



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)*

## **First Quarterly Report 2006**

\* *For identification purpose only*

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

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

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

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

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

*This report, for which the Directors of Sino Stride Technology (Holdings) Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rule”) 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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



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)

(Stock Code: 8177)

### FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2006 (UNAUDITED)

The board of Directors (the “Board”) of Sino Stride Technology (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2006, together with the comparative figures for the three months ended 31 March 2005 (the “Relevant Period”) as follows:

#### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	(Unaudited)	
		For the three months ended 31 March	
		2006 RMB'000	2005 RMB'000
Revenue	4	51,993	44,717
Cost of sales		(42,422)	(31,163)
Gross profit		9,571	13,554
Other income	4	211	772
Selling and distribution costs		(2,483)	(5,314)
Administrative expenses		(4,942)	(7,028)
Other operating expenses		(509)	—
Profit from operating activities	5	1,848	1,984
Finance costs	6	(1,291)	(996)
Share of loss of associates		(19)	(246)
Profit before tax		538	742
Income tax expenses	7	(519)	(40)
Profit for the period		19	702
Attributable to:			
Equity holders of the parent		219	475
Minority interests		(200)	227
		19	702
Earnings per share			
– Basic and diluted (RMB cents)	8	RMB0.02	RMB0.04

\* For identification purpose only.

## NOTES TO THE UNAUDITED CONSOLIDATED RESULTS

### 1. Background of the Corporation

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

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

### 2. Basis of Preparation

The unaudited consolidated results have been prepared under the historical cost convention in accordance with International Financial Reporting Standards (“IFRSs”), 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.

### 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 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 three months ended 31 March 2006.

	Unaudited three months ended 31 March					
	Hong Kong		PRC		Consolidated	
	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>4,427</u>	–	<u>47,566</u>	44,717	<u>51,993</u>	<u>44,717</u>
Segment results	698	(246)	2,455	3,303	3,153	3,057
Unallocated corporate expenses					(1,307)	(1,073)
Other income					2	–
Profit from operating activities					1,848	1,984
Finance costs					(1,291)	(996)
Share of loss of associates					(19)	(246)
Profit before tax					538	742
Income tax expenses					(519)	(40)
Profit for the period					<u>19</u>	<u>702</u>
Attributable to:						
Equity holders of the parent					219	475
Minority interests					(200)	227
					<u>19</u>	<u>702</u>

#### 4. Revenue and other income

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 significant intra-group transactions are eliminated on consolidation.

	(Unaudited) For the three months ended 31 March	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	51,993	44,717
Other income:		
Interest income	142	73
Others	69	699
	<u>211</u>	<u>772</u>
Total	<u><u>52,204</u></u>	<u><u>45,489</u></u>

#### 5. Profit from operating activities

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

	(Unaudited) For the three months ended 31 March	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	42,422	31,163
Auditors' remuneration	312	307
Amortisation of intangible assets	276	276
Depreciation of property, plant and equipment	509	571
Minimum lease payments under operating leases for buildings	657	747
Gain on disposal of property, plant and equipment	(4)	(20)
Staff costs:		
Retirement benefits	98	110
Accommodation benefits	12	83
Other staff costs	2,897	4,716
	<u>3,007</u>	<u>4,909</u>
Less: Amounts classified as deferred development costs	–	–
Total staff costs	<u><u>3,007</u></u>	<u><u>4,909</u></u>

6. Finance costs

	(Unaudited) For the three months ended 31 March	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans	1,236	962
Bank charges and commissions	55	34
	<u>1,291</u>	<u>996</u>

7. Income tax expenses

	(Unaudited) For three months ended 31 March	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Provision for the period		
Hong Kong SAR	112	–
The Mainland of the PRC	407	271
	<u>519</u>	<u>271</u>
Overprovision in prior year – The PRC	–	(231)
Total	<u>519</u>	<u>40</u>

Hong Kong taxable profits has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the period (2005: Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period). 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.

