

Systemk Information Technology (Holdings) Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report 2001

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 GEM of the Stock Exchange 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.

CONTENTS

	<i>Page</i>
Corporate Information	2
Chairman's Statement	3
Business Objective Review	8
Directors and Senior Management Profile	12
Report of the Directors	15
Auditors' Report	21
Consolidated Profit and Loss Account	22
Consolidated Statement of Recognized Gains and Losses	23
Consolidated Balance Sheet	24
Balance Sheet	26
Consolidated Cash Flow Statement	27
Notes to the Financial Statements	29
Notice of Annual General Meeting	54

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. To, Cho Kei (*Chairman*)
Mr. Poon, Bing-Choi Amos
Mr. Yuen, Tat Man Sidney
Mr. Wong, Po Fai
Mr. Chan, Kai Yan
Dr. Chan, Kim Chung

NON-EXECUTIVE DIRECTORS

Mr. Lee, Tak Ching
Mr. Ching, Tai Ming David
Ms. Seto, Laurie Rolly
Mr. Wu, Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Hon. Dr. Wong, Yu Hong Philip
Mr. Chan, Wai Dune Charles
Dr. Leininger, Joseph William

COMPANY SECRETARY

Ms. To, Chiwun-Caritas Christine

QUALIFIED ACCOUNTANT

Mr. Joe, Look Kherman

COMPLIANCE OFFICER

Mr. Chan, Kai Yan

AUTHORISED REPRESENTATIVES

Mr. Yuen, Tat Man Sidney
Ms. To, Chiwun-Caritas Christine

AUDIT COMMITTEE

The Hon. Dr. Wong, Yu Hong Philip
Mr. Chan, Wai Dune Charles
Dr. Leininger, Joseph William

SPONSOR

Core Pacific-Yamaichi Capital Limited

AUDITORS

KPMG

REGISTERED OFFICE

Zephyr House
Mary Street
George Town
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL OFFICE IN HONG KONG

Suite 2514-2531
25th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISER

Preston Gates & Ellis

PRINCIPAL BANKERS

Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

8103

WEBSITE

www.systemkit.com

CHAIRMAN'S STATEMENT

The Group's successful listing on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited on 8 September 2000 laid a strong and solid foundation for the Group's future expansion and development.

BUSINESS REVIEW

For the financial year ended 31 March 2001, the Group recorded a turnover of HK\$35.6 million. The loss attributed to shareholders amounted to HK\$28.5 million.

The loss can be attributed to several factors. During the financial year ended 31 March 2001, more resources were deployed for the development of WinVest 4.0C (the new Chinese release of WinVest[®]) and other products to accelerate its time-to-market. Certain research and development costs were written off as a prudent measure to reflect the impact.

During the later part of the financial year, as a result of the bursting of the dot.com bubble and the downturn of the stock market in North America, Hong Kong also experienced a slump in its business climate. As a result, there has been a slowdown in the stock market. Local brokerage houses which were on the point of upgrading their information technology systems in light of the introduction of the AMS/3 terminal system, adopted a passive wait-and-see approach. This reluctance to invest in technology systems affected the Group as the anticipated take-up rate for the Group's signature stock brokerage trading systems and associated services fell short of expectations. Again, because of the weak economic situation, the collection of certain accounts receivable has become doubtful. Provisions were made as a prudent measure to reflect the impact on the turnover of the Group. Similarly, provisions were made for foreseeable losses on certain systems development projects. The management believes that some of the accounts receivable which have been provided for may be recovered. The Group has made an investment in an unlisted Application Service Provider in November, 2000. The Group feels it is prudent to make a provision for possible diminution in value because of its start-up status.

On the marketing side, the Group has engaged the Gartner Group to assist the Group in the development of a product positioning strategy — which has led to the Group making appropriate directional adjustments for both the long term and the short term. The Group established a North American office, SYSTEKIT Innovations Inc. (previously named Systek Connect Inc.) in Toronto, Ontario, Canada for sales, marketing, technical support, as well as fulfillment. SYSTEKIT Innovations Inc. has been serving as a base to launch the Group's products and services in both North America and in Europe.

During the financial year, the Group increased its focus on distribution channels while continuing to make aggressive improvements and enhancements on the Group's product lines. At the end of the reporting period, a total of 31 North American re-sellers had signed up and 18 were established in various European countries.

The Group has also aggressively expanded its sales and marketing teams, its product development team, in addition to enhancing its research and development capabilities in the People's Republic of China (the "PRC"). It is the Group's intention to increase production efficiency and reduce costs by steering non-reactive workload to the PRC.

The Group's product improvements followed a three pronged approach: (i) enriching each product's functionalities by adding useful functions and innovative features demanded by the market; (ii) enhancing each product's user interface modules to foster a higher standard of usability of the product; and (iii) strengthening the quality management of the product by improving the management procedures, testing procedures and product testing tools.

The Group's business units - the Financial Technology Unit, Internet Interactive Technology Unit, Internet and Messaging Security Unit, and the e-Business Innovation Services Unit all remained as strong contributors to the Group's revenue and will have high potential to contribute significantly towards the Group's future revenue.

Financial Technology Unit Activities

The Group's Financial Technology Unit continued to be a strong contributor to the Group's business as its original signature products matured into multiple platforms and was introduced into different markets, while new products complementing existing client systems were under development and testing stages.

— *BIX™*

Subsequent to the successful delivery of the Stock Exchange of Hong Kong's AMS/3 Multiple Workstation System, the Group launched and deployed another product, BIX, to all of the Group's brokerage based clients. BIX is the Group's XML-based advanced message exchange product. The Group has also enhanced BIX with clustering functions, datafeed reception functions, and information distribution functions.

— *WinVest®: New Platform, New PRC Version, N.Asian Outlook*

During this period, the Financial Unit's signature product, WinVest, retained its competitive edge in Hong Kong as the solution-of-choice for stock trading, with new features and the additional flexibility of a new platform. WinVest was also modified and introduced to the PRC. Although the market for stock trading systems is extremely competitive, WinVest maintains its invaluable edge for the "value conscious" mid- to high-end clients:

- The new WinVest R4.0 platform was developed. This opened up a new generation of transaction processing capability, providing more flexibility and higher levels of scalability for existing trading and other financial and non-financial related applications.
- WinVest C was introduced to the PRC market. WinVest C is a new generation brokerage solution that is incrementally scalable with high standards of customer relationship management, management control and risk management. These characteristics would be attractive to banks and financial services institutions.

The Group's marketing and sales office has had a presence in Shanghai since 1998. The Group believes that the PRC market provides enormous opportunities. In preparing itself for the World Trade Organization ("WTO"), the PRC's Exchanges and brokerage industry will ultimately need to renew, improve and upgrade their automated solutions to maintain their competitiveness, both internally within the PRC, as well as to meet international standards. The Group believes that the vast number of potential customers for brokerages within the PRC would demand a cost-effective, high performance, and high volume capable solution which WinVest C has been built to fulfil. In March, 2001, the Group's Shanghai subsidiary launched the WinVest C product.

In addition to expanding into the PRC, the Group is also currently engaged in introducing WinVest to countries within the North Asian market. In particular, the Group has had ongoing discussions on distribution opportunities with several potential partners.

Internet Interactive Technology Unit

Growth within the realm of Internet technology was substantially affected by the downturn of the Internet industry. Although several of the Group's products received critical acclaim from its customers, product sales during this period failed to live up to the Group's earlier expectations.

— *ezConnect™*

ezConnect, an important member in this unit's portfolio, is a user friendly, Internet enabled interactive collaboration system which allows multiple users to communicate using various Internet messaging means, such as text and voice chat, document and application sharing, among other features. During this period, ezConnect was enhanced with tools and features to support the provision of electronic customer care. ezConnect can also now be fully integrated with telephony equipment, and can therefore be one of the third party solution components for Internet call centers, conventional call centers and customer care centers. An "office" version of ezConnect is currently under design review, which would make ezConnect a broader based product.

— *ezXML™*

The ezXML product line supports the deployment of XML technology. ezXML is now bundled in two packages; a professional version and an enterprise version. The Group is currently discussing bundling possibilities with a leading North American software vendor.

Internet and Messaging Security Unit

— *SecurTrac™*

The Group's award-winning messaging security software became the winner of the 2001 Editor's Choice Gold Award selected by the panel of experts at the 2001 Lotusphere trade show in Orlando, Florida, USA. The award was judged on "design, functionality, simplicity, ease of integration, and other aspects important for a product to be an industry leader". This shows that the Group is a true world-class technology leader. SecurTrac has been gradually gaining acceptance. It was highly recommended by editors and reviewers in leading technology magazines and forums. The Group continues to enhance SecurTrac and increase its capabilities. It is now undergoing testing at several governmental agencies in the PRC and overseas.

