33% in the PRC	<b>155</b>	–
Tax expenses at applicable income tax rate of 17.5% in Hong Kong (2003: 17.5%)	<b>1,296</b>	1,839
Effect of expenses not deductible for tax purposes	<b>841</b>	150
Underprovision of tax in prior year	<b>56</b>	–
Income tax expenses	<b>5,366</b>	4,824

According to the Income Tax Law of the PRC, Sino Stride Technology Co., Ltd. ("SST") and Hangzhou Sino Stride Xingda Computer System Co., Ltd. ("Xingda Computer"), the PRC subsidiaries of the Company, are both qualified as advanced technology enterprises and operate in one of the approved high and new technology industrial development zones of the PRC and thus are subject to a corporate tax rate of 15%, being the preferential tax rate applicable to companies operating in approved high and new technology industrial development zones of the PRC. SST was qualified as an "Outstanding Software Enterprise" in the PRC and was granted a preferential tax rate of 10% in 2003 by the National Tax Bureau.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 9. INCOME TAX EXPENSE (cont'd)

Beijing Sino Stride Powerlink Technology Co., Ltd., a PRC subsidiary of the Company, which is also qualified as an advanced technology enterprise and operates in one of the approved high and new technology industrial development zones of the PRC, was exempted from corporate income tax of the PRC for the three years starting from 1 January 2004 to 31 December 2006.

The applicable Hong Kong corporate income tax rate of Ever Create Profits Limited, a subsidiary of the Company which operates in Hong Kong, is 17.5% based on existing legislation.

The applicable PRC income tax rate of the other PRC subsidiaries is 33% based on existing legislation. No provision for income tax has been made for other subsidiaries of the Company as they incurred losses during the year.

There are no significant potential deferred tax liabilities for which provision has not been made during the year.

### 10. DIVIDENDS

	2004 RMB'000	2003 RMB'000
Dividend declared and paid	13,790	13,834

On 7 June 2004, the Company declared and the shareholders approved a final dividend of HK\$1.2 cents (2003: HK\$1.2 cents) per ordinary share, amounting to approximately RMB13,790,000 at the 2003 annual general meeting.

On 29 March 2005, the directors proposed a final dividend of HK\$0.8 cents per ordinary share. The proposed dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend has not been incorporated in the financial statements for the year ended 31 December 2004.

### 11. EARNINGS PER SHARE

#### *Basic*

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of 22,943,000 (2003: RMB31,808,000) and the weighted average number of 1,084,671,000 (2003: 1,084,090,000) ordinary shares in issue during the year.



**11. EARNINGS PER SHARE (cont'd)***Diluted*

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of RMB22,943,000 (2003: RMB31,808,000) and the weighted average of 1,085,356,000 (2003: 1,084,090,000) ordinary shares, after adjusting for the effects of all dilutive potential ordinary shares during the year.

The reconciliation of weighted average number of shares used in the calculations of basic earning per share and diluted earnings per share is as follows:

	2004	2003
Weighted average number of ordinary shares used in basic earnings per share calculation	<b>1,084,671,000</b>	1,084,090,000
Weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year	<b>685,000</b>	–
Weighted average number of ordinary shares used in diluted earnings per share calculation	<b>1,085,356,000</b>	1,084,090,000

