



Information Technology

Systemk Information Technology (Holdings) Limited

(incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2000



Leading the way in e-innovation

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“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 risks 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 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 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 GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 Internet website operated by the Stock Exchange. Listed companies are not generally required to issued paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on the GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, 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 document.

This document, for which the directors of Systek Information Technology (Holdings) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of given information with regard to Systek Information 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 document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2000

- Turnover amounted to approximately HK\$35,210,000 representing approximately 32.91% increase over the corresponding period in 1999.
- Profit attributable to shareholders amounted to approximately HK\$3,194,000 representing approximately 74.54% increase over the corresponding period in 1999.
- Sales of software products amounted to approximately HK\$9,375,000 representing approximately 393.16% increase over the corresponding period in 1999.
- Successful listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong on 8 September 2000.

THIRD QUARTERLY RESULTS

On behalf of the board of the directors (the “Directors”) of Systek Information Technology (Holdings) Limited (the “Company”), I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months and three months ended 31 December 2000 (the “Reporting Periods”), together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

	Note	Nine months ended 31 December		Three months ended 31 December	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	2	35,210	26,492	11,016	10,734
Cost of services and merchandise sold		(16,804)	(13,448)	(5,289)	(5,504)
Gross Profit		18,406	13,044	5,727	5,230
Other revenue		2,865	41	1,906	26
Selling expenses		(2,211)	(1,079)	(997)	(353)
Administrative and other expenses		(15,288)	(9,417)	(5,724)	(3,804)
Profit from operations		3,772	2,589	912	1,099
Finance cost		(593)	(95)	(53)	(64)
Profit from ordinary activities before taxation	3	3,179	2,494	859	1,035
Taxation	4	(364)	(664)	—	(165)
Profit from ordinary activities after taxation		2,815	1,830	859	870
Minority interests		379	—	214	—
Profit attributable to the shareholders		3,194	1,830	1,073	870
Earnings per share					
Basic (HK cents)	5	0.40	0.31	0.10	0.15

Notes:—

1 Reorganisation and basis of presentation

(a) Reorganisation

The Company was incorporated in the Cayman Islands on 16 March 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company became the holding company of the Group on 26 August 2000 through a reorganisation (the “Reorganisation”).

(b) Basis of presentation

The Group resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the consolidated results have been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for both periods presented, rather than from 26 August 2000. Furthermore, the results of the Group for the periods ended 31 December 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 April 1999 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.

All significant intra-group transactions and balances have been eliminated in the preparation of the consolidated results.

2 Turnover

An analysis of the turnover by principal activities of the operations of the Group during the Reporting Periods is as follows:

	Nine months ended		Three months ended	
	31 December 2000	1999	31 December 2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Principal activities</i>				
Systems development	14,606	15,279	4,342	7,201
Sales of software products	9,375	1,901	2,414	45
Professional service fees	6,273	6,016	2,766	2,080
Training fees	2,879	2,500	1,089	925
Technical support fees	752	508	405	251
Others	1,325	288	—	232
	<u>35,210</u>	<u>26,492</u>	<u>11,016</u>	<u>10,734</u>

3 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging (crediting):

	Nine months ended		Three months ended	
	31 December		31 December	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on borrowings	593	95	53	64
Depreciation	989	444	443	160
Interest income	(2,154)	(41)	(1,625)	(26)
	<u>593</u>	<u>95</u>	<u>53</u>	<u>64</u>

4 Taxation

	Nine months ended		Three months ended	
	31 December		31 December	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong taxation	101	664	—	165
Overseas taxation	—	—	—	—
	<u>101</u>	<u>664</u>	<u>—</u>	<u>165</u>
Deferred taxation	263	—	—	—
	<u>364</u>	<u>664</u>	<u>—</u>	<u>165</u>

The provision for Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits arising in Hong Kong for the period. Taxation on the profits of subsidiaries operating outside Hong Kong is calculated at the rates applicable in the respective jurisdictions.

5 Earnings per share

The companies comprising the Group underwent a reorganisation on 26 August 2000 to rationalise the Group's structure in preparation for the listing of the Company's shares on the GEM.

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders for the nine months and three months ended 31 December 2000 of approximately HK\$3,194,000 and HK\$1,073,000 respectively divided by the weighted average number of approximately 793,944,412 shares and 1,036,375,000 shares in issue during the nine months and three months ended 31 December 2000.

