



Information Technology

## Systek Information Technology (Holdings) Limited

*(incorporated in the Cayman Islands with limited liability)*

## Annual Report 2002

*Leading the way in e-innovation*

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

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

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

The principal means of information dissemination on the GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue 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	7
Directors and Senior Management Profile	11
Report of the Directors	13
Auditors' Report	18
Consolidated Profit and Loss Account	19
Consolidated Statement of Recognised Gains and Losses	20
Consolidated Balance Sheet	21
Balance Sheet	23
Consolidated Cash Flow Statement	24
Notes to the Financial Statements	26
Four-Year Summary	58
Notice of Annual General Meeting	59

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. To, Cho Kei (*Chairman*)  
Mr. Chan, Kai Yan  
Dr. Chan, Kim Chung  
Mr. Lam, Ching Ho Andy  
Mr. Wu, Man Hong Francis  
Mr. Lo Chun Shing, alternate to  
Mr. Lam, Ching Ho Andy

## NON-EXECUTIVE DIRECTORS

Mr. Lee, Tak Ching  
Mr. Wu, Yang

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Hon. Dr. Wong, Yu Hong Philip  
Mr. Ching, Tai Ming David

## COMPANY SECRETARY

Ms. To, Chiwun Caritas Christine

## QUALIFIED ACCOUNTANT

Miss Ho, Suet Man Stella

## COMPLIANCE OFFICER

Mr. Chan, Kai Yan

## AUTHORISED REPRESENTATIVES

Dr. Chan, Kim Chung  
Ms. To, Chiwun Caritas Christine

## AUDIT COMMITTEE

The Hon. Dr. Wong, Yu Hong Philip  
Mr. Ching, Tai Ming David

## SPONSOR

Core-Pacific -Yamaichi Capital Limited

## AUDITORS

KPMG

## REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
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, Solicitors

## 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

Computershare Hong Kong Investor Services Limited  
Room 1901-05  
19th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## STOCK CODE

08103

## WEBSITE

[www.systemkit.com.hk](http://www.systemkit.com.hk)

# CHAIRMAN'S STATEMENT

During the past financial year, the Group continued to set the standard, direction and approach in developing its business. In response to the world market, pragmatic adjustments had to be made when rational and feasible. During this period, the Group received ISO9001:2000 certification for its e-Business Innovation Centre.

## BUSINESS REVIEW

For the financial year ended 31 March 2002, the Group recorded a turnover of HK\$35.3 million. The loss attributed to shareholders amounted to HK\$54.2 million.

The loss can be attributed to several factors. During the financial year, the Group continued to deploy substantial resources for further developing the Group's products to accelerate its product's time-to-market. Certain research and development costs were written off as expenses as a prudent measure to reflect the impact.

During the first two quarters of the financial year, aggressive sales and marketing campaigns were undertaken. At this time, the Group also concentrated on streamlining its laboratories in the People's Republic of China (the "PRC") to compliment its development capability in Hong Kong. Unfortunately, the September 11th tragedy in the United States prolonged the downturn of the stock market in North America, Hong Kong and the PRC. The business climate in the world market remained as sluggish and pessimistic as the previous year. Stock market turnover in Hong Kong and the PRC remained thin. Local brokerage houses maintained their wary 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. In response to these negative signs, the Group took action to rationalize its sales and marketing strategy and reduced expenses.

The collection of certain accounts receivable has improved from the previous year and provisions were made as a prudent measure to reflect the impact on the turnover of the Group. The Group has made provision for diminution in value of investments due to the uncertainties of investment returns.

On the marketing side, the Group has made appropriate directional adjustments for both long term and short term marketing strategies for its products. The Group expanded its sales and marketing teams; however, because of the disproportional returns to cost, this expansion has been rationalized. The Group's product development team in the PRC plays the dual role of enhancing its research and development in addition to extending its capabilities in performing skilled systems development work. The Group has been increasing production efficiency overall and has reduced costs by steering non-reactive workload from Hong Kong to the PRC.

## CHAIRMAN'S STATEMENT

During the financial year, the Group continued its focus on distribution channels while making aggressive improvements and enhancements on the Group's product lines for distribution in North America and Europe. The Group's North American subsidiary SYSTEKIT Innovations Inc. ("SYSTEKIT") in Toronto, Ontario, Canada has been active in sales, marketing, technical support, and fulfillment. SYSTEKIT has been serving as the Group's primary base in launching the Group's products and services in both North America and Europe, and has shown good potential in growth.