## Notes to the Financial Statements (cont'd)

31 December 2004

### 12. PROPERTY, PLANT AND EQUIPMENT

<b>Group</b>	<b>Buildings</b> RMB'000	<b>Leasehold improvements</b> RMB'000	<b>Computer and office equipment</b> RMB'000	<b>Motor vehicles</b> RMB'000	<b>Total</b> RMB'000
Cost:					
As at 1 January 2004	1,170	1,842	5,627	5,636	14,275
Additions	2,592	140	937	1,634	5,303
Disposals	–	(1,365)	–	–	(1,365)
Exchange realignment	–	(4)	(3)	–	(7)
As at 31 December 2004	3,762	613	6,561	7,270	18,206
Accumulated depreciation:					
As at 1 January 2004	324	646	2,395	2,439	5,804
Charge for the year	53	387	956	927	2,323
Disposals	–	(715)	–	–	(715)
Exchange realignment	–	(1)	(1)	–	(2)
As at 31 December 2004	377	317	3,350	3,366	7,410
Net book value:					
As at 31 December 2004	3,385	296	3,211	3,904	10,796
As at 31 December 2003	846	1,196	3,232	3,197	8,471
<b>Company</b>					
Cost:					
As at 1 January 2004	–	681	53	–	734
Additions	–	–	13	–	13
Disposals	–	(610)	–	–	(610)
Exchange realignment	–	(3)	–	–	(3)
As at 31 December 2004	–	68	66	–	134
Accumulated depreciation:					
As at 1 January 2004	–	218	14	–	232
Charge for the year	–	117	12	–	129
Disposals	–	(300)	–	–	(300)
Exchange realignment	–	(1)	–	–	(1)
As at 31 December 2004	–	34	26	–	60
Net book value:					
As at 31 December 2004	–	34	40	–	74
As at 31 December 2003	–	463	39	–	502

**13. INTANGIBLE ASSETS**

<b>Group</b>	<b>Deferred development costs</b>	
	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Cost:		
At beginning of year	<b>7,019</b>	1,600
Additions	<b>2,489</b>	6,019
Disposal of subsidiaries	–	(600)
At end of year	<b>9,508</b>	7,019
Accumulated amortisation:		
At beginning of year	–	200
Provided during the year	<b>(1,073)</b>	70
Disposal of subsidiaries	–	(270)
At end of year	<b>(1,073)</b>	–
Net carrying amount	<b>8,435</b>	7,019

**14. GOODWILL AND NEGATIVE GOODWILL**

<b>Goodwill</b>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Cost:		
At beginning of year	<b>298</b>	31
Arising on acquisition of a subsidiary	–	281
Disposal of subsidiaries	–	(14)
At end of year	<b>298</b>	298
Accumulated amortisation and provision for impairment losses:		
At beginning of year	<b>(41)</b>	(31)
Impairment loss provided for the year	<b>(94)</b>	–
Amortisation charge for the year	–	(24)
Disposal of subsidiaries	–	14
At end of year	<b>(135)</b>	(41)
Net carrying amount	<b>163</b>	257

## Notes to the Financial Statements (cont'd)

31 December 2004

### 14. GOODWILL AND NEGATIVE GOODWILL (cont'd)

<b>Negative goodwill</b>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Cost:		
At beginning of year	<b>(1,055)</b>	(1,055)
Derecognition during the year	<b>1,055</b>	–
At end of year	–	(1,055)
Accumulated amortisation:		
At beginning of year	<b>469</b>	117
Provided during the year	–	352
Derecognition during the year	<b>(469)</b>	–
At end of year	–	469
Net carrying amount	–	(586)

### 15. INTERESTS IN SUBSIDIARIES

<b>Company</b>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Unlisted shares, at cost	<b>24,621</b>	24,621
Due from subsidiaries	<b>83,392</b>	59,892
	<b>108,013</b>	84,513

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. These advances are non-trade in nature.

## 15. INTERESTS IN SUBSIDIARIES (cont'd)

Particulars of the subsidiaries are set out as follows:

Company	Place and date of incorporation/ establishment and operations	Nominal value of issued shares/paid-up capital	Percentage of equity interest attributable to the Group				Principal activities
			Direct %		Indirect %		
			2004	2003	2004	2003	
Sino Stride (BVI) Limited	British Virgin Islands/Hong Kong 5 October 2001	US\$101	100	100	-	-	Investment holding
Ever Create Profits Limited	British Virgin Islands/Hong Kong 2 July 2002	US\$1	100	100	-	-	System design and sale of system hardware
Choice Delta Assets Limited	British Virgin Islands/Hong Kong 2 July 2002	US\$1	100	100	-	-	Investment holding
Sino Stride Technology Co., Ltd.	PRC 31 December 1992	RMB60 million	-	-	97.5	97.5	System value-added service solution and development
Hangzhou Sino Stride Xingda Computer System Co., Ltd.	PRC 16 May 2000	RMB3 million	-	-	92.6	92.6	System value-added service solution and development
Beijing Sino Stride Powerlink Technology Co., Ltd.	PRC 4 September 2003	RMB10 million	-	-	73	73	System design and sale of system hardware