— *Fax Router*

The Group has also developed a software-based router for cost-effective facsimile transmission. The sales and marketing of the Fax Router solution has mainly been concentrated in the PRC where it has been well received.

e-Business Innovation Services Unit

During the reporting period, the e-Business Innovation Services Unit, which provides comprehensive one-stop information technology consulting, development and support services to its clients has been active. This unit was awarded with several contracts from the Government of the Hong Kong Special Administrative Region (the "Government of the SAR"). In particular, one significant application was successfully completed and was duly rolled out to all of the governmental departments of the SAR.

Also significant during this period, Systek Information Technology Limited ("SITL") one of the Group's subsidiaries became one of the five preferred technology partners of the Securities and Futures Commission ("SFC").

SITL has expanded its coverage in information technology training programs, which are geared towards training experienced software engineers, administrators and other trainers in various languages, and tools. Traditionally providing mainly Lotus and Microsoft training products, SITL now offers a wider scope of programs. For example, SITL's training center has become Baltimore Technologies Inc.'s first Asian certified partner for training Baltimore IT Security Technology. SITL also offers, in partnership with Intel Corporation, an e-Business Solution Education Program. Further within the provision of IT education, SITL has also entered into an agreement with the Hong Kong Productivity Council and eSchool Limited to promote an Internet based "XML Master" program.

PROSPECTS

The Group believes the expected opening up of the PRC after its entrance into the WTO will provide companies such as the Group with enormous opportunities and that the Group is well prepared to capture the available business opportunities.

It has always been the Group's intention to expand the market base of its products from heavy reliance on the Hong Kong market. The Group intends to shift its focus to the Greater China Market and the North American market so that it will be in a better position to embrace any future fluctuations from over-reliance on one single market.

The PRC Market

The Group sees great opportunity in the PRC market as it believes that the entering into WTO of the PRC will force local businesses and industries to modernize its management systems. The Group anticipates that information technology applications will play a significant part in the modernization of management systems.

Expansion into the International Market with Products

The Group sees opportunities in the international market for its packaged products which are not specific to a geographical location, such as ezConnect™ and SecurTrac™. The Group intends that its Toronto subsidiary will be responsible for market research, marketing and sales efforts of these products for North America and Europe, while the Hong Kong subsidiary, SITL, will be responsible for efforts in Asia and South East Asia.

Cost Structure and Performance Improvement

After careful consideration and evaluation of the skills and performance of the PRC information technology workforce and in particular in Shanghai and Beijing, the Group is confident that improvement in the Group's cost structure will be effective by deploying the skilled workforce recruited for the Group's PRC offices.

Internal Management Control

The Group will streamline its internal management structure to attain a higher degree of efficiency as well as cost-effectiveness of production and services. The Group will further its internal automation to enhance its management control system to meet its multi-branch, multi-country expansion.

To Cho Kei

Chairman

Hong Kong, 31 July 2001

BUSINESS OBJECTIVE REVIEW

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Financial Technology Unit

Proposed Objectives From Latest Practicable Date to 31 March 2001

Launch WinVest Release 2.5 and 3.0 to the market and develop Release 4.0

Implement WAP functions for WinVest

Launch BIX Releases 1.5 and 2.0 to the local market and develop Release 2.5

Actual Achievements

WinVest Release 2.5 was successfully launched. WinVest Release 3.0 development is ongoing.

Accelerated WinVest 4.0 platform development (to complete in the 2nd calendar quarter of year 2001) in parallel with Release 3.0

WAP functions were successfully implemented for WinVest 2.5

BIX 1.5 has been deployed to all WinVest users after the launch of AMS/3 launch and BIX 2.0 is to be implemented to selected international brokers according to client's timetable. Release 2.5 development is undergoing User's Acceptance Test at an international brokerage firm.

Internet Interactive Technology Unit

Proposed Objectives From Latest Practicable Date to 31 March 2001

Launch ezConnect Release 3.0

Continue ezXML products development and launch to the market when appropriate

Finalize the design of knowledge management software and commence application development

Actual Achievements

The Group has successfully launched ezConnect 3.0.

Productization is near completion and a bundling/distribution model is under discussion with a major North American software vendor. Ongoing customized solution is being discussed with a major corporation.

Design of knowledge capable application is underway.

Internet and Messaging Security Unit

Proposed Objectives From Latest Practicable Date to 31 March 2001

Launch SecurTrac 2.0

Actual Achievements

SecurTrac 2.0 was launched in Asia, North America and Europe. Testing is ongoing with several government organizations overseas.

Develop SecurTrac 3.0

SecurTrac 2.5 with console support is readied and undergoing integration tests and stress test. Release 3.0 development is ongoing.

Commence Design of SecurTrac 4.0

Feedback is being collected and evaluated before the design release of SecurTrac 4.0.

Provision of e-Business Innovation Services

Proposed Objectives From Latest Practicable Date to 31 March 2001

Design and Launch Internet Portal for a client

Actual Achievements

The Internet insurance portal “clicknsure.com” was launched in the 4th calendar quarter of year 2000.

Develop a global Internet System for a major Client

Due to the Client’s internal re-organization, implementation and roll-out of the new version has been suspended.

The Group continues to serve clients in specific system development and training by providing customized development and training services.

Marketing and Distribution

Proposed Objectives From Latest Practicable Date to 31 March 2001

Establish the international distribution network of software vendors, distributors and resellers

Actual Achievements

The Group has established a substantial worldwide network for software distribution. The effort of the network expansion is ongoing.

Promote new releases of software products through marketing tours, advertising in IT magazines and participation in IT conferences and trade shows

The Group has visited distribution channel partners in Europe, North America and Asia. The Group is aggressively promoting its products through trade shows, conferences, reseller visits and advertising programs. The Group has also hired multi-lingual marketing staff to perform tele-marketing work as well as conducting reseller visit tours by the Group’s senior executives.

Formulate the strategy of building the “SYSTEK” brand name

The Group is now in discussion with international marketing consultants in engaging them to formulate branding strategies.

Establish a sales and technical support center in North America

The Group has decided to delay setting up its U.S. office because of the business climate in the Bay Area, in California. The Group has, instead, established Toronto, Ontario as its base for sales, marketing and support in North America. The decision was made based on multi-faceted evaluation.

Formulate plans for user group organization

The Group is currently reviewing a plan for user group organization and schedule.

Corporate Development and Strategic Alliance

Proposed Objectives From Latest Practicable Date to 31 March 2001

Actual Achievements

Set up a software commercialization center to improve user friendliness of software products

The center was set up in the 4th calendar quarter of year 2000 with a team consisting of usability specialists, Users Interface designers, Web designers, and testing and QA specialists. The Group is currently involved in serious discussions with test tool vendors for the acquisition of automated testing tools.

Establish a market intelligence and research unit in the U.S.

Due to the high cost of investment in the Bay area, California, U.S.A., this function has been temporarily assigned to the Group’s Canadian subsidiary located in Toronto, Ontario. A Canadian marketing manager is assigned with this responsibility.

Commence operation of an Internet interactive center in Hong Kong

The Center has been in operation since October, 2000.

Complete the establishment of Internet interactive centers in the PRC

The technology has already been deployed in the PRC demonstration centers.

Establish research and development and cooperation with Universities in the PRC

The Group has been engaged in discussions with the Science and Technology Group of Universities. The Group’s technology staff is currently evaluating common interests and opportunities.

Conduct feasibility studies on the establishment of an Internet portal and ASP services

The Group had been engaged in two serious discussions in this area:

- a Broker's consortium
- a metal Exchange

Identify potential IT companies with product synergy for acquisition or alliance

The Group has engaged in serious discussions and due diligence exercises with five companies. The Group has invested in an Application Services Provider.

USE OF PROCEEDS

As stated in the prospectus issued by the Company on 4 September 2000, the Group was expected to use a total of HK\$42.5 million for the following activities: HK\$14.4 million for product research and development, HK\$14 million for strategic investment and HK\$14.1 million for marketing. Up to 31 March 2001, the amount spent on the aforementioned categories was \$28.2 million, HK\$5.6 million and HK\$5.6 million, respectively and the total amount expended was HK\$39.4 million.

During the reporting period, the Group has been following planned strategies while taking a pragmatic implementation approach responding to market needs. The Group has engaged the Gartner Group, a leading international research firm, to assist the Group in the development of a product positioning strategy for the Group's financial technology products and Internet interactive technology products. As a result of a pressing need for new, high performance brokerage software in the PRC market, the Group accelerated the product development of WinVest 4.0C by allocating substantial resources to accomplish this project. This move was a departure from the Group's past practice of developing English versions before Chinese versions.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. To, Cho Kei, aged 54, is an Executive Director, Chairman, Chief Executive Officer and founder of the Company. Mr. To has over 25 years of experience in management, strategic planning, IT planning and industrial management. Before founding the Group, Mr. To was a senior lecturer at the Hong Kong Polytechnic University. Prior to that, Mr. To was responsible for strategic planning and IT planning in the Bank of Nova Scotia in Toronto, Canada. Mr. To has been responsible for the Group's overall vision, business strategy, product development and management since its inception. Mr. To holds a Bachelor of Science degree in Mathematics from the University of Wisconsin, USA and a Master of Science degree in Computer and Information Science from Ohio State University, USA.