According to the Income Tax Law of the PRC, Sino Stride Technology Co., Ltd. (“Sino Stride Technology”) and Hangzhou Sino Stride Megain Optic-Electronic Technology Company Limited (“Megain”), the subsidiaries of the Company located in the Mainland of the PRC, are both qualified as advanced technology enterprises and operate in one of the approved high and new technology industrial development zones of the Mainland of the PRC and thus are subject to a corporate tax rate of 16.5% (2005: 15%) and 15% (2005: 15%), respectively, being the preferential tax rate applicable to companies operating in approved high and new technology industrial development zones of the PRC.

Beijing Sino Stride Powerlink Technology Co., Ltd., a subsidiary of the Company in the Mainland of the PRC, 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 Mainland 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 PRC income tax rate of the other subsidiaries located in the Mainland of the PRC is 33% based on existing legislation. However, Chongqing Sino Stride Technology Company Limited (“Chongqing Sino Stride”), one of the subsidiaries of the Company, is exempted from corporate income tax for its first two profit making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years in accordance with the relevant tax laws in the PRC.

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

## 8. Earnings per share

### *Basic*

The calculation of basic earnings per share is based on net profit from ordinary activities attributable to ordinary equity holders of the parent of RMB219,000 (2005: RMB 475,000) and the weighted average of 1,086,300,000 (2005: 1,086,300,000) ordinary shares in issue during the period.

### *Diluted*

Diluted earnings per share equals basic earnings per share because there were no potential dilutive ordinary shares outstanding during the three months ended 31 March 2006 and 2005.

## 9. Interim dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: Nil).

## 10. Share capital and reserves

Movement in the share capital and reserves and minority interests of the Group were as follows:

Notes	Issued	Share	Contribution	Statutory	Enterprise	Exchange	Retained	Minority	Total
	capital	premium	surplus	surplus	expansion	fluctuation	profits	interests	
				reserve	fund	reserve			
				(a)	(b)	(c)			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006	11,514	61,361	13,499	3,779	2,890	(508)	67,529	6,205	166,269
Net profit for the period	-	-	-	-	-	-	219	(200)	19
As at 31 March 2006	<u>11,514</u>	<u>61,361</u>	<u>13,499</u>	<u>3,779</u>	<u>2,890</u>	<u>(508)</u>	<u>67,748</u>	<u>6,005</u>	<u>166,288</u>

  

Notes	Issued	Share	Contribution	Statutory	Enterprise	Exchange	Retained	Minority	Total
	capital	premium	surplus	surplus	expansion	fluctuation	profits	interests	
				reserve	fund	reserve			
				(a)	(b)	(c)			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2005	11,514	70,573	13,499	3,230	2,349	14	59,305	6,396	166,880
Net profit for the period	-	-	-	-	-	-	475	227	702
Dividends	-	(9,212)	-	-	-	-	-	(175)	(9,387)
As at 31 March 2005	<u>11,514</u>	<u>61,361</u>	<u>13,499</u>	<u>3,230</u>	<u>2,349</u>	<u>14</u>	<u>59,780</u>	<u>6,448</u>	<u>158,195</u>

## Notes

### (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 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 its profit after tax, as determined in accordance with the accounting principle generally accepted in the PRC ("PRC GAAP") applicable to the PRC subsidiaries, to the statutory surplus reserve ("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 its profit after tax, as determined in accordance with PRC GAAP applicable to the PRC subsidiaries, to the enterprise expansion fund ("EEF"), which is a non-distributable reserve other than in the event of the liquidation of these subsidiaries. EEF must be used for production and operation expansion purposes.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the three months ended 31 March 2006, the Group recorded a turnover of approximately RMB52 million, representing an increase of approximately 16% over the three months ended 31 March 2005. The turnover of the Group for the period ended 31 March 2006 was primarily derived from the provision of system integration solution of approximately RMB45 million and computer network system integration solution of approximately RMB7 million, respectively.