## Notes to the Financial Statements (cont'd)

31 December 2004

### 15. INTERESTS IN SUBSIDIARIES (cont'd)

Company	Place and date of incorporation/ establishment and operations	Nominal value of issued shares/paid-up capital	Percentage of equity interest attributable to the Group		Principal activities		
			Direct %	Indirect %			
			2004	2003			
Chongqing Sino Stride Technology Co., Ltd.	PRC 22 September 2003	RMB5.6 million	-	-	98.1	98.1	System value-added service solution and development
Hangzhou Vico Software Engineering Co. Ltd.	PRC 8 August 1996	RMB1.5 million	-	-	53.6	53.6	System value-added service solution and development

### 16. INVESTMENTS IN ASSOCIATES

Group	2004 RMB'000	2003 RMB'000
Share of net assets of associates	2,662	2,577

Particulars of the associates which all are incorporated in the PRC are as follows:

Company	Business structure	Paid-up capital RMB'000	Percentage of equity interest attributable to the Group		Principal activities
			2004	2003	
			Zhejiang University Sino Stride Fire Prevention Engineering Co., Ltd.	Corporate	
Shenzhen Fasten Sino Stride Technology Limited	Corporate	5,000	39.0%	39.0%	Sale of hardware and equipment related to system integration and system design
Hangzhou Sino Stride Hospital Yida System Technology Co., Ltd.	Corporate	1,000	27.8%	27.8%	Sale of medical equipment

**17. LONG TERM INVESTMENTS**

<b>Group</b>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Unquoted investments, at cost	<b>2,500</b>	2,500

The directors are of the opinion that there is no impairment for the above investments as at 31 December 2004.

**18. DEPOSITS PLEDGED WITH FINANCIAL INSTITUTIONS**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b> <b>RMB'000</b>	2003 RMB'000	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Fixed deposits	<b>11,675</b>	18,151	–	15,986

Fixed deposits as at 31 December 2004 have been pledged to financial institutions for the issuance of letters of credits and notes payable. Fixed deposits as at 31 December 2003 have been pledged to financial institutions for the issuance of letters of credit, notes payable and to secure bank loans in the amount of RMB9,572,000 as set out in note 22.

The pledged cash deposits bear interest at rates ranging from 0.72% to 1.62% (2003: 0.0025% to 1.04%) per annum.

**19. TRADE RECEIVABLES**

<b>Group</b>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Trade receivables	<b>84,569</b>	55,556
Less: provision for bad and doubtful debts	<b>(21)</b>	–
	<b>84,548</b>	55,556

## Notes to the Financial Statements (cont'd)

31 December 2004

### 19. TRADE RECEIVABLES (cont'd)

An aged analysis of the trade receivables is as follows:

	2004 RMB'000	2003 RMB'000
Within 30 days	45,878	24,617
Between 31 and 90 days	18,492	25,620
Between 91 and 180 days	17,398	2,943
Between 181 and 360 days	1,292	300
Over 360 days	1,509	2,076
	<b>84,569</b>	55,556

### 20. UNBILLED AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

Contract costs incurred plus recognised profits amounted to approximately RMB569,159,000 for the year (2003: RMB375,398,000).

Unbilled amounts due from customers for contract works amounted to approximately RMB146,041,000 for the year (2003: RMB108,203,000).

### 21. INVENTORIES

Group	2004 RMB'000	2003 RMB'000
At cost:		
Parts and components	141	1,545
Purchased equipment	18,318	14,353
	<b>18,459</b>	15,898
At net realisable value:		
Purchased equipment	–	452
	<b>18,459</b>	16,350



## 22. BANK LOANS

Group	Notes	2004 RMB'000	2003 RMB'000
Short term loans:			
Unsecured	(a)	<b>67,873</b>	73,281
Secured	(b)	–	9,572
		<b>67,873</b>	82,853

Notes:

- (a) The unsecured bank loans bear interest at rates ranging from 4.2% to 5.8% (2003: 5% to 5.3%) per annum and are repayable in less than 12 months.
- (b) The bank loans are secured by fixed deposits as set out in note 18 to the financial statements, bearing interest at a rate of 2.4% per annum and are repayable in less than 12 months.