Mr. Poon, Bing-Choi Amos, aged 51, is an Executive Director, President and Chief Operating Officer of the Company. Before joining the Group in May 2000, Mr. Poon was a Director of Nortel Networks Inc. in Toronto, Canada. Mr. Poon holds a Bachelor of Science degree from the Chinese University of Hong Kong.

Mr. Yuen, Tat Man Sidney, aged 43, is an Executive Director of the Company and a Chief Executive Officer of Telecare. Prior to joining the Group in April 2000, he had been a Director of Business Development, Greater China of Arthur Andersen & Co.

Mr. Wong, Po Fai, aged 52, is an Executive Director and Senior Vice President of Business Development of the PRC operation of the Company. Mr. Wong has over 25 years of experience in management consulting, sales and marketing. Before joining the Group in October 1998, Mr. Wong was a General Manager of Corporate Markets at Cable & Wireless Hong Kong Telecom CSL. Mr. Wong holds a Bachelor of Science degree in Electrical Engineering from the University of Wisconsin, USA and a Master of Science degree in Computer and Information Science from the Ohio State University, USA. Mr. Wong is a Professional Engineer in the Province of Ontario, Canada and a Fellow of the Institute of Canadian Bankers.

Mr. Chan, Kai Yan, aged 38, is an Executive Director, Senior Vice President, Chief of Staff of the Company and Compliance Officer of the Company. Prior to joining the Group in 1989, Mr. Chan was a Systems Analyst with Nomura Research Institute Hong Kong Limited. Mr. Chan holds a Master of Business Administration degree from the City University of Hong Kong.

Dr. Chan, Kim Chung, aged 38, is an Executive Director and Chief Technology Officer of the Company. Dr. Chan joined the Group in October 1998 and is responsible for research and development. Prior to joining the Group, Dr. Chan worked for the French National Research Institute for Computer Science and Control. He is a Chartered Engineer of the Engineering Council of the UK and serves on the Advisory Committee of the World Wide Web Consortium ("W3C"), an international organization governing the development of Internet-related international standards and technologies. Dr. Chan held a Marie Curie Fellowship awarded by the European Union and a Royal Society Fellowship awarded by the Royal Society of the UK. He holds a Bachelor of Arts degree in Computing and Mathematics, a Master of Science degree in Information Technology and a Doctor of Philosophy degree in Computing Science from the Glasgow University, UK.

NON-EXECUTIVE DIRECTORS

Mr. Lee, Tak Ching, aged 45, is a Non-executive Director of the Company. Mr. Lee is a Director of the Grand Holdings Group. Mr. Lee has over 15 years of experience in finance and trading, in addition to business development, sales and marketing. Mr. Lee holds a Bachelor of Science degree in Civil Engineering from the University of Southern California, USA.

Mr. Ching, Tai Ming David, aged 48, is a Non-executive Director of the Company. Mr. Ching is the Senior Vice President, Chief Information Officer of Safeway Inc., USA, one of the largest food and drug retailers in North America. Prior to joining Safeway Inc., Mr. Ching was the General Manager of the British American Consulting Group and was a Senior Vice President of Information Systems of Lucky Stores Inc., USA. Mr. Ching holds a Bachelor of Science degree in Electrical Engineering from the University of Wisconsin, the USA, a Master of Science degree from the University of California at Berkeley, USA, and a Master of Science degree in Management Science from Stanford University, USA.

Ms. Seto, Laurie Rolly, aged 41, is a Non-executive Director of the Company. Ms. Seto is currently the Vice-President, Desktop and Internet Application of Rogers AT&T Wireless Inc. in Toronto, Canada. Ms. Seto holds a Bachelor of Commerce degree from the University of Toronto, Canada. She is a member of the Board of Advisers at the University of Toronto, an honorary member of the Golden Key Society and is an Executive Director of the Toronto Chinese Business Association.

Mr. Wu, Yang, aged 34, is a Non-executive Director of the Company. Mr. Wu is the Managing Director of Shanghai Sundial Investment Management Co. Ltd. Mr. Wu received his Master of Business Administration degree from the Wharton School of Business at the University of Pennsylvania, USA, and his Bachelor of Business Administration degree in Finance from the University of Houston, USA.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Honourable Dr. Wong, Yu Hong Philip, aged 62, is an Independent Non-executive Director of the Company. He is a deputy of the National People's Congress of the PRC, a member of the HKSAR Legislative Council, and a Vice Chairman of the Chinese General Chamber of Commerce. Hon. Dr. Wong is the Chairman and Chief Executive Officer of Winco Paper Products Co. Ltd. and holds a Vice Chairmanship in Tai Cheng International (Holdings) Ltd. He is also a Director of various listed companies, such as China Travel International Investment Hong Kong Ltd., Goldlion Holdings Ltd., Asia Financial Holdings Ltd., and Guangdong Kelon Electrical Holdings Co. Ltd. He holds a degree in Law and a Doctorate degree in Engineering.

Mr. Chan, Wai Dune Charles, aged 48, is an Independent Non-executive Director of the Company. He is a practising Certified Public Accountant and the Managing Director of Charles Chan, Ip & Fung CPA Ltd., an accounting firm. Mr. Chan is a Fellow of the Hong Kong Society of Accountant, the Chartered Association of Certified Accountants, as well as the Taxation Institute of Hong Kong. Mr. Chan is a member of the first selection committee for the Government of the HKSAR and a lay member of the Insider Dealing Tribunal in Hong Kong.

Dr. Leininger, Joseph William, aged 64, is an Independent Non-executive Director of the Company. He is the founder and Chief Executive Officer of Verzon Sdn Bhd., a consulting firm established in Malaysia. Prior to the founding of Verzon Sdn Bhd., Dr Leininger held various positions with Ernst & Young Consulting including Chairperson for Ernst & Young Consulting (Far East), Managing Director of Ernst and Young Consulting (Singapore), and Managing Director of Ernst & Young Consulting (Hong Kong). Before joining Ernst & Young's operation in Asia. Dr. Leininger was the founder and Managing Director of National Electricity and Gas Consulting Practice of Ernst & Young in the USA. He holds a Doctorate degree in Economics from Purdue University, Indiana, USA.

SENIOR MANAGEMENT

Mr. Hung, Francis, aged 46, is the Senior Vice President of Engineering and Product Development of the Company. Prior to joining the Group in March 2000, Mr. Hung was with Nortel Networks Inc. in Ottawa, Canada. He received his Bachelor of Engineering degree from McMaster University, Canada. He is a registered professional engineer in Ontario, Canada.

Mr. Lam, Ching-Ho Andy, aged 51, is the Senior Vice President of Program and Quality Management of the Company. Mr. Lam has over 20 years of IT experience. Prior to joining the Group in December 1999, Mr. Lam holds a Bachelor of Science degree in Computer Science from the University of Oregon, USA, and a Master of Commerce degree in Information Systems from the University of New South Wales, Australia.

Mr. Wu, Man Hong Francis, aged 33, is the Chief Solution Architect of the Company. He joined the Group in 1990. Mr. Wu received his Bachelor of Science degree in Computing Studies from the Hong Kong Polytechnic University.

Mr. Chan, Chi Kuen Alex, aged 32, is the Chief Solution Architect of the Company. He joined the Group in 1993 and is responsible for product development in Internet and messaging security solutions. Mr. Chan graduated from the Hong Kong Polytechnic University with a Bachelor of Science degree in Electronic Engineering, with first-class honours.

Mr. Chung, Oi Lun, aged 38, is the Senior Manager of e-Insurance Systems of the Company. Prior to joining the Group in 1993, Mr. Chung was a Senior Systems Analyst with Guardian Royal Exchange (Asia) Limited. He received a Master of Business Administration degree from the City University of Hong Kong.

Ms. To, Chiwun-Caritas Christine, aged 33, is the Company Secretary and Corporate Counsel of the Company. Ms. To brought her experience to the Group as Corporate Counsel and Manager of Corporate Operations in 1996. Ms. To's responsibilities encompass legal, human resources and corporate operations. Ms. To holds a Bachelor of Arts degree in English and Anthropology from Oberlin College, Ohio, USA and a Juris Doctorate degree from Valparaiso University School of Law, Indiana, USA. Ms. To is a member of the New York State Bar.

Mr. Joe, Look Kherman, aged 52, is the Chief Financial Officer of the Group. Mr. Joe has more than 25 years of experience. Prior to joining the Group in April 2000, he was with Exxon Mobil Corporation. He holds a Bachelor of Science degree in Accounting from Mississippi State University, USA, and a Master of Business Administration degree from the University of Houston, USA. Further, Mr. Joe has been a member of the American Institute of Certified Public Accountants since 1979 and is a Fellow of the Hong Kong Society of Accountants.

REPORT OF THE DIRECTORS

The Directors hereby present their first report together with the audited financial statements of Systek Information Technology (Holdings) Limited (“the Company”) and its subsidiaries (together the “Group”) for the year ended 31 March 2001.

