

**SYSTEK****Information Technology****Systemk Information Technology (Holdings) Limited***(incorporated in the Cayman Islands with limited liability)***First Quarterly Report 2001***Leading the Way in e-Business Innovations***www.systemkit.com**

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

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

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This document, for which the directors of Systek Information Technology (Holdings) Limited (“Systek” or the “Company”) 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 giving information with regard to Systek. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this document is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this document misleading; and (iii) 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.

FIRST QUARTERLY RESULTS

The Board of Directors of the Company is pleased to present the unaudited first quarterly results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	<i>Note</i>	Three months ended	
		2001	2000
		HK\$'000	HK\$'000
Turnover	2	6,005	13,865
Cost of services and merchandise sold		(3,529)	(6,581)
Gross profit		2,476	7,284
Other revenue		705	37
Selling expenses		(4,325)	(26)
General and administrative expenses		(13,178)	(2,147)
(Loss)/profit from operations		(14,322)	5,148
Finance cost		(13)	(178)
(Loss)/profit from ordinary activities before taxation	3	(14,335)	4,970
Taxation	4	—	(817)
(Loss)/profit from ordinary activities after taxation		(14,335)	4,153
Minority interests		179	(7)
(Loss)/profit attributable to the shareholders		(14,156)	4,146
(Loss)/earnings per share	5		
Basic (HK cents)		(1,366)	0.691
Diluted (HK cents)		N/A	0.564

Notes:

1 Reorganisation and basis of presentation

(a) *Reorganisation*

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

(b) *Basis of presentation*

The Group resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the consolidated results have been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for both periods presented, rather than from 26 August 2000. Furthermore, the results of the Group for the periods ended 30 June 2001 and 2000 included the results of the Company and its subsidiaries with effect from 1 April 1999 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.

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

(c) *Statement of compliances*

The consolidated results have been prepared in accordance with all applicable statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

2 Turnover

The principal activities of the Group are the provision of systems development and consultancy services and sale of software and hardware 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 and hardware products.

An analysis of the turnover by principal activities of the operations of the Group during the reporting period is as follows:

	Three months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
<i>Principal activities</i>		
System development	2,934	5,882
Sales of software and hardware products	642	3,989
Professional service fees	1,584	2,010
Training fees	797	1,026
Technical support fees	47	199
Others	1	759
	<u>6,005</u>	<u>13,865</u>

3 (Loss)/profit from ordinary activities before taxation

(Loss)/profit from ordinary activities before taxation is arrived at after crediting and charging the following items:

	Three months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
<i>Crediting</i>		
Interest income	<u>562</u>	<u>37</u>
<i>Charging</i>		
Interest on bank advances and other borrowings repayable within five years	13	178
Staff costs	12,627	6,739
Operating lease rentals - properties	1,107	233
Pre-operating costs written off	63	—
Amortisation of deferred asset	24	—
Depreciation	<u>611</u>	<u>273</u>

4 Taxation

	Three months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Hong Kong Taxation	—	101
Overseas Taxation	—	—
	<hr/>	<hr/>
	—	101
Deferred taxation	—	716
	<hr/>	<hr/>
	—	817
	<hr/> <hr/>	<hr/> <hr/>

No provision for taxation has been made for the three months ended 30 June 2001 as the Group sustained losses for taxation purpose during the period.

The provision for Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits arising in Hong Kong for the three months ended 30 June 2001. 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%. No provision for taxation has been made for the three months ended 30 June 2001 since the subsidiary is still within the two-year tax exemption period.

5 (Loss)/Earnings per share

(a) *Basic (loss)/earnings per share*

The calculation of basic loss per share is based on the combined loss attributable to shareholders for three months ended 30 June 2001 of approximately of HK\$14,156,000 divided by the weighted average number of 1,036,375,000 shares in issue during the three months ended 30 June 2001.

The calculation of basic earnings per share for the three months ended 30 June 2000 is based on the combined profit attributable to shareholders of approximately HK\$4,146,000 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 during the period ended 30 June 2001.

The calculation of diluted earnings per share for the three months ended 30 June 2000 is based on the adjusted combined profit attributable to shareholders of HK\$4,324,000 and the weighted average number of ordinary shares of 766,774,667 shares after adjusting for the effects of the dilutive potential ordinary shares committed under the convertible notes issued on 20 December 1999, 29 January 2000, 27 April 2000, 6 May 2000 and 15 May 2000 which entitled the noteholders to convert the paid up principal into ordinary shares of the Company.