## 23. TRADE AND NOTES PAYABLES

The ageing of the trade and notes payable is as follows:

	2004 RMB'000	2003 RMB'000
Within 90 days	<b>80,478</b>	54,805
Between 91 and 180 days	<b>7,401</b>	4,395
Between 181 and 360 days	<b>3,889</b>	7,394
Over 360 days	<b>9,472</b>	2,818
	<b>101,240</b>	69,412

## 24. DEFERRED INCOME

The balance as at 31 December 2004 represented government grants granted by the Hangzhou Ministry of Finance and Hangzhou Science and Technology Bureau. The government grants will be given by the Hangzhou Ministry of Finance and Hangzhou Science and Technology Bureau to the Group once the specified research and development projects of the Group are approved and certified by the Hangzhou Science and Technology Bureau on completion. The Group will recognize the government grants as income when the underlying conditions of the government grants are met.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 25. ISSUED CAPITAL

Group and Company	Note	2004 RMB'000	2003 RMB'000
Authorised:			
2,000,000,000 (2003: 2,000,000,000) ordinary shares of HK\$0.01 each		<b>21,200</b>	21,200
		2004 RMB'000	2003 RMB'000
Issued and fully paid:			
1,086,300,000 (2003: 1,084,090,000) ordinary shares of HK\$0.01 each			
At 1 January 2004		<b>11,491</b>	11,491
Issuance of share pursuant to share options	26	<b>23</b>	–
At 31 December 2004		<b>11,514</b>	11,491

Details of the Company's share option scheme and the share options issued under the scheme are set out in note 26 to the financial statements.

### 26. SHARE OPTION SCHEME

On 16 July 2002, the Company approved a share option scheme (the "Share Option Scheme") under which the directors may, at their discretion, grant options to the directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The subscription price for shares under the Share Option Scheme will be determined by the directors, which shall be calculated with reference to the higher of (i) the closing price of the shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the option; (ii) the average closing price of the shares on the GEM of the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of a share.

## 26. SHARE OPTION SCHEME (cont'd)

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not exceed 10% of the share capital of the Company in issue and may not exceed in nominal value 30% of the issued share capital of the Company in issue for a period of 10 consecutive years. The Share Option Scheme will remain in force for the period of 10 years commencing on 16 July 2002. No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme in any 12-months period up to the date of grant to such person exceeding 1% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Share Options Scheme.

On 27 August 2004, the Company granted certain employees under the Share Option Scheme a total of 12,000,000 share options to subscribe for the Company's shares of HK\$0.01 each, at an exercise price of HK\$0.34 per share, exercisable at any time from 27 August 2004 to 26 August 2014. The exercise price of the share options of HK\$0.34 per share was determined with reference to the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant. Share options do not confer rights on the holders to dividends or vote at shareholders' meetings.

On 27 September 2004, 2,210,000 share options were exercised by certain employees, which resulted in the issue of 2,210,000 ordinary shares of the Company and additional share capital of RMB23,000 and share premium of RMB773,000.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 26. SHARE OPTION SCHEME (cont'd)