GROUP REORGANISATION AND LISTING ON THE HONG KONG GROWTH ENTERPRISE MARKET

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 Group underwent and completed a group reorganization in preparation for the listing of the Company’s shares on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited on 26 August 2000. The Company’s shares were listed on the GEM on 8 September 2000.

Details of the group reorganization scheme and the basis of presentation of the financial statements are set out in Note 1 to the financial statements and in the Company’s prospectus dated 4 September 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 13 to the financial statements.

The Group’s turnover for the year is principally attributable to systems development, sales of software products as well as provisions of professional services, training and technical support services. An analysis of the turnover from the principal activities and geographical locations of the Company and its subsidiaries during the year is set out in note 4 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	21%	—
Five largest customers in aggregate	54%	—
The largest supplier	—	24%
Five largest suppliers in aggregate	—	45%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company’s share capital) had any interest in these major customers and suppliers.

ACCOUNTS

The loss of the Group for the year ended 31 March 2001 and the state of the Company’s and the Group’s affairs as at that date are set out in the financial statements on pages 22 to 53.

DIVIDENDS

The directors do not recommended the payment of any final dividend for the year ended 31 March 2001.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 March 2001 are set out in note 13 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

PENSION SCHEME

Details of the Group's pension scheme for the year ended 31 March 2001 are set out in note 29 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. To, Cho Kei	(appointed on 16 March 2000)
Mr. Poon, Bing-Choi Amos	(appointed on 17 May 2000)
Mr. Yuen, Tat Man Sidney	(appointed on 17 May 2000)
Mr. Wong, Po Fai	(appointed on 17 May 2000)
Mr. Chan, Kai Yan	(appointed on 17 May 2000)
Dr. Chan, Kim Chung	(appointed on 17 May 2000)

Non-executive directors

Mr. Lee, Tak Ching	(appointed on 17 May 2000)
Mr. Ching, Tai Ming David	(appointed on 17 May 2000)
Ms. Seto, Laurie Rolly	(appointed on 17 May 2000)
Mr. Wu, Yang	(appointed on 17 May 2000)

Independent Non-executive directors

The Hon. Dr. Wong, Yu Hong Philip	(appointed on 17 May 2000)
Mr. Chan, Wai Dune Charles	(appointed on 17 May 2000)
Dr. Leininger, Joseph William	(appointed on 17 May 2000)

RETIREMENT OF DIRECTORS

Pursuant to the articles of association of the Company, Mr. Poon, Bing-Choi Amos, Mr. Yuen, Tat Man Sidney, Mr. Wong, Po Fai and Ms. Seto, Laurie Rolly will retire as directors of the Company at the forthcoming annual general meeting. Each of Mr. Poon, Bing-Choi Amos, Mr. Yuen, Tat Man Sidney, Mr. Wong, Po Fai and Ms. Seto, Laurie Rolly have indicated that they will not hold themselves out for re-election at the forthcoming annual general meeting. The Board wishes to take this opportunity to thank them for their contributions to the Company during the past year, and in particular for their effort and contribution during the flotation exercise of the Company in 2000.

DIRECTORS' SERVICE CONTRACTS

On 26 August 2000, all the directors entered into a service contract with the Company, all effective from 28 August 2000, where the non-executive and independent non-executive directors were committed to a one year term, and the executive directors to two year terms.

The executive directors are committed by the service contract to devote himself exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of his conduct of business affairs, among other commitments.

DIRECTORS' INTEREST IN SECURITIES

As at 31 March 2001, according to the register to be kept under Section 29 of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance"), the interests of the Company's directors, chief executives and their associates in shares of the Company or any associated corporations (as defined in the SDI Ordinance) 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' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or its subsidiary was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 26 August 2000, the Company had conditionally adopted a Share Option Scheme pursuant to which full-time employees and executive 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 of the Company. During the year, no option was granted under the Share Option Scheme.

Save as disclosed above, as at 31 March 2001, none of the Directors, chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associate corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the year 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 (including their spouses or children under 18 years of age) or chief executive of the Company to acquire benefits by means of the acquisition of shares in or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed above in respect of directors and their associates, as at 31 March 2001, 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</i>)	469,421,914	45.29%

Note: Mr. To holds the shares through Trouble Free Technology Limited which is 100 per cent. 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 year, no option has been granted by the Company under the Share Option Scheme.

COMPETING INTERESTS

Mr. To Cho Kei, 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.

Pursuant to a non-competition undertaking dated 26 August 2000, each of Trouble Free and Mr. To Cho Kei 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Group’s directors and senior management are set out on pages 12 to 14.

INTEREST OF SPONSOR

As at 31 March 2001, the Sponsor of the Company, Core Pacific – Yamaichi Capital Limited, its directors, employees and its associates did not have any interest in the securities of the Company or any subsidiaries 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 8 September 2000 to 31 March 2003.

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 to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Directors.

The audit committee comprised of three independent non-executive directors, namely, The Hon. Dr. Wong, Yu Hong Philip, Mr. Chan, Wai Dune Charles and Dr. Leininger, Joseph William, The Hon. Dr. Wong, Yu Hong Philip is the chairperson of the audit committee. The audit committee has met three times since its establishment on 18 May 2000. The audit committee met once to review and discuss the quarterly results for the three months ended 31 December 2000, and met twice to review the final audited results for the year ended 31 March 2001.

In addition, the audit committee was requested by the Board to review, among other things, the current reporting procedure between the Group’s subsidiaries and the head office in Hong Kong and also the administrative procedures of the Hong Kong head office with a view to make appropriate recommendations to the Board to improve the communication and administrative efficiency. The audit committee is currently reviewing the matters and is expected to finish its review shortly. The Board intends to adopt the recommendation of the audit committee in this regard and implement the procedure once the audit committee finishes its review and makes the recommendation.

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

From the date of listing since 8 September 2000 up to the year ended 31 March 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws in Cayman Islands.

AUDITORS

The financial statements for the year were audited by KPMG, Certified Public Accountants. KPMG will retire at the conclusion of the forthcoming Annual General Meeting, and being eligible, will offer themselves for re-appointment.

By order of the Board

To Cho Kei

Chairman

Hong Kong, 31 July 2001

AUDITORS' REPORT



To the shareholders of
System Information Technology (Holdings) Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the accounts on pages 22 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2001 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 31 July 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2001

(Expressed in Hong Kong dollars)

	<i>Note</i>	2001 \$'000	2000 \$'000
TURNOVER	3	35,628	40,013
Cost of services and merchandise sold		<u>(15,020)</u>	<u>(17,454)</u>
Gross profit		20,608	22,559
Other revenue	5	3,160	55
Other net income	5	431	22
Research and development costs		(7,906)	(4,781)
Selling expenses		(17,191)	(1,446)
General and administrative expenses		(24,543)	(7,746)
Other operating expenses		<u>(3,200)</u>	<u>—</u>
(Loss)/profit from operations		(28,641)	8,663
Finance cost	6(a)	<u>(592)</u>	<u>(124)</u>
(LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION	6	(29,233)	8,539
Taxation	7(a)	<u>(295)</u>	<u>(1,870)</u>
(LOSS)/PROFIT FROM ORDINARY ACTIVITIES AFTER TAXATION		(29,528)	6,669
Minority interests	24	<u>987</u>	<u>—</u>
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	10	<u>(28,541)</u>	<u>6,669</u>
(Loss)/earnings per share	11		
Basic (HK cents)		<u>(3.362)</u>	<u>1.112</u>
Diluted (HK cents)		<u>N/A</u>	<u>1.099</u>

The notes on pages 29 to 53 form part of these accounts.

CONSOLIDATED STATEMENT OF

RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2001

(Expressed in Hong Kong dollars)

	<i>Note</i>	2001 \$'000	2000 \$'000
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	26(a)	(73)	20
Share issuance expenses	26(a)	<u>(15,389)</u>	<u>—</u>
NET (LOSSES)/GAINS NOT RECOGNISED IN THE PROFIT AND LOSS ACCOUNT		(15,462)	20
Net (loss)/profit for the year		<u>(28,541)</u>	<u>6,669</u>
TOTAL RECOGNISED (LOSSES)/GAINS		<u><u>(44,003)</u></u>	<u><u>6,689</u></u>

The notes on pages 29 to 53 form part of these accounts.

CONSOLIDATED BALANCE SHEET

At 31 March 2001

(Expressed in Hong Kong dollars)

	<i>Note</i>	2001 \$'000	2000 \$'000
NON-CURRENT ASSETS			
Fixed assets	12	9,710	1,969
Intangible assets	14	20,404	—
Investment securities	15	4,795	—
Deferred taxation	16	—	263
		<u>34,909</u>	<u>2,232</u>
CURRENT ASSETS			
Gross amount due from customers for contracts	17(a)	984	2,201
Accounts receivable	18	11,445	12,634
Amounts due from related parties	19	—	1,583
Prepayments, deposits and other receivables		2,926	2,033
Tax recoverable	7(b)	1,302	—
Pledged deposits	20	40,188	—
Cash and cash equivalents	21	34,392	8,162
		<u>91,237</u>	<u>26,613</u>
CURRENT LIABILITIES			
Gross amount due to customers for contracts	17(b)	—	330
Receipts in advance	22	—	156
Amounts due to related parties	19	—	2,659
Convertible notes	23	—	10,000
Other payables and accruals		11,283	6,221
Tax payable	7(b)	266	1,563
		<u>11,549</u>	<u>20,929</u>
NET CURRENT ASSETS		<u>79,688</u>	<u>5,684</u>

The notes on pages 29 to 53 form part of these accounts.