The calculation of earnings per share for the nine months and three months ended 31 December 1999 is based on the combined profit attributable to shareholders of approximately HK\$1,830,000 and HK\$870,000 for the nine months and three months ended 31 December 1999 respectively divided by 599,999,942 shares in issue.

There were no potential dilutive ordinary shares in issue during the periods ended 31 December 1999 and 2000.

DIVIDEND

The Directors do not recommend the payment of dividend for the nine months ended 31 December 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECT

Overview

During the reporting periods, the Group has increased focus in establishing distribution channels for its software products. Significant effort has been spent to add new features to the current product portfolio based on the feedback from customers. Sales and marketing office has been set up in Canada to support the sales of Internet software products in Europe and North America. Distribution channels have also been established in the PRC and Taiwan. The Group has successfully completed WinVest®R2.5 to support the implementation of AMS/3.

While the Group has continued to increase revenue in their Financial Technology and eBusiness Consulting Services business units, the Group has also set up the sales and marketing infrastructure/team required to become a Global software product vendor.

Financial Performance

For the nine months ended 31 December 2000, the Group recorded a turnover of approximately HK\$35,210,000 representing an increase of approximately 32.91% over the same period in 1999. Profit attributable to the shareholders for the nine months ended 31 December 2000 was approximately HK\$3,194,000, representing an increase of approximately 74.54% as compared to a profit of approximately HK\$1,830,000 for the same period in 1999. The revenue from sales of software products represented approximately 26.63% of the Group's turnover for the nine months ended 31 December 2000, compared to approximately 7.18% for the corresponding period in 1999. The strong growth in turnover of the Group was mainly attributable to increased sales of the developed software.

For the three months ended 31 December 2000, the Group recorded a turnover of approximately HK\$11,016,000, representing an increase of approximately 2.63% over the same period in 1999. Gross profit for the three months period ended 31 December 2000 increased approximately 9.5% to approximately HK\$5,727,000, representing a gross profit margin of approximately 51.99% as compared with a gross profit margin of approximately 48.72% for the same period in 1999.

Prospect

Research and Development

Focusing on e-Business and Internet related technology, the Group has continued to devote its research and development efforts in technologies which are related to Internet collaboration, XML, wireless, Internet and messaging security and financial applications.

For the Financial Technology line of business, the Group has continued to enhance the current WinVest[®] software, Release 2.0 and Release 2.5. In addition to the current WinVest[®] software features, the Group has also developed the Chinese version of WinVest, which is being used and marketed in the PRC. The Group has also built WinVest[®] Lite for the small and medium brokerage business, and the WinVest[®] ASP targeted for the ASP market. The Group has started the development of WinVest[®] R3.0 as planned.

For the Internet Technology line of business, the Group has continued to enhance the existing product portfolio, which includes ezConnect[™] and ezXML[™]. The Group completed ezConnect[™] R4.0 which provides full Customer Contact functions including the integration of PBX and eCRM. Featuring Telephony integration capabilities, ezConnect[™] can handle both voice and Internet customer contacts. The Group has also completed the development of two ezXML[™] products - ezXML[™] professional version and ezXML[™] enterprise version.

For the Internet Security and Messaging line of business, the Group has continued to enhance SecurTrac[™]. The Group completed SecurTrac[™] Release 2.1 and the development of Release 2.5 is on schedule. SecurTrac[™] Release 2.5 consists of a real time administration system which allows users to effectively monitor the use of multiple systems and multiple server environment.

Business Development

The Group has successfully completed WinVest® R2.5 to support the implementation of AMS/3 for its WinVest® customers. The Group continues to enter into new contracts for enhancing WinVest® with their base customers. The Group has also successfully engaged a new WinVest® customer in the PRC, the implementation of which is targeted for completion in March 2001. As a result of a joint IBM/Systemek AMS/3 seminar, the Group is currently following up with a number of customer leads.

The Group signed a marketing agreement with TG-Nortel's to sell ezConnect™ as part of TG - Nortel's call center solution in the PRC. The Group has also engaged a distributor in Taiwan to sell SecurTrac™ and ezConnect™. A sales and marketing office has been established in Toronto, Canada to support the Internet Technology product sales for the European and North America markets. A number of resellers in Europe and North America has signed up to sell SecurTrac™. The Group is planning to launch ezConnect™ in Europe and North America in April 2001.