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise		
	At 1	Granted	Exercised	Lapsed	At 31			price	Price of Company's shares***	
	January	during	during	during	December			of share	At grant	At exercise
	2004	the year	the year	the year	2004	options **	date of options	date of options		
							HK\$	HK\$	HK\$	
<b>Directors</b>										
Mr. Chau Chit	-	3,000,000	-	-	3,000,000	27 August 2004	27 August 2004 to 26 August 2014	0.34	0.34	-
Mr. Wong Wai Tin	-	2,000,000	-	-	2,000,000	27 August 2004	27 August 2004 to 26 August 2014	0.34	0.34	-
Mr. Shen Yue	-	1,000,000	-	-	1,000,000	27 August 2004	27 August 2004 to 26 August 2014	0.34	0.34	-
	-	6,000,000	-	-	6,000,000					
<b>Chief executives</b>										
Mr. Wang Ning	-	100,000	(30,000)	-	70,000	27 August 2004	27 August 2004 to 26 August 2014	0.34	0.34	0.34
Mr. Xu Dong Hui	-	100,000	(30,000)	-	70,000	27 August 2004	27 August 2004 to 26 August 2014	0.34	0.34	0.34
Mr. Guo Wei	-	100,000	(30,000)	-	70,000	27 August 2004	27 August 2004 to 26 August 2014	0.34	0.34	0.34
	-	300,000	(90,000)	-	210,000					
<b>Other employees</b>										
In aggregate	-	5,700,000	(2,120,000)	(340,000)	3,240,000	27 August 2004	27 August 2004 to 26 August 2014	0.34	0.34	0.34
<b>Total</b>	-	12,000,000	(2,210,000)	(340,000)	9,450,000					

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

**26. SHARE OPTION SCHEME (cont'd)**

At the balance sheet date, the Company had 9,450,000 share options outstanding under the Share Option Scheme, which represented approximately 0.9% of the Company's shares in issue as at 31 December 2004. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 9,450,000 additional ordinary shares of the Company and additional share capital of RMB101,000 and share premium of RMB3,306,000 (before issue expenses).

**27. RESERVES**

Company	Share Contribution		Exchange	Retained	Total
	premium	surplus	fluctuation	profits	
	RMB'000	RMB'000	reserve	RMB'000	RMB'000
	(a)				
At 1 January 2003	69,800	24,620	–	6,275	100,695
Net profit for the year	–	–	–	7,650	7,650
Dividends	–	–	–	(13,834)	(13,834)
Exchange realignment	–	–	457	–	457
At 31 December 2003	69,800	24,620	457	91	94,968
Issuance of shares pursuant to share options	773	–	–	–	773
Net profit for the year	–	–	–	15,654	15,654
Dividends	–	–	–	(13,790)	(13,790)
Exchange realignment	–	–	(437)	–	(437)
At 31 December 2004	70,573	24,620	20	1,955	97,168

### 27. RESERVES (cont'd)

**(a) Contribution surplus**

The contribution surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group Reorganisation in the preparation for the public listing of the Company's shares on the GEM of the Stock Exchange, over the nominal value of the Company's shares issued in exchange thereof. The contribution surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

**(b) Statutory surplus reserve**

In accordance with the Company Law of the PRC and the articles of association of the PRC subsidiaries, certain PRC subsidiaries are required to allocate 5% to 10% of their profits after tax, as determined in accordance with accounting principles generally accepted in the PRC ("PRC GAAP") applicable to the PRC subsidiaries, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the PRC subsidiaries, and part of the SSR may be converted to increase the paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

**(c) Enterprise expansion fund**

In accordance with the Company Law of the PRC, certain PRC subsidiaries are required to transfer 5% to 10% of their profits after tax, as determined in accordance with PRC GAAP applicable to the PRC subsidiaries, to the enterprise expansion fund (the "EEF") which is a non-distributable reserve other than in the event of liquidation of these subsidiaries. EEF must be used for production and operation expansion purposes.

### 28. FINANCIAL INSTRUMENTS

#### *Financial risk management objectives and policies*

The Group is exposed to market risk, including primarily changes in interest rates. The Group does not hold or issue derivative financial instruments for trading purposes.

#### **(a) Interest rate risk**

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing bank loans and other borrowings.

The Group does not hedge interest rate fluctuations.

In the opinion of the directors, the Group has no significant interest rate risk due to the short maturity of the Group's interest-bearing loans and other borrowings.

#### **(b) Exchange rate risk**

The Group's exposure to market risk for changes in foreign currency exchange rates relates primarily to the Group's operations in Hong Kong.

The Group has foreign currency risk as certain of its payables to suppliers and trade receivables are denominated in foreign currencies, principally United States dollars. Fluctuations in exchange rates of Hong Kong dollars and RMB against foreign currencies could affect the Group's results of operations.