CONSOLIDATED BALANCE SHEET

At 31 March 2001

(Expressed in Hong Kong dollars)

	<i>Note</i>	2001 \$'000	2000 \$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		114,597	7,916
MINORITY INTERESTS	24	<u>985</u>	<u>(2)</u>
NET ASSETS		<u>115,582</u>	<u>7,914</u>
CAPITAL AND RESERVES			
Share capital	25	103,638	500
Reserves	26(a)	<u>11,944</u>	<u>7,414</u>
		<u>115,582</u>	<u>7,914</u>

Approved by the board of directors on 31 July 2001.

To Cho Kei
Chairman

Chan Kai Yan
Director

The notes on pages 29 to 53 form part of these accounts.

BALANCE SHEET

At 31 March 2001

(Expressed in Hong Kong dollars)

	<i>Note</i>	2001 \$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	13	<u>3,800</u>
CURRENT ASSETS		
Amounts due from subsidiaries	19	69,055
Prepayments, deposits and other receivables		368
Pledged deposits	20	39,023
Cash and cash equivalents	21	<u>22,915</u>
		131,361
CURRENT LIABILITIES		
Other payables and accruals		<u>844</u>
NET CURRENT ASSETS		<u>130,517</u>
NET ASSETS		<u><u>134,317</u></u>
CAPITAL AND RESERVES		
Share capital	25	103,638
Reserves	26(b)	<u>30,679</u>
		<u><u>134,317</u></u>

Approved by the board of directors on 31 July 2001.

To Cho Kei
Chairman

Chan Kai Yan
Director

The notes on pages 29 to 53 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2001
(Expressed in Hong Kong dollars)

	<i>Note</i>	2001		2000	
		\$'000	\$'000	\$'000	\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	27(a)		(22,254)		297
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		3,160		55	
Interest paid		(592)		(124)	
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			2,568		(69)
TAXATION					
Hong Kong profits tax paid		(2,606)		(566)	
Overseas tax paid		(11)		—	
TAX PAID			(2,617)		(566)
INVESTING ACTIVITIES					
Payment for purchase of fixed assets		(9,352)		(1,381)	
Proceeds from disposal of a subsidiary		430		—	
Pledged deposits		(40,188)		—	
Payment for purchase of investment securities		(5,850)		—	
Payment for acquisition of intangible assets		(22,703)		—	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(77,663)		(1,381)
NET CASH OUTFLOW BEFORE FINANCING CARRIED FORWARD			(99,966)		(1,719)

The notes on pages 29 to 53 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2001
(Expressed in Hong Kong dollars)

		2001		2000	
	<i>Note</i>	\$'000	\$'000	\$'000	\$'000
NET CASH OUTFLOW BEFORE FINANCING BROUGHT FORWARD			(99,966)		(1,719)
FINANCING					
New short-term bank loans and other borrowings	27(b)	5,500		—	
Proceeds from issuance of convertible notes	27(b)	8,000		10,000	
Repayment of short-term bank loans and other borrowings	27(b)	(5,500)		—	
Capital injection from minority shareholders	27(b)	—		2	
Repayment of convertible notes	27(b)	(2,000)		—	
Net proceeds from issuance of new shares	27(b)	120,282		—	
NET CASH INFLOW FROM FINANCING			126,282		10,002
INCREASE IN CASH AND CASH EQUIVALENTS					
Effects of foreign exchange rates			26,316		8,283
			(86)		20
Cash and cash equivalents at 1 April			8,162		(141)
Cash and cash equivalents at 31 March			34,392		8,162
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Cash at bank and in hand			11,629		6,935
Deposits with banks and other financial institutions maturing within three months of the balance sheet date			22,763		1,227
			34,392		8,162

The notes on pages 29 to 53 from part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. BASIS OF PREPARATION

(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 Company and its subsidiaries (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 years presented, rather than from 26 August 2000. Furthermore, the results of the Group for the years ended 31 March 2000 and 2001 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.

The Company was incorporated on 16 March 2000 with an issued share capital of \$0.1. During the period ended 31 March 2000, the Company remained dormant and accordingly no comparative figures are presented in respect of the Company’s balance sheet at 31 March 2000.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These accounts also comply with the disclosure requirements of the Listing Rules of Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the account is historical cost.

(c) Basis of consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries prepared on the basis of presentation as described in Note 1(b). All material inter-company transactions and balances are eliminated on consolidation.

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

(d) **Investments in subsidiaries**

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) **Investment securities**

(i) Investment securities which are held on a continuing basis for an identified long-term purpose are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

(ii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(f) **Fixed assets**

(i) Fixed assets are stated in the balance sheet at cost less aggregate depreciation.

(ii) The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(iii) Subsequent expenditure relating to a fixed asset 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 Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

(g) Depreciation

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values, as follows:

Leasehold improvements, furniture and fixtures	Over the shorter of remaining lease term and 5 years
Computer and office equipment	5 years

(h) Intangible assets

(i) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research costs are charged to the profit and loss account in the period in which they are incurred. Development costs are charged to the profit and loss account in the period in which they are incurred except where a major project is undertaken and it is reasonably anticipated that the development costs will be recovered through future commercial activities. Such development costs are deferred and written off over the life of the relevant project from the date of commencement of commercial operations subject to a maximum of five years.

The unamortised balance of development costs is reviewed at the end of each period and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is no longer likely to be recovered. Development costs written off, less attributable amortisation, are written back when the circumstances and events that led to the write off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Deferred asset

Deferred asset represents the signing bonus paid to certain staff upon joining the Group which is amortised on a straight line basis over the respective service terms of the relevant employment contracts.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

(i) **Service contracts**

The accounting policy for the revenue derived from systems development and consultancy services is set out in Note 2(j)(i). When the outcome of a service contract can be estimated reliably, contract costs are recognised as expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a service contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Service contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the “Gross amount due from customers for contract work” (as an asset) or the “Gross amount due to customers for contract work” (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under “Accounts receivable”. Amounts received before the related work is performed are included in the balance sheet, as a liability, as “Receipts in advance”.

(j) **Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Systems development and consultancy services

Revenue arising from the provision of systems development and consultancy services is recognised when the underlying services are rendered which is estimated by apportionment over the expected duration of each engagement; and the outcome of the contract can be estimated with reasonable certainty.

(ii) Sale of software products

Revenue arising from the sale of software products is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is stated after deduction of any trade discounts.

(iii) Professional service fees

Professional service fees represent fees for the provision of IT engineering services and are recognised when the underlying professional services are rendered.

(iv) Training fees

Training fees represent income earned from the provision of training courses, which is recognised when the related courses are held.

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

(j) **Revenue recognition** - *continued*

(v) **Technical support fees**

Technical support fees represent income arising from the provision of maintenance and installation services, which is recognised when the underlying services are rendered.

(vi) **Interest income**

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(k) **Warranty costs**

Warranty costs are charged to the profit and loss account as and when incurred.

(l) **Operating leases**

Rental payable under operating leases is accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(m) **Retirement benefits**

Contributions to retirement benefit schemes are charged to the profit and loss account as and when incurred.

(n) **Deferred taxation**

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(o) **Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

(p) **Related parties**

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) **Cash equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

3. TURNOVER

The principal activities of the Group are the provision of systems development and consultancy services and sale of software products. Turnover represents income arising from the provision of systems development and consultancy services, provision of IT engineering and technical support services, provision of training courses and the sale of software products.

