



SYSTEMEK

Information Technology

System Information Technology (Holdings) Limited

(incorporated in the Cayman Islands with limited liability)

Interim Report 2001

Leading the Way in e-Business Innovations

www.systemkit.com

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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.

INTERIM RESULTS

The board of directors (the “Board”) of Systek Information Technology (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 September 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	<i>Notes</i>	Three months ended		Six months ended	
		30 September		30 September	
		2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	9,883	10,329	15,887	24,194
Cost of services and merchandise sold		(4,405)	(4,934)	(7,934)	(11,515)
Gross Profit		5,478	5,395	7,953	12,679
Other revenue		262	921	967	958
Selling expenses		(3,144)	(1,188)	(7,485)	(1,214)
General and administrative expenses		(14,510)	(7,416)	(27,644)	(9,563)
(Loss)/profit from operations		(11,914)	(2,288)	(26,209)	2,860
Finance cost		(25)	(362)	(66)	(540)
(Loss)/profit from ordinary activities before taxation	3	(11,939)	(2,650)	(26,275)	2,320
Taxation	4	—	453	—	(364)
(Loss)/profit from ordinary activities after taxation		(11,939)	(2,197)	(26,275)	1,956
Minority interests		47	172	226	165
(Loss)/profit attributable to the shareholders		(11,892)	(2,025)	(26,049)	2,121
(Loss)/earnings per share	5				
Basic (HK cents)		(1.147)	(0.304)	(2.513)	0.334

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 September 2001 and 2000 include the results of the Group with effect from 1 April 1999 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Board, 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 system 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 periods is as follows:

	Three months ended		Six months ended	
	30 September		30 September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Principal activities</i>				
Systems development	4,839	4,382	7,772	10,264
Sales of software and hardware products	1,053	2,972	1,694	6,961
Professional service fees	2,503	1,497	4,087	3,507
Training fees	461	764	1,258	1,790
Technical support fees	992	148	1,039	347
Others	35	566	37	1,325
	9,883	10,329	15,887	24,194

3 (Loss)/profit from ordinary activities before taxation

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

	Three months ended		Six months ended	
	30 September		30 September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Crediting</i>				
Interest income	295	492	857	529
<i>Charging</i>				
Interest on bank advances and other borrowings repayable within five years	25	362	66	540
Staff costs	14,268	5,188	26,895	11,927
Operating lease rentals - properties	1,598	515	2,705	748
Pre-operating costs written off	2	—	65	—
Amortisation of deferred assets	24	—	48	—
Auditors' remuneration	11	160	11	160
Depreciation	621	273	1,232	546

4 Taxation

	Three months ended		Six months ended	
	30 September		30 September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong taxation	—	—	—	101
Overseas taxation	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	—	—	—	101
Deferred taxation	—	(453)	—	263
	<u>—</u>	<u>(453)</u>	<u>—</u>	<u>263</u>
	—	(453)	—	364
	<u>—</u>	<u>(453)</u>	<u>—</u>	<u>364</u>

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

The provision for Hong Kong Profits Tax was calculated at 16% of the estimated assessable profits arising in Hong Kong for the three months and six months ended 30 September 2000.

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 and six months ended 30 September 2001 since the subsidiary is still within the two-year tax exemption period.

5 (Loss)/Earnings per share

The calculation of basic loss per share for the three months and six months ended 30 September 2001 is based on the loss attributable to shareholders of approximately of HK\$11,892,000 and HK\$26,049,000 (2000: loss of HK\$2,025,000 and profit of HK\$2,121,000) and the weighted average number of 1,036,375,000 (2000: 666,666,628 and 633,333,285, prior to the placing but after adjusting the effect of the capitalization issue on 1 September 2000) shares in issue throughout the relevant accounting period, respectively.

There was no potential dilutive ordinary shares in issue during the three months and six months ended 30 September 2001 and 2000.

6 Reserves

	Share premium HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2001	33,144	(32)	(21,168)	11,944
Exchange differences on translation of accounts of subsidiaries outside Hong Kong	—	(326)	—	(326)
Loss for the period	—	—	(26,049)	(26,049)
	<u>33,144</u>	<u>(358)</u>	<u>(47,217)</u>	<u>(14,431)</u>
At 30 September 2001	<u>33,144</u>	<u>(358)</u>	<u>(47,217)</u>	<u>(14,431)</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.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 September 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 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 Australia, PRC and Taiwan. The Group has successfully completed WinVest® R4.0 to support the implementation of centralized trading in the PRC. The international version of WinVest 4.0 has been extended in scope to adapt to market demand and new modules has been rolled out to customers for testing.

Impact of the aftermath of the New York World Trade Center incident has added further uncertainty for the IT marketplace in the next six months.

Financial Performance

For the six months ended 30 September 2001, the Group recorded a turnover of approximately HK\$15.9 million, representing a decrease of approximately 34.3% over the same period in 2000. Loss attributable to the shareholders for the six months ended 30 September 2001 was approximately HK\$26.0 million as compared to a profit of approximately HK\$2.1 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. A derivative product, a full-function mini-customer care center is currently being implemented at a PRC customer site. We are working closely with our strategic partners to expand this line of business.

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 is 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.

A Nominee System has been added to the WinVest Suite. It is currently undergoing systems testing by customers. Further enhancements to this system is planned to fulfil further customer demand.

Business Development

During the period, the Group has been actively promoting the concepts, functions, and feature of WinVest 4.0. The Group has organized seminars with several major vendors. The Group's senior business development staff have also participated as speakers in several public seminars held by both government related agencies and major computer vendors.