### BUSINESS OUTLOOK

It has been a challenge to maintain the turnover this year. The wariness of an already jittery business environment world-wide led to intense price competition throughout the service industries, resulting to lean margins.

However, the Group believes that despite the conservative environment characteristic of the financial year, that its primary Hong Kong venue has characteristics and opportunities that are advantageous to the Group. The Group firmly believes that its Hong Kong workforce has excellent skill sets, dedication and work ethics, and an experience pool which it has accumulated over the past twenty years. Another advantage is that technology companies have the support of the SAR Chief Executive who has been an advocate and champion of information technology and technological innovation.

The drawback to the experienced workforce is that the salaries and wages in Hong Kong are high, and has thus become less competitive compared to other countries such as the PRC, Australia and Canada. As to the government support for technology companies, there has been a lack of concrete plans, coordination and support for the SAR Chief Executive's policies when translated into action programs.

The Group's method of overcoming the market challenges is by transforming itself into a product company. By establishing a stable portfolio of products, it will be able to achieve greater margins and a more stable revenue stream. This will be achieved by concentrating on strengthening its product's competitive edge and elevating the Group's status to that of an international technology provider rather than a local provider. Finally, in positioning the Group for the economic recovery, the Group will also need to keep its good people challenged.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Financial Review

##### *Results*

For the financial year ended 31 March 2002, the Group recorded a turnover of HK\$35.3 million (2001: HK\$35.6 million). The loss attributed to shareholders amounted to HK\$54.2 million (2001: HK\$28.5 million).

##### *Segment information*

The Group is principally engaged in four business segments mainly in Hong Kong and other regions of the PRC. The Group presented its segment information based on nature of their operations and the products and services they provided.

## CHAIRMAN'S STATEMENT

### *Financial resources and liquidity*

As at 31 March 2002, shareholders' funds of the Group amounted to approximately HK\$61.1 million. Current assets amounted to approximately HK\$32.0 million, of which approximately HK\$13.6 million were cash and cash equivalents. Current liabilities of approximately HK\$10.1 million mainly comprised of other payables and accruals.

The gearing ratio calculated on the basis of total liabilities over the total shareholders' fund as at 31 March 2002 was 16.6%.

Since the functional currencies of the Group's operations are mainly Hong Kong dollars and Renminbi ("RMB"), the Directors consider that the potential foreign exchange exposure of the Group is limited.

### *Charges on Group's assets and contingent liabilities*

As at 31 March 2002, deposits with banks amounting to HK\$4.3 million were pledged to secure certain general banking facilities of HK\$4.0 million.

The Directors have considered the possible outcome of a claim made against one of the Company's wholly-owned subsidiaries in relation to a labour dispute. The claim amounts to HK\$9,522,400, inclusive of interest and cost. The Group has sought legal advice on the claim that it is not possible to determine the outcome of this matter with reasonable certainty at this time. Based on this advice and on the information at present available to the Group, the Directors have considered that the claim is unlikely to be successful, therefore no provision has been made in respect of the alleged claims in the results.

### *Significant Investments and Acquisitions*

During the year ended 31 March 2002, the Group had invested HK\$1.0 million in a Hong Kong incorporated company engaged in data broadcasting industries. The Group had no acquisitions or disposals of subsidiaries.

### *Capital commitments*

As at 31 March 2002, the Group had no future plans for material investment.

### *Employees and Remuneration Policies*

The Group recognises the importance of training to its staff. In addition to on-the-job training, the Group regularly provides internal training at the Group's in-house training center and external training for its staff to enhance technical or product knowledge.

As at 31 March 2002, the Group had 202 employees, including the executive directors of the Company. Total staff costs for the year under review, including director's remuneration, amounting to approximately HK\$64.5 million. The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of the performance and experience of individual employees. The Group also provides retirement schemes and medical scheme for its employees.

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.

## CHAIRMAN'S STATEMENT

### **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 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **COMPLIANCE WITH THE GEM LISTING RULES**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the year ended 31 March 2002.

### **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 audited 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 two independent non-executive directors, namely, The Hon. Dr. Wong, Yu Hong Philip, and Mr. Ching Tai Ming David, The Hon. Dr. Wong, Yu Hong Philip is the chairperson of the audit committee. The audit committee meets with Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the annual reports of the Group.