4. SEGMENTAL INFORMATION

An analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the year is as follows:

	2001	2000
	\$'000	\$'000
By principal activities:		
Systems development	12,738	14,375
Sales of software products	9,990	13,072
Professional service fees	7,639	7,641
Training fees	3,362	3,680
Technical support fees	1,557	730
Others	342	515
	<u>35,628</u>	<u>40,013</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4. SEGMENTAL INFORMATION - *continued*

	2001 \$'000	2000 \$'000
By geographical locations:		
The People's Republic of China ("PRC")		
Hong Kong	30,179	35,686
Elsewhere	5,364	—
Republic of Singapore ("Singapore")	—	4,327
Other countries	85	—
	<u>35,628</u>	<u>40,013</u>

5. INCOME

	2001 \$'000	2000 \$'000
Other revenue:		
Interest income	<u>3,160</u>	<u>55</u>
Other net income:		
Gain on disposal of a subsidiary upon Reorganisation	430	—
Sundry income	<u>1</u>	<u>22</u>
	<u>431</u>	<u>22</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging

	2001 \$'000	2000 \$'000
(a) Finance cost		
Interest on bank advances and other borrowings repayable within five years	592	124
(b) Other items		
Cost of services and merchandise sold*	15,020	17,454
Staff costs*	55,374	24,050
Less: amount capitalised as intangible assets	(18,464)	—
	36,910	24,050
Research and development costs*	28,166	4,781
Less: amount capitalised	(22,511)	—
Add: amortisation of research and development costs	2,251	—
	7,906	4,781
Operating lease rentals - properties	4,476	2,422
Less: amount capitalised as intangible assets	(1,172)	—
	3,304	2,422
Pre-operating costs written off	236	—
Amortisation of deferred assets*	48	—
Auditors' remuneration	950	82
Depreciation	1,441	606
Provision for bad and doubtful debts	5,942	—
Provision for foreseeable losses on system development projects	2,573	—
Provision for diminution in value against investment securities	3,200	—

Cost of services and merchandise sold, research and development costs, and amortisation of deferred assets include \$18,727,000 (2000: \$17,454,000) staff costs. Among the total staff costs are retirement costs of \$578,700 (2000: \$60,000) for the year ended 31 March 2001.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2001 \$'000	2000 \$'000
Provision for Hong Kong Profits Tax for the year	—	1,588
Underprovision in respect of prior years	32	—
	<u>32</u>	<u>1,588</u>
Taxation outside Hong Kong	—	282
Deferred taxation (<i>note 16</i>)	263	—
	<u>295</u>	<u>1,870</u>

No provision for taxation has been made for the year ended 31 March 2001 as the Group sustained losses for taxation purpose during the year.

The provision for Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits arising in Hong Kong for the year ended 31 March 2000. Taxation on the profits of subsidiaries operating outside Hong Kong is calculated at the current rates applicable in the respective jurisdictions.

A subsidiary operating in the PRC is exempted from PRC income tax for two years commencing from the first profit making year and is entitled to a 50% relief from PRC income tax for the following three years, after which the profits are subject to PRC income tax at the standard rate of 33%. The subsidiary sustained losses since incorporation and the two-year tax exemption period has not been commenced.

(b) Tax (recoverable)/payable in the consolidated balance sheet represents:

	2001 \$'000	2000 \$'000
Provision for Hong Kong Profits Tax for the year	—	1,588
Provisional Hong Kong Profits Tax paid	(1,302)	(317)
	<u>(1,302)</u>	<u>1,271</u>
Balance of income tax payable outside Hong Kong	266	292
Tax (recoverable)/payable	<u>(1,036)</u>	<u>1,563</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2001 \$'000	2000 \$'000
Executive Directors:		
Salaries and other emoluments	5,800	2,933
Retirement scheme contributions	15	—
Other allowances	1,731	—
	<u>7,546</u>	<u>2,933</u>
Non-executive Directors:		
Fees	<u>204</u>	<u>—</u>

In addition to the emoluments disclosed above, a director was granted a signing bonus of \$2,370,000 (2000: \$Nil) upon joining the Group.

The remuneration of the directors is within the following bands:

	2001 Number of directors	2000 Number of directors
Nil-\$1,000,000	8	5
\$1,000,001-\$2,000,000	4	—
\$2,000,001-\$3,000,000	—	—
\$3,000,001-\$4,000,000	<u>1</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2000: three) are directors whose emoluments are disclosed in Note 8 above. The aggregate of the emoluments in respect of the other two (2000: two) individuals are as follows:

	2001 \$'000	2000 \$'000
Salaries and other emoluments	3,125	1,246
Retirement scheme contributions	6	—
Other allowances	500	—
	<u>3,631</u>	<u>1,246</u>

In addition to the emoluments disclosed above, an individual was granted a signing bonus of \$1,500,000 (2000: \$Nil) upon joining the Group.

The emoluments of the two (2000: two) individuals with the highest emoluments are within the following bands:

	2001 Number of individuals	2000 Number of individuals
Nil-\$1,000,000	—	2
\$1,000,001-\$2,000,000	1	—
\$2,000,001-\$3,000,000	—	—
\$3,000,001-\$4,000,000	1	—
	<u>1</u>	<u>—</u>

10. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of \$2,465,000 which has been dealt with in the accounts of the Company.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share for the year ended 31 March 2001 is based on the loss attributable to shareholders of \$28,541,000 divided by the weighted average number of 848,922,921 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 March 2000 is based on the combined profit attributable to shareholders of \$6,669,000 divided by 599,999,942 shares, prior to the placing but after adjusting the effect of the capitalisation issue on 1 September 2000.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares in issue as at 31 March 2001.

The calculation of diluted earnings per share for the year ended 31 March 2000 is based on the adjusted combined profit attributable to shareholders of \$6,793,000 and the weighted average number of ordinary shares of 618,104,051 shares after adjusting for the effects of the dilutive potential ordinary shares committed under the convertible notes issued on 20 December 1999 and 29 January 2000 which entitled the noteholders to convert the paid up principal into ordinary shares of the Company.

(c) Reconciliations

	2000 \$'000
Profit attributable to shareholders	6,669
Interest paid for the convertible notes	124
	<hr/>
Adjusted profit attributable to shareholders	6,793
	<hr/> <hr/>
	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	599,999,942
Deemed issue of ordinary shares	18,104,109
	<hr/>
Weighted average number of ordinary shares used in calculating diluted earnings per share	618,104,051
	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12. FIXED ASSETS

	Leasehold improvements \$'000	Computer and office equipment \$'000	Furniture and fixtures \$'000	Total \$'000
The Group				
Cost:				
At 1 April 2000	740	4,615	597	5,952
Additions	2,175	5,962	1,215	9,352
Disposals	—	(153)	(68)	(221)
At 31 March 2001	<u>2,915</u>	<u>10,424</u>	<u>1,744</u>	<u>15,083</u>
Aggregate depreciation:				
At 1 April 2000	114	3,343	526	3,983
Charge for the year	412	910	119	1,441
Written back on disposals	—	(37)	(14)	(51)
At 31 March 2001	<u>526</u>	<u>4,216</u>	<u>631</u>	<u>5,373</u>
Net book value:				
At 31 March 2001	<u>2,389</u>	<u>6,208</u>	<u>1,113</u>	<u>9,710</u>
At 31 March 2000	<u>626</u>	<u>1,272</u>	<u>71</u>	<u>1,969</u>

13. INVESTMENTS IN SUBSIDIARIES

	The Company
	2001
	\$'000
Unlisted shares, at cost	<u><u>3,800</u></u>

Details of the subsidiaries at 31 March 2001 are as follows. The class of shares held is ordinary unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13. INVESTMENTS IN SUBSIDIARIES - *continued*

Name of company	Place of incorporation/ establishment	Percentage of equity			Issued/ registered capital	Principal activities
		Group's effective holding	held by the Company	held by subsidiary		
Productive Finance Limited ("PFL")	British Virgin Islands ("BVI")	100%	100%	—	US\$5,200	Investment holding
Systek Information Technology Limited ("SITL")	Hong Kong	100%	—	100%	\$520,000	Development and trading of software products and provision of training services
WinClient Technologies (HK) Limited	Hong Kong	100%	—	100%	\$10,000	Development and trading of software products and provision of training services
Systek Information Technology (Pte) Limited	Singapore	100%	—	100%	S\$2	Development and trading of software products
SYSTEKIT Innovations Inc. (formerly named as Systek Connect Inc.)	Canada	100%	—	100%	C\$1,000	Provision of market research services
Telecare Limited	Hong Kong	80%	—	80%	\$10,000	Provision of interactive customer care services
Systek Information Technology (Shanghai) Limited (Note)	PRC	100%	—	100%	US\$200,000	Development of software products
Systek Investment Inc.	BVI	100%	—	100%	US\$1	Investment holding
Systek Information Technology Inc.	United States of America	100%	—	100%	US\$10	Dormant

Note: The company was established as a wholly foreign owned enterprise in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14. INTANGIBLE ASSETS

	The Group	
	2001	2000
	\$'000	\$'000
Development costs:		
Additions during the year	22,511	—
Amortisation charge for the year	(2,251)	—
	<u>20,260</u>	<u>—</u>
Deferred assets:		
Additions during the year	192	—
Amortisation charge for the year	(48)	—
	<u>144</u>	<u>—</u>
	<u>20,404</u>	<u>—</u>

15. INVESTMENT SECURITIES

	The Group	
	2001	2000
	\$'000	\$'000
Unlisted equity securities, at cost	7,995	—
Less: provision for diminution in value	(3,200)	—
	<u>4,795</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16. DEFERRED TAXATION

Deferred taxation assets arise from the timing differences in the accounting and taxation treatment of project revenue recognition. There is no significant potential deferred taxation liability for which provision has not been made.