During the three months ended 31 March 2006, the Group recorded a gross profit of approximately RMB9.6 million, representing a profit margin of approximately of 18.4% as compared to gross profit margin of 30% of the corresponding period of last year. The significantly decrease in gross profit margin was mainly attributable to fierce competition amongst competitors in the market and thus leading to price cutting and costs rising of projects.

Selling and distribution costs and administrative expenses for the period ended 31 March 2006 decreased by RMB2.8 million and RMB2 million, respectively.



Other operating costs of RMB0.5 million represents additional professional costs were incurred in respect of the Share Exchange Offer by a wholly-owned subsidiary of Shougang Concord Technology Holdings Limited for the three months ended 31 March 2006.

The Group's net profit from ordinary activities attributable to equity holders of the parent amounted to approximately RMB219,000, representing a decrease of approximately 54% over the three months ended 31 March 2005.

## **OPERATIONS REVIEW**

For the period ended 31 March 2006, the Group has made a number of achievements in the area of business development. In March 2006, Sino Stride Technology Co. Ltd. ("Sino Stride Technology"), one of the subsidiaries of the Company, was awarded as 2006 浙江省軟件業十強企業 (2006 Zhejiang Province Top Ten Software Enterprise) by Zhejiang Province Information Technology Bureau. In addition, Sino Stride Technology was awarded "2005年度完成工程額前50名企業" from 中國建築業協會智能建築專業委員會.

During the three months ended 31 March 2006, the Group successfully bid several large intelligent building system and value added service solution projects such as 北京電視中心工程, 親親家園C區塊智能化系統工程, 合肥市總工會綜合辦公樓智能化工程設備採購及安裝 and 浙江省警衛局指揮中心大樓.

As for the provision of intelligent traffic system ("ITS"), the project of 瑞安市公安局監控系統 (Rui On District Police Monitoring & Control System), which were bided by the Group during the year 2005, were completed during the three months ended 31 March 2006.

As stated in 2004 annual report, Sino Stride Technology entered into a joint venture agreement (the "JV Agreement") dated 21 December 2004 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, 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). During the three months ended 31 March 2006, the Group further contributed RMB1,875,000 in cash in the JV in according to the JV Agreement. The JV is principally engaged in the provision of automotives services.

As far as the prospect of new business/projects of the Group is concerned, the large intelligent building system and value added service solutions projects successfully bid by the Group during the three months ended 31 March 2006 have been performed in accordance with the respective contract terms and expected progresses.

## **SHARE EXCHANGE OFFER BY A WHOLLY-OWNED SUBSIDIARY OF SHOUGANG CONCORD TECHNOLOGY HOLDINGS LIMITED**

On 16 December 2005, Shougang Concord Technology Holdings Limited (“SCT”), a company incorporated in Hong Kong whose securities are listed on the Main Board of the Stock Exchange, approached the Board of the Company stating its intention to make a voluntary conditional share exchange offer (the “Share Exchange Offer”) to acquire all the issued shares of the Company.

On 23 December 2005, SCT issued an announcement jointly with the Company in respect of, amongst other things, a voluntary conditional share exchange offer by Made Connection Limited (the “Offeror”), a wholly-owned subsidiary of SCT, to acquire all the issued shares of the Company at two new shares of SCT for every three shares of the Company.

On 3 April 2006, being the Final Closing Date of the Share Exchange Offer, valid acceptances have been received in respect of 774,699,000 ordinary shares, representing approximately 71.3% of issued share capital, of the Company, under the Share Exchange Offer. As of the date of this report, the legal title of such 774,699,000 issued shares capital have been legally transferred to the Offeror. Accordingly, SCT becomes the substantial shareholder of the Company.