On behalf of the Board

**To Cho Kei**  
*Chairman*

Hong Kong, 27 June 2002



# BUSINESS OBJECTIVE REVIEW

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

### Financial Technology Unit

#### Proposed Objectives From Latest Practicable Date to 31 March 2002

Launch WinVest 3.0 and 4.0 overseas

#### Actual Achievements

WinVest 3.0 was successfully launched. WinVest 4.0 launch was delayed due to slow customer take-up rate.

Launch BIX Releases 2.5 in the local market

BIX 2.5 has been deployed to all WinVest users after successful users acceptance test. Other feature enhancements are on-going.

### Internet Interactive Technology Unit

#### Proposed Objectives From Latest Practicable Date to 31 March 2002

Develop additional application for ezConnect Release 3.0

#### Actual Achievements

The Group has successfully launched ezConnect 3.0 and developed SME applications with the technology.

Continue ezXML products development and launch to the market when appropriate

Product development completed and ongoing discussions have been held with several North American software vendors. Ongoing customized solutions are being discussed with a major corporation.

Develop knowledge management software for commercial application

Launch and full scale development suspended due to market conditions.

### Internet and Messaging Security Unit

#### Proposed Objectives From Latest Practicable Date to 31 March 2002

Launch SecurTrac 3.0/4.0

#### Actual Achievements

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

SecurTrac with console support is being upgraded based on customer feedback.

Release versioning system renamed to avoid disruption of testing and pilots.

## BUSINESS OBJECTIVE REVIEW

### Provision of e-Business Innovation Services

#### Proposed Objectives From Latest Practicable Date to 31 March 2002

Design and launch Internet portal for a client

#### Actual Achievements

The Internet insurance portal “clicknsure.com” was launched during 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 2002

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 channel 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 promoting its trade name by participating in international trade shows.

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.

## BUSINESS OBJECTIVE REVIEW

### Corporate Development and Strategic Alliance

#### Proposed Objectives From Latest Practicable Date to 31 March 2002

#### Actual Achievements

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

The center was set up in 2000 with a team consisting of usability specialists, Users Interface designers, Web designers. The Group has acquired a suite of test tools from Compuware Inc.. The Group has received ISO9001: 2000 certification for its eBusiness Innovation Centre.

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 concluded that such ASP cannot be economically justified.

Identify potential IT companies with product synergy for acquisition or alliance

The Group has invested in an application service provider and an interactive multimedia developer.

## BUSINESS OBJECTIVE REVIEW

### 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\$57.7 million for the following activities: HK\$35.6 million for product research and development, HK\$21 million for strategic investment and HK\$1.1 million for marketing. Up to 31 March 2002, the amount spent on the aforementioned categories was \$32.2 million, HK\$3.2 million and HK\$1 million, respectively and the total amount expended was HK\$36.4 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 adjusted its positioning in the marketplace and accelerated development of certain products while postponing launch of others.

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

**Mr. To, Cho Kei**, aged 55, 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. Chan, Kai Yan**, aged 39, is an Executive Director, Senior Vice President, Chief of Staff 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 39, 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.

**Mr. Lam, Ching-Ho Andy**, aged 52, is an Executive Director and Senior Vice President of Program and Quality Management of the Company. Mr. Lam has over 20 years of IT experience. 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 34, is an Executive Director and Vice President 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. Lo, Chun Shing**, aged 38, is an Executive Director (alternate to Mr. Lam, Ching Ho Andy) and Vice President of the Company. He joined the Group in 1998. Mr. Lo has over 15 years of IT experience. Mr. Lo holds a Bachelor of Science degree in Applied Computing, and a Master of Business Administration degree from The Open University of Hong Kong.

## NON-EXECUTIVE DIRECTORS

**Mr. Lee, Tak Ching**, aged 46, 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. Wu, Yang**, aged 35, 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.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**The Honourable Dr. Wong, Yu Hong Philip**, aged 63, 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. The 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. Ching, Tai Ming David**, aged 49, is an Independent 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.

### SENIOR MANAGEMENT

**Mr. Hung, Francis**, aged 47, 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. Chan, Chi Kuen Alex**, aged 33, 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 39, 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, Christine Chiwun-Caritas**, aged 34, 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.

# REPORT OF THE DIRECTORS

The Directors hereby present their 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 2002.

