



**SYSTEK**

Information Technology

## **Systemk Information Technology (Holdings) Limited**

(incorporated in the Cayman Islands with limited liability)

# Third Quarterly Report 2001

**Leading the Way in e-Business Innovations**

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

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

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

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid documents 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 GEM-listed issuers.**

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*This document, for which the directors of Syspek Information Technology (Holdings) Limited (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 the Company. 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.*

## THIRD QUARTERLY 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 nine months ended 31 December 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

		<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>31 December</b>		<b>31 December</b>	
	<i>Note</i>	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>	2	<b>9,755</b>	11,016	<b>25,642</b>	35,210
Cost of services and merchandise sold		<b>(6,250)</b>	(5,289)	<b>(14,184)</b>	(16,804)
Gross Profit		<b>3,505</b>	5,727	<b>11,458</b>	18,406
Other revenue		<b>92</b>	1,906	<b>1,059</b>	2,865
Selling expenses		<b>(1,634)</b>	(997)	<b>(9,119)</b>	(2,211)
General and administrative expenses		<b>(10,959)</b>	(5,724)	<b>(38,604)</b>	(15,288)
(Loss)/ profit from operations		<b>(8,996)</b>	912	<b>(35,206)</b>	3,772
Finance cost		<b>(11)</b>	(53)	<b>(77)</b>	(593)
<b>(Loss)/ profit from ordinary activities before taxation</b>	3	<b>(9,007)</b>	859	<b>(35,283)</b>	3,179
Taxation	4	<b>—</b>	—	<b>—</b>	(364)
<b>(Loss)/ profit from ordinary activities after taxation</b>		<b>(9,007)</b>	859	<b>(35,283)</b>	2,815
Minority interests		<b>3</b>	214	<b>229</b>	379
<b>(Loss)/profit attributable to the shareholders</b>		<b>(9,004)</b>	1,073	<b>(35,054)</b>	3,194
(Loss)/earnings per share	5				
Basic (HK cents)		<b>(0.869)</b>	0.100	<b>(3.382)</b>	0.400

*Notes:*

## **1 Reorganisation and basis of presentation**

### *(a) Reorganisation*

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

### *(b) Basis of presentation*

The Group resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the consolidated results have been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for both periods presented, rather than from 26 August 2000. Furthermore, the results of the Group for the periods ended 31 December 2001 and 2000 included 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 sales 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 sales 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:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>31 December</b>		<b>31 December</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Principal activities</i>				
Systems development	<b>6,647</b>	4,342	<b>14,421</b>	14,606
Sales of software and hardware products	<b>236</b>	2,414	<b>1,929</b>	9,375
Professional service fees	<b>2,098</b>	2,766	<b>6,185</b>	6,273
Training fees	<b>463</b>	1,089	<b>1,720</b>	2,879
Technical support fees	<b>304</b>	405	<b>1,344</b>	752
Others	<b>7</b>	—	<b>43</b>	1,325
	<b>9,755</b>	11,016	<b>25,642</b>	35,210

### 3 (Loss)/ profit from ordinary activities before taxation

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>31 December</b>		<b>31 December</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Crediting</i>				
Interest income	<b>91</b>	1,625	<b>948</b>	2,154
<i>Charging</i>				
Interest on bank advances and other borrowings repayable within five years	<b>11</b>	53	<b>77</b>	593
Staff costs	<b>9,989</b>	1,283	<b>32,164</b>	5,011
Operating lease rentals - properties	<b>1,353</b>	584	<b>3,852</b>	1,332
Pre-operating costs written off	—	—	<b>65</b>	655
Amortisation of deferred assets	<b>24</b>	—	<b>72</b>	—
Auditors' remuneration	<b>900</b>	—	<b>911</b>	160
Depreciation	<b>709</b>	443	<b>1,942</b>	989

## 4 Taxation

	Three months ended		Nine months ended	
	31 December		31 December	
	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>101</u>
Deferred taxation	—	—	—	263
	<u>—</u>	<u>—</u>	<u>—</u>	<u>364</u>
	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>364</u></u>

No provision for taxation has been made for the three months and nine months ended 31 December 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 nine months ended 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2001 is based on the loss attributable to shareholders of approximately of HK\$9,004,000 and HK\$35,054,000 (2000: profit of HK\$1,073,000 and HK\$3,194,000) and the weighted average number of 1,036,375,000 (2000: 1,036,375,000 and 793,944,412) shares in issue throughout the relevant accounting period, respectively.