#### **(c) Credit risk**

Credit risk arising from the inability of a counterpart, to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group. The Group minimises its exposure to credit risk by only dealing with counterpart with acceptable credit ratings.

### 28. FINANCIAL INSTRUMENTS (cont'd)

#### *Financial risk management objectives and policies (cont'd)*

**(d) Credit risk exposures**

The Group's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event that the counterparties fail to perform their obligations as at 31 December 2004 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the consolidated balance sheet.

**(e) Significant concentrations of credit risk**

Concentrations of credit risk exist when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has significant sales transactions with government organisations, hotels and property developers in Zhejiang Province, the PRC and hence, has a significant concentrations of credit risk.

As at 31 December 2003 and 2004, the Group's unbilled amounts due from customers for contract works amounted to approximately RMB108,203,000 and RMB146,041,000, respectively. The unbilled amount due from customers for contract works accounted for approximately 32% and 37% of the Group's total assets as at 31 December 2003 and 2004, respectively. The Group bills its customers for services provided in accordance with payment terms as stipulated in the intelligent information solution contracts signed with its customers. Therefore, the Group has a significant concentrations of credit risk for unbilled amounts due from customers for contract works as set out above.

**(f) Net fair values**

The aggregate net fair values of financial assets and financial liabilities are not materially different from their carrying amounts.

### 29. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.



**30. COMMITMENTS**

<b>Group</b>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Future minimum lease rentals payable under non-cancellable operating leases expiring:		
Within one year	<b>2,707</b>	1,986
In the second to fifth years, inclusive	<b>2,749</b>	2,320
	<b>5,456</b>	4,306
Capital commitments:		
Contracted, but not provided for		
Property, plant and equipment:	<b>3,200</b>	6,050
Investment in an associate	<b>3,750</b>	–

<b>Company</b>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Future minimum lease rentals payable under non-cancellable operating leases expiring:		
Within one year	<b>321</b>	679
In the second to fifth years, inclusive	<b>188</b>	1,583
	<b>509</b>	2,262

The Group and the Company did not have any other significant capital expenditure and commitments as at 31 December 2004.

**31. POST BALANCE SHEET EVENTS**

On 23 February 2005, Mega Start Limited ("Mega Start") and Singapore Technologies Electronics Limited ("ST Electronics"), substantial shareholders of the Company, entered into a share purchase agreement in which ST Electronics acquired 88,260,000, approximately 8.12%, shares of the issued share capital of the Company from Mega Start at a consideration of HK\$0.315 per share. Upon the completion of the transaction, ST Electronics' shareholding interest in the Company increased from approximately 19.88% to 28% of the issued share capital of the Company while Mega Start's shareholding interest in the Company decreased from approximately 49.71% to 41.59% of the issued share capital of the Company.

On 29 March 2005, the directors proposed a final dividend of HK\$0.8 cents per ordinary share. The proposed dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 32. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company and its subsidiaries had the following material transactions with related parties:

Name of related parties	Nature of transactions	2004 RMB'000	2003 RMB'000
<b>Group</b>			
Sino Stride Holdings Limited ("HKSS") (note a)	Operating lease of buildings from the related company (note d)	553	600
Hangzhou Advance Technology Company Limited ("HAT") (note b)	Subcontracting to the related company (note e)	1,037	–
<b>Company</b>			
HKSS (note a)	Operating lease of buildings from the related company (note d)	553	600
Ever Create Profits Limited ("ECP") (note c)	Provision of management services to the related company (note f)	265	468
ECP (note c)	Provision of sales arrangement services to the related company (note g)	2,417	2,728
Chau Chit (note h)	Share options granted to a director (note h)	1,020	–
Wong Wai Tin (note h)	Share options granted to a director (note h)	680	–
Shen Yue (note h)	Share options granted to a director (note h)	340	–
Sino Stride Technology Co., Ltd. ("SST") (note c)	Advance from the related company (note i)	1,618	1,579
Sino Stride (BVI) Limited ("Sino BVI") (note c)	Advance to the related company (note j)	49,880	50,160
ECP (note c)	Advance to the related company (note j)	30,065	10,778
Choice Delta Assets Limited ("CDA") (note c)	Advance to the related company (note j)	5,065	533