## 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 of the Company and its subsidiaries during the year is set out in note 3 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	15%	—
Five largest customers in aggregate	42%	—
The largest supplier	—	19%
Five largest suppliers in aggregate	—	51%

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.

## FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 March 2002 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 19 to 58.

## DIVIDENDS

The Directors do not recommend the payment of any final dividend for the year ended 31 March 2002.

## 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.

## SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 March 2002 are set out in note 13 to the financial statements.

## REPORT OF THE DIRECTORS

### RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

### RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the year ended 31 March 2002 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	
Mr. Chan, Kai Yan	
Dr. Chan, Kim Chung	
Mr. Lam, Ching Ho Andy	(appointed on 27 May 2002)
Mr. Wu, Man Hong Francis	(appointed on 27 May 2002)
Mr. Lo, Chun Shing, alternate to Mr. Lam, Ching Ho Andy	(appointed on 27 May 2002)
Mr. Poon, Bing-Choi Amos	(retired on 7 September 2001)
Mr. Yuen, Tat Man Sidney	(retired on 7 September 2001)
Mr. Wong, Po Fai	(retired on 7 September 2001)

#### Non-executive Directors

Mr. Lee, Tak Ching	
Mr. Wu, Yang	
Ms. Seto, Laurie Rolly	(retired on 7 September 2001)
Mr. Ching, Tai Ming David	(resigned on 27 May 2002)

#### Independent non-executive Directors

The Hon. Dr. Wong, Yu Hong Philip	
Mr. Ching, Tai Ming David	(appointed on 27 May 2002)
Mr. Chan, Wai Dune Charles	(resigned on 30 April 2002)
Dr. Leininger, Joseph William	(resigned on 27 May 2002)

In accordance with article 87 of the Company's articles of association, Dr Chan, Kim Chung and Mr Lee, Tak Ching and Mr Wu, Yang retire from the Board by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

### 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.



## REPORT OF THE DIRECTORS

### DIRECTORS' INTEREST IN SECURITIES

As at 31 March 2002, 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
Lam Ching Ho, Andy	500,000	—	—	—	500,000
Lo Chun Shing	70,000	—	—	—	70,000

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' 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 2002, 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.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed above in respect of Directors and their associates, as at 31 March 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following person was 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 11 to 12.

### INTEREST OF SPONSOR

As at 31 March 2002, the Sponsor of the Company, Core-Pacific - Yamaichi Capital Limited, its directors, employees and its associates have held 280,000 shares in the share capital of the Company. Apart from the foregoing, the Sponsor of the Company, its directors, employees and its associates did not have any interest in the share capital of the Company or of any subsidiary of the Group, or any right to subscribe for or to nominate persons to subscribe for the share capital 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.

## REPORT OF THE DIRECTORS

### **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 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **FOUR-YEAR SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 58 of the annual report.

### **PRE-EMPTIVE RIGHTS**

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

### **COMPLIANCE WITH THE GEM LISTING RULES**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the year ended 31 March 2002.

### **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 two independent non-executive directors, namely, The Hon. Dr. Wong, Yu Hong Philip, and Mr. Ching Tai Man David. The Hon. Dr. Wong, Yu Hong Philip is the chairperson of the audit committee.

### **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, 27 June 2002

# AUDITORS' REPORT



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

We have audited the financial statements on pages 19 to 57 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 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, 27 June 2002

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2002  
(Expressed in Hong Kong dollars)

	<i>Note</i>	2002 \$'000	2001 \$'000
TURNOVER	3	35,292	35,628
Cost of services and merchandise sold		<u>(21,724)</u>	<u>(15,020)</u>
Gross profit		13,568	20,608
Other revenue	4	977	3,160
Other net income	4	141	431
Research and development costs		(15,366)	(7,906)
Selling expenses		(10,781)	(17,191)
General and administrative expenses		(36,589)	(24,543)
Other operating expenses		<u>(6,080)</u>	<u>(3,200)</u>
Loss from operations		(54,130)	(28,641)
Finance costs	5(a)	<u>(23)</u>	<u>(592)</u>
LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION	5	(54,153)	(29,233)
Taxation	6(a)	<u>—</u>	<u>(295)</u>
LOSS FROM ORDINARY ACTIVITIES AFTER TAXATION		(54,153)	(29,528)
Minority interests	23	<u>—</u>	<u>987</u>
LOSS ATTRIBUTABLE TO SHAREHOLDERS	9	<u>(54,153)</u>	<u>(28,541)</u>
Loss per share	10		
Basic (HK cents)		<u>(5.225)</u>	<u>(3.362)</u>
Diluted (HK cents)		<u>N/A</u>	<u>N/A</u>

The notes on pages 26 to 57 form part of these financial statements.

# CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2002  
(Expressed in Hong Kong dollars)

	<i>Note</i>	2002 \$'000	2001 \$'000
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	25(a)	<u>(326)</u>	<u>(73)</u>
NET LOSSES NOT RECOGNISED IN THE PROFIT AND LOSS ACCOUNT		(326)	(73)
Net loss for the year		<u>(54,153)</u>	<u>(28,541)</u>
TOTAL RECOGNISED LOSSES		<u><u>(54,479)</u></u>	<u><u>(28,614)</u></u>

The notes on pages 26 to 57 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

At 31 March 2002

(Expressed in Hong Kong dollars)

	<i>Note</i>	2002 \$'000	2001 \$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	8,407	9,710
Intangible assets	14	30,109	20,404
Investment securities	15	700	4,795
		<u>39,216</u>	<u>34,909</u>
<b>CURRENT ASSETS</b>			
Gross amount due from customers for contracts	16	2,381	984
Inventories	17	153	—
Accounts receivable	18	8,453	11,445
Prepayments, deposits and other receivables		1,803	2,926
Tax recoverable	6(b)	1,302	1,302
Pledged deposits	20	4,342	40,188
Cash and cash equivalents	21	13,600	34,392
		<u>32,034</u>	<u>91,237</u>
<b>CURRENT LIABILITIES</b>			
Receipts in advance	22	1,345	—
Other payables and accruals		8,536	11,283
Tax payable	6(b)	266	266
		<u>10,147</u>	<u>11,549</u>
<b>NET CURRENT ASSETS</b>		<u>21,887</u>	<u>79,688</u>

The notes on pages 26 to 57 form part of these financial statements.

## CONSOLIDATED BALANCE SHEET

At 31 March 2002

(Expressed in Hong Kong dollars)

	<i>Note</i>	2002 \$'000	2001 \$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>61,103</b>	114,597
MINORITY INTERESTS	23	<u>—</u>	<u>985</u>
NET ASSETS		<u><b>61,103</b></u>	<u>115,582</u>
CAPITAL AND RESERVES			
Share capital	24	<b>103,638</b>	103,638
Reserves	25(a)	<u><b>(42,535)</b></u>	<u>11,944</u>
		<u><b>61,103</b></u>	<u>115,582</u>

Approved and authorised for issue by the board of directors on 27 June 2002.

<b>To Cho Kei</b>	)	
	)	
	)	<i>Directors</i>
	)	
<b>Chan Kai Yan</b>	)	

The notes on pages 26 to 57 form part of these financial statements.



# BALANCE SHEET

At 31 March 2002

(Expressed in Hong Kong dollars)

	<i>Note</i>	2002 \$'000	2001 \$'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	13	<u>3,800</u>	<u>3,800</u>
<b>CURRENT ASSETS</b>			
Amounts due from subsidiaries	19	123,983	69,055
Prepayments, deposits and other receivables		113	368
Pledged deposits	20	3,742	39,023
Cash and cash equivalents	21	<u>20</u>	<u>22,915</u>
		<b>127,858</b>	131,361
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		<u>1,717</u>	<u>844</u>
<b>NET CURRENT ASSETS</b>		<u><b>126,141</b></u>	<u>130,517</u>
<b>NET ASSETS</b>		<u><u><b>129,941</b></u></u>	<u><u>134,317</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	24	103,638	103,638
Reserves	25(b)	<u>26,303</u>	<u>30,679</u>
		<u><b>129,941</b></u>	<u><u>134,317</u></u>

Approved and authorised for issue by the board of directors on 27 June 2002.