(c) *Reconciliations*

	2000 HK\$'000
Profit attributable to shareholders	4,146
Interest paid for the convertible notes	178
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Adjusted profit attributable to shareholders	4,324
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	2000 Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	599,999,942
Deemed issue of ordinary share	166,774,725
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Weighted average number of ordinary shares used in calculating diluted earnings per share	766,774,667
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6 Reserves

	Share premium HK\$'000	Exchange reserves HK\$'000	Retained profits/ losses) HK\$'000	Total HK\$'000
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>
At 1 April 2001	33,144	(32)	(21,168)	11,944
Exchange differences on translation of accounts of subsidiaries outside Hong Kong	—	(27)	—	(27)
Loss for the period	—	—	(14,156)	(14,156)
At 30 June 2001	<u>33,144</u>	<u>(59)</u>	<u>(35,324)</u>	<u>(2,239)</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 period.

DIVIDEND

The Board of Directors has resolved not to recommend the payment of dividend for the three months ended 30 June 2001 (2000 : Nil).

BUSINESS REVIEW

Overview

During the reporting period, the Group has continued to focus on establishing distribution channels for its software products. New features have been added to the current product portfolio based on the feedback from customers. In June 2001, our sales and marketing office in Canada with support from the Hong Kong research and development staff has made a tour to Europe to promote the sales of Internet software products. Additional distribution channels have also been established in the PRC and Taiwan. The Group has successfully completed WinVest® R4.0 to support the implementation of centralized trading in the PRC.

Financial Performance

For the three months ended 30 June 2001, the Group recorded a turnover of approximately HK\$6.0 million, representing a decrease of approximately 56.7% over the same period in 2000. Loss attributable to the shareholders for the three months ended 30 June 2001 was approximately HK\$14.2 million as compared to a profit of approximately HK\$4.2 million for the same period in 2000. The decrease in turnover of the Group was mainly attributable to general weak demand in goods and services in the IT market.

PROSPECTS

Research and Development

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

For the Financial Technology line of business, the Group has continued to enhance the current WinVest® software, Release 3.0 and Release 4.0. In addition to the current WinVest® software features, the Group has also developed the Chinese version of WinVest, which is being used and marketed in the PRC. The Group has also built and marketing WinVest Lite for the small and medium brokerage business. Implementation of the products will be driven by market demand and customer take-up rate.

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

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

Business Development

During the period, the Group continues to enter into new contracts for enhancing WinVest® with their base customers. The Group has also been engaging in final contract negotiation with two new WinVest® customers in Hong Kong, the implementation of which is targeted for completion in the 4th quarter 2001.

The Group is currently organizing promotion seminars with local and PRC vendors. The Group had signed agreements with Baltimore Technologies, Intel Corporation in the training of e-Business security and e-Business development. The Group has also in discussion with telephony hardware manufacturers to integrate their hardware with ezConnect™. The sales and marketing office established in Toronto, Canada now support the Internet Technology product sales for the European and North America markets. A number of resellers in Europe and North America has signed up to sell SecurTrac™. The Group is planning to launch ezConnect™ in Europe and North America in late 2001.

During the reporting period, the Group participated in the following trade shows:

- Admin 2001, Boston (April 2001)
- IBM e-Business Software at Work, Rome and Milan, Italy (May 2001)

In addition to the above trade shows, the Group has also launch the XML Master Program with the Productivity Council and the eSchool. An executive focused eCRM seminar was also conducted during the period. A CRM system has been set up for sales team to track customer activities and to provide a systematic way to follow-up customer leads generated by direct mailing, magazine advertisement and direct telephone marketing activities.

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.

DIRECTORS' INTEREST IN SECURITIES

As at 30 June 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' 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 period from 26 August 2000 to 30 June 2001, no option was granted under the Share Option Scheme.

Save as disclosed above, at no time during the three months ended 30 June 2001 was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age 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 30 June 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 (Note)	469,421,914	45.29%

Note :

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

SHARE OPTION SCHEME

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

During the period from 26 August 2000 to 30 June 2001, 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 (the "GEM Listing Rules").

Pursuant to a non-competition undertaking dated 26 August 2000, each of Trouble Free Technology Limited 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.

INTEREST OF SPONSOR

As at 30 June 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.

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

From the date of listing since 8 September 2000 up to 30 June 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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.

On behalf of the Board
To Cho Kei
Chairman

Hong Kong, 13 August 2001