**32. RELATED PARTY TRANSACTIONS (cont'd)**

## Notes:

- (a) HKSS is a company beneficially owned by Mr. Chau Chit, a director, Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively.
- (b) HAT is a company in which Mr. Zhang Xiao Feng, a former director of the Company, has 48% equity interest. The transactions were entered into during the service of his directorship.
- (c) ECP, SST, Sino BVI and CDA are subsidiaries of the Company.
- (d) On 19 April 2002, HKSS, as landlords, entered into two lease agreements with the Company as tenant in respect of:
- i. the premises located at Rooms 3113, 3115 and 3116, 31/F, New Tech Plaza, 34 Tai Yau Street, San Po Kong, Kowloon, Hong Kong for use as its Hong Kong office at monthly rentals of HK\$21,000, as determined based on approximate prevailing market prices; and
  - ii. an apartment located at Flat F, 22/F, Tower One, Park Tower, 1 King's road, Causeway Bay, Hong Kong, for use as living quarters for the directors for a term of five years each commencing from 19 April 2002, at monthly rentals of HK\$26,000, as determined based on approximate prevailing market prices.
- (e) On 24 April 2004, SST and HAT entered into a subcontracting agreement. Pursuant to the agreement, SST subcontracted contract works amounting to RMB1,036,000 to HAT. In the opinion of the directors, this transaction was carried out based on normal commercial terms and in accordance with the terms of the underlying agreement.
- (f) These transactions have been entered into in the normal course of business and have been transacted based on the terms and conditions determined by agreement of the parties.
- (g) On 1 February 2003, the Company entered into an agreement with ECP in relation to the provision of sales arrangement services. The sales arrangement service charges, as determined by agreement of both parties, are set at 5% of the turnover of ECP.
- (h) On 27 August 2004, share options were granted to Mr. Chau Chit, Mr. Wong Wai Tin and Mr. Shen Yue in respect of their services to the Group under the Company's Share Option Scheme. The theoretical values of the shares of RMB1,020,000, RMB680,000 and RMB340,000, respectively, which is computed based on the exercise price of HK\$0.34 per share. The exercise price was determined with reference to the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.
- (i) The advance from SST is unsecured, interest-free and has no fixed term of repayment as set out in note 15 to the financial statements.
- Had interest been charged on the outstanding amount due to the subsidiary, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.76% per annum for the year ended 31 December 2004, the Company would have borne interest expenses, net of tax, of approximately RMB79,000 (2003: RMB77,000) for the year ended 31 December 2004.
- (j) The advances to the subsidiaries are unsecured, interest-free and has no fixed term of repayment as set out in note 15 to the financial statements.
- Had interest been charged on the outstanding amount due from the subsidiaries, based on the official interest rate in Hong Kong quoted by the Hongkong and Shanghai Banking Corporation Limited of approximately 2.25% per annum for the year ended 31 December 2004, the Company would have an interest income, net of tax, of approximately RMB1,578,000 (2003: RMB1,141,000) for the year ended 31 December 2004.

## Notes to the Financial Statements (cont'd)

31 December 2004

### 32. RELATED PARTY TRANSACTIONS (cont'd)

In addition to the above disclosed transactions, on 21 December 2004, Sino Stride Technology Co., Ltd. entered into a joint venture agreement (the "JV Agreement") for the establishment of a Sino-Foreign Equity Joint Venture, known as STAR (Zhejiang) Automotive Center Co., Ltd. with Singapore Technologies Kinetics Limited, a fellow subsidiary of the Company's substantial shareholder, Singapore Technologies Electronics Limited, and Zhejiang University Logistics and Investment Holdings Company. According to the JV Agreement, Sino Stride Technology Co., Ltd. will contribute RMB3,750,000 in cash in 2005, representing 25% of the registered capital of the joint venture. No capital contribution was paid as at 31 December 2004.

The directors of the Company are of the opinion that the above transactions with related parties were carried out based on normal commercial terms in the ordinary course of business.

### 33. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

### 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2005.