Movements on deferred taxation comprise:

	The Group	
	2001	2000
	\$'000	\$'000
At 1 April	263	263
Written off to the profit and loss account (<i>note 7a</i>)	(263)	—
	<u> </u>	<u> </u>
At 31 March	<u> </u>	<u>263</u>

17. GROSS AMOUNT DUE FROM/(TO) CUSTOMERS FOR CONTRACTS

(a) Gross amount due from customers for contracts

	2001	2000
	\$'000	\$'000
Costs incurred	6,386	11,560
Recognised profits/(losses), net	5,665	(756)
	<u>12,051</u>	<u>10,804</u>
Less: progress billings	(8,494)	(8,603)
	<u>3,557</u>	<u>2,201</u>
Less: provision for foreseeable losses	(2,573)	—
	<u>984</u>	<u>2,201</u>

(b) Gross amount due to customers for contracts

	2001	2000
	\$'000	\$'000
Costs incurred	—	800
Add: recognised profits	—	660
	<u> </u>	<u>1,460</u>
Less: progress billings	—	(1,790)
	<u> </u>	<u>(330)</u>

The gross amount due from/to customers for contracts at 31 March 2001 is expected to be recovered/settled in the next twelve months.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18. ACCOUNTS RECEIVABLE

An ageing analysis of accounts receivable is as follows:

	The Group	
	2001 \$'000	2000 \$'000
Within one month	4,151	7,849
More than 1 month but within 3 months	3,116	867
More than 3 months but less than 12 months	1,847	3,918
Beyond 1 year	2,331	—
	<u>11,445</u>	<u>12,634</u>

All of the accounts receivable are expected to be recovered within one year. Debts are due within 30 days from the date of billing. Debtors with balances that are more than 9 months overdue are requested to settle all outstanding balances before any further credit is granted.

19. AMOUNTS DUE FROM/(TO) SUBSIDIARIES/RELATED PARTIES

Amounts due from/(to) subsidiaries/related parties are unsecured, interest free and have no fixed terms of repayment.

20. PLEDGED DEPOSITS

	The Group		The Company
	2001 \$'000	2000 \$'000	2001 \$'000
Pledged deposits	<u>40,188</u>	<u>—</u>	<u>39,023</u>
Banking facilities granted	<u>40,523</u>	<u>—</u>	<u>39,023</u>

Deposits with banks were pledged to secure certain general banking facilities granted to the Group (2000: \$Nil). None of the above facilities was utilised as at 31 March 2001 (2000: \$Nil).

21. CASH AND CASH EQUIVALENTS

	The Group		The Company
	2001 \$'000	2000 \$'000	2001 \$'000
Deposits with banks	22,763	1,227	22,639
Cash at bank and in hand	11,629	6,935	276
	<u>34,392</u>	<u>8,162</u>	<u>22,915</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22. RECEIPTS IN ADVANCE

Receipts in advance represent advance payments of systems development service fees from customers pursuant to the respective service contracts.

23. CONVERTIBLE NOTES

	The Group	
	2001 \$'000	2000 \$'000
At 1 April	10,000	—
Proceeds from the issuance of convertible notes	8,000	10,000
Repayment of convertible notes	(2,000)	—
Conversion into ordinary shares	(16,000)	—
	<hr/>	<hr/>
At 31 March	—	10,000
	<hr/> <hr/>	<hr/> <hr/>

(a) Issuance of Note A

On 20 December 1999, SITL issued a convertible note ("Note A") with a principal sum of \$2,000,000 to an independent third party ("Noteholder A"), which entitled Noteholder A to convert the principal amount of Note A into 0.4% of the enlarged share capital of SITL after completion of the placing and the capitalisation issue of the Company. Note A carried a fixed interest rate of 6% per annum payable semi-annually in arrears and was guaranteed by the then shareholder of SITL. The principal sum of Note A was repayable on 19 December 2001 if it was not converted.

Pursuant to a deed of release and variation dated 16 May 2000 entered into by SITL, the conversion right of Note A was released and the principal sum of \$2,000,000 together with the outstanding interest accrued at 6% per annum was repaid on 20 December 2000. The personal guarantee granted by the then shareholder of SITL was released when the loan was repaid.

(b) Issuance of Note B

On 29 January 2000, SITL entered into an agreement to issue a convertible note ("Note B") with a principal sum of \$16,000,000 to Artop Development Limited and Pacific Success Group Limited ("Noteholders B"), which entitled Noteholders B to convert the principal amount of Note B into 20% of the enlarged share capital of the Company after completion of the placing and the capitalisation issue (without taking into account any shares that may be issued pursuant to the over-allotment option). Note B carried interest at HIBOR +1% per annum payable annually in arrear and was guaranteed by the then shareholder of SITL. The outstanding principal of Note B as at 31 March 2000 was \$8,000,000 and the remaining \$8,000,000 was drawdown on 27 April 2000, 6 May 2000 and 15 May 2000 respectively. The principal sum of Note B was repayable within three years from the drawdown date if it had not been converted.

On 1 September 2000, an aggregate 1,733,334 shares of the Company were issued and credited as fully paid upon the conversion of Note B (Note 25(iv)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24. MINORITY INTERESTS

Pursuant to an agreement dated 27 July 2001, the minority shareholder of a non-wholly owned subsidiary agreed to contribute to the deficit in the net assets of this subsidiary in accordance with the equity percentage. At 31 March 2001, minority interests mainly represent contribution receivable from the minority shareholder.

25. SHARE CAPITAL

		2001		2000	
	Note	Number of shares '000	\$'000	Number of shares '000	\$'000
Authorised:					
Ordinary share of \$0.1 each	(ii)	<u>2,000,000</u>	<u>200,000</u>	<u>5,000</u>	<u>500</u>
Issued and fully paid:					
At 1 April	(i)	5,000	500	5,000	500
Capital eliminated on consolidation	(iii)	(5,000)	(500)	—	—
Issuance of shares for the acquisition of subsidiaries	(iii)	5,200	520	—	—
Issuance of shares upon the conversion of convertible notes	(iv)	1,733	173	—	—
Capitalisation issue	(v)	793,067	79,307	—	—
Issuance of shares for cash	(vi)	<u>236,375</u>	<u>23,638</u>	<u>—</u>	<u>—</u>
At 31 March		<u>1,036,375</u>	<u>103,638</u>	<u>5,000</u>	<u>500</u>

Notes:

- (i) The share capital on the combined balance sheet as at 31 March 2000 represents the issued capital of SITL.
- (ii) Pursuant to a written resolution of the then shareholder on 26 August 2000, the authorised share capital of the Company was increased from \$350,000 to \$200,000,000 by the creation of 1,996,500,000 shares of \$0.1 each.
- (iii) The Company became the holding company of the Group on 26 August 2000 through the Reorganisation under which 5,199,999 shares of \$0.1 each were issued to acquire the entire equity interest of PFL, giving rise a share premium of approximately \$3,280,000.
- (iv) On 26 August 2000, an aggregate of 1,733,334 shares of \$0.1 each were issued and credited as fully paid, upon the conversion of the outstanding principal amount of \$16,000,000 pursuant to the terms of Note B.
- (v) On 26 August 2000, an amount of \$79,306,667 standing to the credits of the share premium account was applied in paying up in full at par 793,066,666 shares of \$0.1 each which were allotted and distributed as fully paid to the then shareholders pursuant to their equity percentages.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25. SHARE CAPITAL - *continued*

(vi) On 7 September 2000, a further 236,375,000 shares of \$0.1 each were issued and offered for subscription at a price of \$0.56 per share upon the listing of the Company's shares on the Stock Exchange. The Group raised approximately \$120,015,000 (including interest income) net of related expenses from the issue.

(vii) All the shares issued by the Company rank *pari passu* and do not carry pre-emptive rights.

26. RESERVES

(a) The Group

	Share premium \$'000	Exchange (Accumulated reserves \$'000	Retained profits/ losses) \$'000	Total \$'000
At 1 April 1999	—	21	704	725
Exchange differences on translation of accounts of subsidiaries outside Hong Kong	—	20	—	20
Profit for the year	—	—	6,669	6,669
At 31 March 2000	<u>—</u>	<u>41</u>	<u>7,373</u>	<u>7,414</u>
At 1 April 2000	—	41	7,373	7,414
Premium on the issuance of shares	127,840	—	—	127,840
Shares issue expenses	(15,389)	—	—	(15,389)
Capitalisation issue	(79,307)	—	—	(79,307)
Exchange differences on translation of accounts of subsidiaries outside Hong Kong	—	(73)	—	(73)
Loss for the year	—	—	(28,541)	(28,541)
At 31 March 2001	<u>33,144</u>	<u>(32)</u>	<u>(21,168)</u>	<u>11,944</u>

According to the relevant PRC accounting rules and regulations, the PRC subsidiary may appropriate part of its profits after tax to general reserve, at the discretion of the board of directors of the subsidiary. The general reserve can be used to make good losses and to convert into paid-up capital.