<b>To Cho Kei</b>	)	
	)	
	)	<i>Directors</i>
	)	
<b>Chan Kai Yan</b>	)	

The notes on pages 26 to 57 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2002  
(Expressed in Hong Kong dollars)

	<i>Note</i>	2002		2001	
		\$'000	\$'000	\$'000	\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	26(a)		(35,498)		(22,254)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		977		3,160	
Interest paid		(23)		(592)	
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			954		2,568
TAXATION					
Hong Kong profits tax paid		—		(2,606)	
Overseas tax paid		—		(11)	
TAX PAID			—		(2,617)
INVESTING ACTIVITIES					
Payment for purchase of fixed assets		(2,142)		(9,352)	
Proceeds from disposal of a subsidiary		—		430	
Pledged deposits		35,846		(40,188)	
Payment for purchase of investment securities		(2,950)		(5,850)	
Payment for acquisition of intangible assets		(16,676)		(22,703)	
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES			14,078		(77,663)
NET CASH OUTFLOW BEFORE FINANCING CARRIED FORWARD			(20,466)		(99,966)

The notes on pages 26 to 57 form part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2002  
(Expressed in Hong Kong dollars)

	Note	2002		2001	
		\$'000	\$'000	\$'000	\$'000
NET CASH OUTFLOW BEFORE FINANCING BROUGHT FORWARD			(20,466)		(99,966)
FINANCING					
New short-term bank loans and other borrowings	26(b)	—		5,500	
Proceeds from issuance of convertible notes	26(b)	—		8,000	
Repayment of short-term bank loans and other borrowings	26(b)	—		(5,500)	
Repayment of convertible notes	26(b)	—		(2,000)	
Net proceeds from issuance of new shares	26(b)	—		120,282	
NET CASH INFLOW FROM FINANCING			—		126,282
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			(20,466)		26,316
Effects of foreign exchange rates			(326)		(86)
Cash and cash equivalents at 1 April			34,392		8,162
Cash and cash equivalents at 31 March			13,600		34,392
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Cash at bank and in hand			12,871		11,629
Deposits with banks			729		22,763
			13,600		34,392

The notes on pages 26 to 57 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### (a) Group 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. Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on the Growth Enterprise Market operated by the Stock Exchange of Hong Kong Limited (“GEM”), the Company became the holding company of the subsidiaries now comprising the Group. Further details of the Reorganisation are set out in the Company’s prospectus dated 4 September 2000.

### (b) Basis of presentation

The Company and its subsidiaries (“the Group”) resulting from the Reorganisation have been regarded as a continuing group. Accordingly the consolidated financial statements have been prepared on the basis of merger accounting in accordance with the Statements of Standard Accounting Practice (“SSAP”) No.2.127 “Accounting for Group Reconstructions”. On this basis, the Company was the holding company of the Group for the financial year presented, rather than from 26 August 2000. In the circumstances, the results of the Group for the year ended 31 March 2001 include the results of the Company and its subsidiaries with effect from 1 August 2000 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated financial statements give a more meaningful view of the results of the Group as a whole.

The Group primarily operates in the systems development sector mainly in Hong Kong and other regions in the People’s Republic of China (the “PRC”) and is subject to special risks due to the development cost and time involved and fast-changing environment of the sector. As a development stage enterprise, the sustainability of the Group is dependent on its ability to successfully implement its business development plans, which are dependent on, among things, adequate financing being continuously available to the Group to fund the developing operations, before sufficient cash flows are generated from such operations. The Directors have evaluated all the relevant facts available to them and are of the opinion that there do not exist any material adverse conditions precluding the Group from implementing its business development plans. Accordingly the financial statements have been prepared on a going concern basis.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts or to amounts and classification of liabilities that might be necessary should the going concern basis not be applicable.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements 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 financial statements also comply with the applicable disclosure requirements of provisions of the Rules Governing the Listing of Securities on 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 financial statements

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

### (c) Subsidiaries and controlled enterprises

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gain, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### (d) **Investment securities**

The Group's and the Company's policies for investment in securities other than investments in subsidiaries are as follows:

- (i) Investment held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities 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) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and will persist for the foreseeable future.
- (iii) 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.

#### (e) **Fixed assets**

- (i) Fixed assets are stated in the balance sheet at cost less aggregate depreciation (see note 2(h)) and impairment losses (see note 2(i)).
- (ii) 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.
- (iii) 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

### (f) Intangible assets

#### (i) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation (see note 2(h)) and impairment losses (see note 2(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

#### (ii) Deferred asset

Deferred asset represents the signing bonus paid to certain staff upon joining the Group which is stated at cost less accumulated amortisation (see note 2(h)) and impairment losses (see note 2(i)).