On the basis, and after accounting for the shareholding interests of ST Electronics of approximately 28% of the issued share capital of the Company which has not accepted the Share Exchange Offer, the public float of SST is estimated to be approximately 0.7%. As the Offeror has not acquired the requisite percentage of shareholding in the Company to effect the compulsory acquisition, SCT and the Offeror will (i) use their best endeavours to maintain the public float of the Company if listing on the Stock Exchange is to be maintained or (ii) consider to voluntarily withdraw the listing of the Company shares on the Stock Exchange in accordance with Chapter 9 of the GEM Listing Rules and all applicable laws and regulations. As at the date of this report, SCT and the Offeror have not decided on whether the listing of the Company shares is to be maintained. Temporary waiver has been granted by the Stock Exchange from strict compliance with Rule 11.23 of the GEM Listing Rules on the 25% minimum public float requirement from 3 April 2006 to 25 May 2006 and the Company has applied to the Stock Exchange for the suspension of trading in the Company shares as from 9:30 a.m. on 4 April 2006. The Company will apply to the Stock Exchange to resume trading in the Company shares once the 25% minimum public float of the Company shares has been restored.

## 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.

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 Electronic 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.

The successful completion of the Share Exchange Offer made by SCT in April 2006 has made it the Group's majority shareholder. With the extensive commercial network support from the Offeror and SCT, it will enhance the Group's business expansion and earnings enhancement in future.

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

As at 31 March 2006, the beneficial interests of the Directors in the share capital of the Company or any of 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 associated corporation:

Name of director	Name of associated corporation	Relationship with the Company	Shares	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Chau Chit	Shougang Concord Technology Holdings Limited (Note 1)	Company's intermediate holding company	Ordinary shares	301,160,000	Through a controlled corporation (Note 2)	17.6

Name of director	Name of associated corporation	Relationship with the Company	Shares	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Wong Wai Tin	Shougang Concord Technology Holdings Limited	Company's intermediate holding company	Ordinary shares	301,160,000	Through a controlled corporation (Note 2)	17.6
Mr. Wong Wai Tin	Shougang Concord Technology Holdings Limited	Company's intermediate holding company	Ordinary shares	1,666,666	Directly beneficially owned	0.1

*Notes:*

- (1) Shougang Concord Technology Holdings Limited ("SCT"), a company incorporated in Hong Kong whose securities are listed on the Main Board of the Stock Exchange.
- (2) Mega Start Limited ("Mega Start") 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.

Save as disclosed above, as at 31 March 2006, 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' RIGHT TO ACQUIRE SHARES**

At no time during the period ended 31 March 2006 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 subsidiary and fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquiring of shares in the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, 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, as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO:

### Long position in Shares

Substantial shareholders	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the company's issued share capital as at 31 March 2006
Made Connection Limited	(a)	Directly beneficially owned	758,819,000	69.9%
Shougang Concord Technology Holdings Limited	(a)	Through a controlled corporation	758,819,000	69.9%
Singapore Technologies Electronics Limited ("ST Electronics")	(b)	Directly beneficially owned	304,260,000	28.0%
Singapore Technologies Engineering Ltd. ("ST Engineering")	(b)	Through a controlled corporation	304,260,000	28.0%
Temasek Holdings (Private) Ltd. ("Temasek Holdings")	(b)	Through a controlled corporation	304,260,000	28.0%

#### Notes:

- (a) Made Connection Limited ("Made Connection"), is a wholly-owned subsidiary of Shougang Concord Technology Holdings Limited ("SCT"), a company incorporated in Hong Kong whose securities are listed on the Main Board of the Stock Exchange.
- (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 ST Engineering. Pursuant to Part XV of the SFO, ST Engineering and Temasek Holdings are taken to be interested in the shares held by ST Electronics.

Save as disclosed above, as at 31 March 2006, 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 Division 2 and 3 of Part XV of the SFO and required to be recorded pursuant to Section 336 of the SFO.