The Group continued to do well with their eBusiness Consulting services.

Marketing

The Directors consider that participating in international and local information technology conferences and trade shows from time to time is an effective means of promoting the Group's products and services. During the reporting period, the Group participated in the following trade shows:

- the Banker's Summit in Hong Kong
- Lotusphere in Berlin
- Microsoft Fusion in Singapore
- AMS/3 workshop organized by IBM and Systemek

In addition to the above trade shows, the Group has also started other marketing programs such as email marketing and IT magazine advertisements. A CRM system has been set up for the sales team to track customer activities and to provide a systematic way to follow-up customer leads.

During the period, the Group has engaged the Gartner Group to develop a product positioning strategy for the four key Systemtek products — WinVest®, ezConnect™, ezXML™, SecurTrac™. With the product positioning strategy, the Group is now in a very good position to proceed with the Global marketing program.

DIRECTORS' INTEREST IN SECURITIES

As at 31 December 2000, according to the register to be kept under Section 29 of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance"), the interests of directors, chief executives and their associates in shares of the Company were as follows:

The Company

Name	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total Interest
To Cho Kei ("Mr. To") (Note 1)	—	—	469,421,914	—	469,421,914
Chan Kai Yan	1,165	—	—	—	1,165

Telecare Limited

Name	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total Interest
Yuen Tat Man, Sidney (Note 2)	—	—	2,000	—	2,000

Notes:

- (1) The interest of Mr. To is held through Trouble Free Technology Limited which is wholly owned by Mr. To.
- (2) The interest of Yuen Tat Man, Sidney is held through Lexta Limited, which is owned as to 50% by each of Yuen Tat Man, Sidney and his wife.

Save as disclosed above, none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

The Company has conditionally adopted the Share Option Scheme ("Scheme") pursuant to which full-time employees and directors of the Company and its subsidiaries, excluding non-executive directors and independent non-executive directors of the Group, may be granted options to subscribe for shares. The Scheme became effective upon the listing of the Company's shares on the GEM on 8 September 2000. During the period from 26 August 2000 to 31 December 2000, no options were granted by the Company under the Scheme.

Apart from the foregoing, at no time during the nine months ended 31 December 2000 was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate within the Group.

SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed above in respect of directors and their associates, as at 31 December 2000, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 percent or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage of shareholding
Trouble Free Technology Limited <i>(Note 1)</i>	469,421,914	45.29%

Note:

- (1) Mr. To holds the shares through Trouble Free Technology Limited which is 100 percent beneficially owned by him.

SHARE OPTION SCHEME

On 26 August 2000, the company conditionally adopted the Share Option Scheme, the principal terms of which are set out in the Company's prospectus dated 4 September 2000.

During the period from 26 August 2000 to 31 December 2000, no options were granted by the Company under the Share Option Scheme.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

From the date of listing on 8 September 2000 to 31 December 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTEREST OF SPONSOR

The sponsor of the Company, Core Pacific - Yamaichi Capital Limited, its directors, employees and associates, as at 31 December 2000, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Core Pacific - Yamaichi Capital Limited has entered into a sponsorship agreement with the Company whereby, for a fee, Core Pacific - Yamaichi Capital Limited will act as the Company's continuing sponsor for the period from 4 September 2000 to 31 March 2003.

COMPETING INTERESTS

Mr. To being the controlling shareholder of the Group, effectively owns 100 percent of Extracomm Technologies Incorporation ("Extracomm Technologies"), the business of which constitutes a competing business with that of the Group, under the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules").

Pursuant to a non-competition undertaking dated 26 August 2000, each of Trouble Free and Mr. To has irrevocably undertaken to the Company that each of them will not, and will use their best endeavours to procure that none of their respective associates will, carry on or be engaged, concerned, interested, or assist whether directly or indirectly, whether

as a shareholder, director, executive partner, agent or otherwise, in any business of Extracomm Technologies which is the distribution and marketing of Extrafax.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's primary duties are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Directors.

By Order of the Board
To Cho Kei
Chairman

Hong Kong, 12 February 2001