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business Objectives for the six months ended 30 September 2001 as stated in the prospectus

Actual Achievements

(a) Product Enhancement and Development

Financial Technology Unit

- Launch WinVest Release 3.0 to overseas markets, including the Asia Pacific region, Europe and North America and Release 4.0 to local market and begin to design Release 5.0
- The Group has decided to delay the overseas launches due to the economy downturn and weak market demand in both North America and Southeast Asia. Releases 4.0 and 5.0 are progressing according to plan

- Continue to develop WAP applications and, if applicable, implement additional WAP functions for WinVest
- The Group is continuing the development of WAP functions
- Launch BIX Releases 2.0 to overseas markets, including the Asia Pacific region, Europe and North America and continue to develop Release 2.5
- The launch is delayed due to adverse market conditions. Development and enhancements on BIX are ongoing

Internet Interactive Technology Unit

- Develop additional applications for ezConnect Release 3.0
- Derivative products were developed for ezConnect
- Continue the development of additional ezXML products and launch to the market when appropriate
- ezXML products are continuously enhanced. The Group is currently discussing the implementation of ezXML with several major corporations
- Continue the development and testing of knowledge management application
- Development has been slowed down due to the slow acceptance rate in the knowledge management area

Internet and Messaging Security Unit

- Launch SecurTrac Release 3.0 and continue the development and testing of Release 4.0
- The Group has re-prioritized the 3.0 release in favour of the development and launch of a management console for the product

(b) Provision of e-Business Innovation Services

- Design and launch internet portals for the clients
- The Group has re-focused from portal development to browser-based applications due to change in customer demand
- Develop a global intranet system for a major client
- Development strategy is under review by the client

(c) Marketing and Distribution

- Negotiate with software vendors on the terms of standard software packages
- The activities are on-going
- Promote sales of software products through the network of software vendors, distributors and resellers
- The activities are on-going
- Promote new releases of software products through marketing tours, advertising on IT magazines and participation in IT conferences and trade shows
- The activities are on-going
- Launch the brand building campaign
- The exercise is on-going, Advertising campaign and seminars were launched in conjunction with leading vendors
- Expand the sales and technical support centre in North America, when necessary
- The Group believes the current staffing level in the Group's North American office is sufficient to provide sales and technical support in the region
- Establish user group organisation
- The Group believes it is still at a premature stage to consider the establishment of user groups

(d) Corporate Development and Strategic Alliance

- Evaluate the results of the commercialisation centre
- Commence operation of the market intelligence and research unit in the US
- Commence operation of Internet interactive centers in Beijing and Shanghai, the PRC
- Initiate research and development projects with one to two universities in the PRC
- Establish and launch Internet portal and ASP services if feasibility studies are positive
- Identify potential IT companies with product synergy for acquisition or alliance
- The Group is continuously evaluating the results. Improvements on the centre have been made and a number of softwares have been acquired or are under evaluation
- The functions have been taken up by the Group's North American and European Channel Managers
- The Group has established prototype centers in Beijing and Shanghai but operations were put on hold due to adverse market conditions
- A number of research and development projects are under discussion with a major university in Beijing
- The planned Internet portal and ASP Services were on hold due to adverse market conditions
- A number of companies in the PRC and Taiwan are identified. Discussions on business opportunities are ongoing

USE OF PROCEEDS

As stated in the prospectus issued by the Company on 4 September 2000, the Group was expected to use within this reporting period a total of HK\$33.7 million for the following activities: HK\$23.8 million for product research and development, HK\$1.1 million for marketing and HK\$8.8 million for strategic investment. For the six months ended 30 September 2001, the amount spent on the aforementioned categories was approximately HK\$11.0 million and HK\$1.0 million respectively and no strategic investments has been made during the period and the total amount spent was HK\$12.0 million.

The reduction of funds allocated to research and development and to strategic investments allow the Group to prevent wastage of funds when poor tangible and intangible returns are expected. The Group believes these adjustments will enhance the Group's capability in achieving its overall business objectives.

During the reporting period, the Group has been following its planned strategies while dynamically adjusting its tactical programs according to market needs and demand. A number of product adjustments were made based on the Gartner Group study. Product derivatives were also developed based on confirmed market demand. Levels of product development and research and development activities will be closely monitored to respond to the overall market situation.

DIRECTORS' INTEREST IN SECURITIES

As at 30 September 2001, according to the register kept by the Company 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

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

Note:

- (1) The interest of Mr. To is held through Trouble Free Technology Limited which is wholly owned by Mr. To.

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 six months ended 30 September 2001, no option was granted under the Share Option Scheme.

Save as disclosed above, at no time during the six months ended 30 September 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 director/chief executive, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed above in respect of directors and their associates, as at 30 September 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:

<u>Name</u>	<u>Number of issued shares</u>	<u>Percentage of shareholding</u>
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% 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 six months ended 30 September 2001, no option has been granted by the Company under the Share Option Scheme.

COMPETING INTERESTS

Mr. To, being the controlling shareholder of the Group, effectively owns 100% 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 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 which competes directly or indirectly with the business of the Group.

INTEREST OF SPONSOR

As at 30 September 2001, the sponsor of the Company, Core Pacific - Yamaichi Capital Limited, its directors, employees and 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 LISTED SECURITIES

During the six months ended 30 September 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 of the Company.

The audit committee comprises 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.

On behalf of the Board
To Cho Kei
Chairman

Hong Kong, 9 November 2001