No transfer to the general reserve was made by the PRC subsidiary during the year.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26. RESERVES - *continued*

(b) The Company

	Share premium \$'000	Retained profits \$'000	Total \$'000
At 1 April 2000	—	—	—
Premium on the issuance of shares	127,840	—	127,840
Shares issue expenses	(15,389)	—	(15,389)
Capitalisation issue	(79,307)	—	(79,307)
Loss for the year	—	(2,465)	(2,465)
	<hr/>	<hr/>	<hr/>
At 31 March 2001	33,144	(2,465)	30,679
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Under the Companies Law (revised) of the Cayman Islands, the funds in the share premium account of the Company are 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 they fall due in the ordinary course of business.

As at 31 March 2001, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to \$30,679,000, subject to the restriction stated above.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

(a) Reconciliation of (loss)/profit from operations to net cash (outflow)/inflow from operating activities

	2001 \$'000	2000 \$'000
(Loss)/profit from operations	(28,641)	8,663
Interest income from bank deposits	(3,160)	(55)
Depreciation	1,441	606
Amortisation of intangible assets	2,299	—
Loss on disposal of fixed assets	170	—
Barter sales revenue	(195)	—
Provision for diminution in value against investment securities	3,200	—
Gain on disposal of a subsidiary	(430)	—
Provision for bad and doubtful debts	5,942	—
Provision for foreseeable losses	2,573	—
Increase in accounts receivable	(4,753)	(7,581)
Increase in prepayments, deposits and other receivables	(893)	(1,478)
Decrease/(increase) in amounts due from related parties	1,583	(363)
Increase in gross amount due from customers for contracts	(1,356)	(2,201)
Decrease in gross amount due to customers for contracts	(330)	(1,685)
(Decrease)/increase in receipts in advance	(156)	102
(Decrease)/increase in amounts due to related parties	(2,659)	139
Increase in other payables and accruals	3,111	4,150
	<u> </u>	<u> </u>
Net cash (outflow)/inflow from operating activities	<u>(22,254)</u>	<u>297</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT - *continued*

(b) Analysis of changes in financing

	Share capital (including share premium) \$'000	Short-term bank loans and other borrowings \$'000	Convertible notes \$'000	Minority interests \$'000
At 1 April 1999	500	—	—	—
Cash inflows from issuance of convertible notes	—	—	10,000	—
Capital injection from minority shareholders	—	—	—	2
At 31 March 2000	<u>500</u>	<u>—</u>	<u>10,000</u>	<u>2</u>
At 1 April 2000	500	—	10,000	2
Cash inflow from financing	—	5,500	—	—
Cash inflow from issuance of convertible notes	—	—	8,000	—
Net cash inflows from issuance of new shares	120,282	—	—	—
Repayment of short-term bank loans and other borrowings	—	(5,500)	—	—
Repayment of convertible notes (Note 23(a))	—	—	(2,000)	—
Conversion into ordinary shares (Note 23(b))	16,000	—	(16,000)	—
Share of losses by minority shareholders	—	—	—	(987)
At 31 March 2001	<u><u>136,782</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(985)</u></u>

(c) Major non-cash transactions

- (i) During the year the Group entered into certain barter sales totalling \$195,000.
- (ii) On 1 September 2000, an aggregate 1,733,334 shares of the Company were issued and credited as fully paid upon the conversion of Note B (Note 23(b)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2001, the Group had commitments in respect of properties under operating leases to make payments in the next year as follows:

	The Group	
	2001	2000
	\$'000	\$'000
Leases expiring:		
Within 1 year	1,174	123
After 1 year but within 5 years	6,599	2,655
	<hr/> 7,773 <hr/>	<hr/> 2,778 <hr/>

29. RETIREMENT BENEFITS SCHEMES

Hong Kong

Since 1 December 2000, the Hong Kong subsidiaries are required to join the Mandatory Provident Fund (the "MPF"), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Schemes Ordinance.

Total retirement benefits costs under the MPF charged to the profit and loss account amounted to \$463,000 (2000: \$Nil). Minimum contribution to the MPF is 5% of the employees' basic salaries.

PRC, other than Hong Kong

The PRC subsidiary of the Group participates in pension schemes organised by the respective municipal governments whereby it is required to pay annual contributions at the rates ranging from 19% to 25.5% of the standard wages determined by the relevant authorities in the PRC.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant PRC scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to \$107,000 (2000: \$Nil) during the year.

Singapore

A subsidiary of the Group participates in the mandatory central provident fund (the "CPF") in Singapore. This is a defined contribution scheme available to the employees in Singapore and is funded by contributions from the subsidiary and its employees who contribute respectively to the CPF based on fixed percentages of employees' salaries as defined under the relevant regulations in Singapore. Contributions to the CPF in respect of the year ended 31 March 2001 were \$8,700 (2000: \$60,000).

The Group does not operate any other schemes for retirement benefits provided to the Group's employees.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30. SHARE OPTION SCHEME

On 26 August 2000, the Company has conditionally adopted a share option scheme pursuant to which full-time employees and executive 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 of the Company.

During the year, no option was granted under the share option scheme.

31. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

- (i) During the year ended 31 March 2001, a subsidiary in Hong Kong remitted funds of approximately \$423,000 (2000: \$Nil) to a PRC subsidiary through a related company of which a non-executive director is a shareholder. The rate of exchange adopted was determined based on the exchange rate prevailing on the transaction dates.
- (ii) Pursuant to an agreement dated 27 July 2001, the minority shareholder of a non-wholly owned subsidiary agreed to contribute to the deficit in the net assets of this subsidiary in accordance with the equity percentage (Note 24).
- (iii) As part of the Reorganisation, agreements dated 25 April 2000 were entered between SITL and a related company, which is wholly owned by an executive director, whereby SITL transferred its interest in a former subsidiary to the related company at a consideration of CAD81,100.
- (iv) Rentals of an office premises in Hong Kong occupied by the Group totalling \$286,000 during the year ended 31 March 2001 (2000: \$Nil) were borne by a related company which is controlled by an executive director of the Company.

32. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 March 2001 to be Trouble Free Technology Limited, which is incorporated in the BVI.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Systek Information Technology (Holdings) Limited (the “Company”) will be held at Salon 6, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on Friday, 7 September 2001 at 3:30 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements of the Company and the Reports of the Directors and Auditors for the year ended 31 March 2001;
2. To authorize the Board of Directors to fix the remuneration of the Directors;
3. To re-appoint Auditors and to authorize the Board of Directors to fix their remuneration; and

By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

4A. **THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined in this Resolution) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company or securities convertible into shares or options, warrants or similar rights to subscribe for any shares of the Company and to make or grant offers, agreements, options and right of exchange or conversion which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors of the Company and shall authorize the Directors of the Company during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval granted in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined in this Resolution); or (ii) the share option scheme or similar arrangement of the Company approved by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”); or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time; or (iv) the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities which are convertible into shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this Resolution, and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the date of passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or by the laws of the Cayman Islands or any other applicable laws to be held; and
- (iii) the date upon which the authority set out in this resolution is revoked or raised by way of ordinary resolution of the Company in general meeting.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrant, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or any relevant jurisdiction, or the requirements of any recognized regulatory body or any stock exchanges, in any territory outside Hong Kong).”

4B. **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to purchase shares of HK\$0.10 each in the capital of the Company subject to and in accordance with all applicable laws and requirements of the GEM Listing Rules as amended from time to time be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase its shares at a price determined by the Directors;
- (c) the aggregate nominal amount of the shares which are authorised to be purchased by the Directors of the Company pursuant to the approval in paragraph (a) shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution, and the said authority shall be limited accordingly;
- (d) for the purpose of this resolution:

“Relevant Period” shall have the same meaning as ascribed to it under resolution set out in paragraph 4A(d) of the notice convening this Meeting.”

NOTICE OF ANNUAL GENERAL MEETING

4C. **“THAT:**

conditional upon the passing of the resolutions set out in paragraphs 4A and 4B of the notice convening this Meeting, the general mandate granted to the Directors of the Company pursuant to the resolution set out in paragraph 4A of the notice convening this Meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company or securities convertible into shares or options, warrants, or similar rights to subscribe for any shares of the Company under the authority granted pursuant to the resolution set out in paragraph 4B of the notice convening this Meeting, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution.”

5. To transact any other businesses.

By Order of the Board
To Chiwun-Caritas Christine
Company Secretary

Hong Kong, 6 August 2001

Notes:

1. A shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more separate proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's branch share registrar in Hong Kong, Central Registration Hong Kong Limited, Shops 1901-05, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding the Meeting or any adjournment Meeting.
3. With respect to the resolutions set out in paragraphs 4A and 4C of the notice, approval is being sought from Shareholders for general mandates to be given to the Directors to allot, issue and deal with shares of the Company in accordance with the GEM Listing Rules.
4. With respect to the resolution set out in paragraph 4B of the notice, approval is being sought from Shareholders for a general mandate to be given to the Directors to purchase shares of the Company.
5. An explanatory statement containing the information with respect to the resolutions set out in paragraphs 4A to 4C of the notice will be sent to the Shareholders together with the 2001 Annual Report.