## **SHARE OPTION SCHEME**

Pursuant to written resolutions of the shareholders dated 16 July 2002, a share option scheme (the “Share Option Scheme”) was approved and adopted. On 27 August 2004, the Company granted certain directors and 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 were exercisable at any time from 27 August 2004 to 26 August 2014 at an exercise price of HK\$0.34 per share. On 27 September 2004, 2,210,000 share options were exercised by certain employees. As at 31 March 2006, the Company has no options outstanding as all the outstanding share options were cancelled by the Company on 11 November 2005 with consent from the share option holders and pursuant to a board resolution.

## **DIRECTORS’ INTEREST IN COMPETING BUSINESS**

ST Electronics (Shanghai) Co., Ltd., a wholly foreign-owned enterprise established by ST Electronics in Shanghai, the Mainland of the PRC, is also engaged in the business of intelligent building management systems and home automation systems in the Mainland of the PRC. Mr. Ng Chong Khim and Mr. Tay Hun Kiat, two of the senior management staff of ST Electronics, were appointed as non-executive directors of the Company on 15 March 2002 and 10 June 2005, respectively. Through the Share Option Scheme of ST Engineering (which owns 100% of ST Electronics), Mr. Ng Chong Khim and Mr. Tay Hun Kiat may own 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 businesses of the Group as at 31 March 2006.

## **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 give 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 unaudited consolidated results for the Relevant Period 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 one meeting in this period to perform the functions specified in the GEM Listing Rules.

## **CORPORATE GOVERNANCE REPORT**

Subject to the deviations as disclosed hereof, the Company has complied with all the code provisions on Corporate Governance Practices as set out in GEM Listing Rules during the period under review:

### **Code Provision A.4.1**

Under the code provision A.4.1, non-executive directors should be appointed for specific term, subject to re-election. Except for Mr. Ng Chong Khim and Mr. Tay Hun Kiat, who have not entered into any service contract with the Company, each of the Directors of the Company has entered into service agreement with the Company with effect from the date of appointment of the respective Directors for a fixed terms of three years. Mr. Ng and Mr. Tay are nominated by Singapore Technologies Electronics Limited, one of the substantial shareholders of the Company, as non-executive directors of the Company with effective from 15 March 2002 and 10 June 2005, respectively, are not appointed for specific term. They are, however, subject to retirement and re-election at least once every three years. The reason for non-compliance is that the Board does not believe in any arbitrary terms of office for Mr. Ng and Mr. Tay.

### **Code Provision A.4.2**

Under the code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. The existing Articles of Association of the Company provides that no Director holding office as chairman and/or managing Director shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Wong Wai Tin, being the chairman of the Company, is not subject to retirement by rotation. In order to comply with the code provision A.4.2, amendments will be proposed at the forthcoming Annual General Meeting to specify that every Director shall be subject to retirement by rotation at least once every three years. Subject to the approval by the shareholders in the forthcoming Annual General Meeting, Mr. Wong Wai Tin, Mr. Chau Chit, Mr. Wong Wai Kwan, Mr. Ng Chong Khim, Mr. Tay Hun Kiat and Mr. Cai Xiao Fu shall retire by rotation and being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

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

Neither the Company, nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period ended 31 March 2006.

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

During the period ended 31 March 2006, the Company adopted a code of conduct regarding of dealing 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 dealing and its code of conduct regarding securities transactions by directors.

By order of the Board  
**Wong Wai Tin**  
*Chairman*

Hangzhou, the PRC  
11 May 2006

*As at the date of this report, the Board comprises of the executive Directors, namely, Mr. Chau Chit, Mr. Wong Wai Tin (Chairman) and Mr. Shen Yue; the non-executive Directors, namely, Mr. Wong Wai Kwan, Mr. Ng Chong Khim and Mr. Tay Hun Kiat; and the independent non-executive Directors, namely, Mr. Cai Xiao Fu, Mr. Shi Jian Jun and Mr. Li Xiaoqiang, Richard.*