There was no potential dilutive ordinary shares in issue during the three months and nine months ended 31 December 2001 and 2000.

## 6 Reserves

	Share premium HK\$'000	Exchange reserves 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	—	—	(35,054)	(35,054)
	<u>33,144</u>	<u>(358)</u>	<u>(56,222)</u>	<u>(23,436)</u>
At 31 December 2001	<u>33,144</u>	<u>(358)</u>	<u>(56,222)</u>	<u>(23,436)</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 nine months ended 31 December 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. Our Canadian office has continued to promote the sales of Internet software products. More distribution channels have also been established in the PRC and Taiwan. The Group has successfully transferred some of the current workload to the Group's PRC offices.

## **Financial Performance**

For the three months ended 31 December 2001, the Group recorded a turnover of approximately HK\$9.7 million, representing a decrease of approximately 11.4% over the same period in 2000. Loss attributable to the shareholders for the three months ended 31 December 2001 was approximately HK\$9.0 million as compared to a profit of approximately HK\$1.0 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<sup>®</sup> software, Release 3.0 and Release 4.0. In addition to the current WinVest<sup>®</sup> software features, the Group has also expanded the scope of WinVest, which is being used and marketed in the PRC and in Hong Kong. Implementation of the products will be driven by market demand and customer take-up rate.

The Group is analyzing current overseas market potential for financial software due to the slowdown in trading volume worldwide. A revised marketing strategy will be formulated after the fact-finding and analysis are completed.

For the Internet Technology line of business, the Group has continued to refine and enhance the existing product portfolio, which includes ezConnect<sup>™</sup> and ezXML<sup>™</sup>. The Group completed ezConnect<sup>™</sup> R4.0 which provides full Customer contact functions including the integration of PBX, eCRM and office automation. Featuring Telephony integration capabilities, ezConnect<sup>™</sup> can handle both voice and Internet customer contacts. The Group has recently completed installation of ezConnect at one of the internet call centers in Shanghai.

For the Internet Security and Messaging line of business, the Group has continued to enhance and refine SecurTrac. On-going work is being done to interface SecurTrac with enterprise network administration products with well established market position.

The Group has also continue to enhance and refine the ezXML Portfolio of products.



## *Business Development*

During the period, the Group continues to enter into new contracts for enhancing WinVest® with our base customers. Promotion activities with local and PRC vendors are on-going. In December 2001, the Group has entered into a distribution agreement with a telephony hardware manufacturer to bundle their hardware with ezConnect™ to form a comprehensive business solution. The sales and marketing office established in Toronto, Canada now support the Internet Technology product sales for the European and North America markets. Additional resellers in Europe and North America has been signed up to sell SecurTrac™. Up to the current reporting period, SecurTrac has been sold to several reputable organizations in North America. The Group's plan to launch ezConnect™ in Europe and North America however, has been delayed due to adverse market conditions.

During the reporting period, the Group has also entered into contracts with two reputable customers to deploy ezXML within their organization and with their clients.

## **DIRECTORS' INTEREST IN SECURITIES**

As at 31 December 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**

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

### *Note:*

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 nine months ended 31 December 2001, no option was granted under the Share Option Scheme.

Save as disclosed above, at no time during the nine months ended 31 December 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 have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SDI Ordinance or 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 December 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:

<b>Name</b>	<b>Number of issued shares</b>	<b>Percentage of shareholding</b>
Trouble Free Technology Limited (Note)	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 nine months ended 31 December 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, 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 carry on or be engaged, 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 31 December 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 LISTED SECURITIES**

During the nine months ended 31 December 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 and Dr. Leininger, Joseph William. Mr. Chan Wai Dune is the chairman of the audit committee.

On behalf of the Board  
**To Cho Kei**  
*Chairman*

Hong Kong, 1 February 2002