#### (iii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

### (g) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### (h) Amortisation and depreciation

- (i) 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	Over the shorter of remaining lease term and 5 years
Furniture and fixtures	5 years
Computer and office equipment	5 years

- (ii) Amortisation of intangible assets is charged to the profit and loss account on a straight-line basis over the assets' estimated useful lives as follows:

— capitalised development costs	Over the life of the relevant project from the date of commencement of commercial operations subject to a maximum of 5 years
— deferred asset	Over the respective service term of the relevant employment contracts

#### (i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- intangible assets;
- investments securities; and
- investment in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

### (i) **Impairment of assets** - continued

#### (i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

#### (ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

### (j) **Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (k) **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 bank overdrafts and advances from banks repayable within three months from the date of the advance.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

(l) **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.

(m) **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) **Service contracts**

The accounting policy for the revenue derived from systems development and consultancy services is set out in Note 2(o)(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 contracts" (as an asset) or the "Gross amount due to customers for contracts" (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".

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

### (o) **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, maintenance and installation as well as 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 and hardware products

Revenue arising from the sale of software and hardware 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.

#### (v) Interest income

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

### (p) **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 foreign subsidiaries 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.

On disposal of a foreign subsidiary, the cumulative amount of the exchange differences which relate to that foreign subsidiary is included in the calculation of the profit or loss on disposal.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

(q) **Warranty costs**

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

(r) **Retirement benefits**

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

(s) **Related parties**

For the purposes of these financial statements, 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.

(t) **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, accounts receivable and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 3. 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.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002 \$'000	2001 \$'000
Systems development	18,933	14,637
Software and hardware products	4,583	9,990
Professional service fees	9,382	7,639
Training fees	2,394	3,362
	<u>35,292</u>	<u>35,628</u>

### 4. OTHER REVENUE AND NET INCOME

	2002 \$'000	2001 \$'000
Other revenue:		
Interest income	<u>977</u>	<u>3,160</u>
Other net income:		
Gain on disposal of a subsidiary upon Reorganisation	—	430
Sundry income	<u>141</u>	<u>1</u>
	<u>141</u>	<u>431</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 5. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging

	2002 \$'000	2001 \$'000
(a) Finance costs		
Interest on bank overdrafts and other borrowings repayable within five years	<u>23</u>	<u>592</u>
(b) Other items		
Cost of services and merchandise sold#	21,724	15,020
Staff costs#	64,531	55,374
Less: amount capitalised as intangible assets	<u>(14,286)</u>	<u>(18,464)</u>
	50,245	36,910
Research and development costs#	25,167	28,166
Less: amount capitalised as intangible assets	<u>(16,676)</u>	<u>(22,511)</u>
Add: amortisation of research and development costs	<u>6,875</u>	<u>2,251</u>
	15,366	7,906
Operating lease rentals — properties	9,602	4,476
Less: amount capitalised as intangible assets	<u>(1,832)</u>	<u>(1,172)</u>
	7,770	3,304
Pre-operating costs written off	67	236
Amortisation of deferred assets#	96	48
Auditors' remuneration	750	950
Depreciation	2,617	1,441
Loss on disposal of fixed assets	828	170
Provision for bad and doubtful debts	1,266	5,942
Provision for foreseeable losses on systems development projects	—	2,573
Provision for receivable from minority shareholder	985	—
Provision for diminution in value against investment securities	<u>5,095</u>	<u>3,200</u>

# Cost of services and merchandise sold, research and development costs, and amortisation of deferred assets include \$27,243,000 (2001: \$18,727,000) staff costs. Among the total staff costs are retirement costs of \$1,980,000 (2001: \$578,700) for the year ended 31 March 2002.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 6. TAXATION

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

	2002 \$'000	2001 \$'000
Provision for Hong Kong Profits Tax for the year	—	—
Underprovision in respect of prior years	—	32
	<u>—</u>	<u>32</u>
Deferred taxation ( <i>note 6 (c)</i> )	—	263
	<u>—</u>	<u>263</u>
	<u>—</u>	<u>295</u>

No provision for taxation has been made for the years ended 31 March 2002 and 2001 as the Group sustained losses for taxation purpose during both years.

Subsidiaries operating in the PRC are exempted from PRC income tax for two years commencing from the first profit making year and are 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%. These subsidiaries sustained losses since incorporation and the two-year tax exemption period has not commenced.

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

	2002 \$'000	2001 \$'000
Provision for Hong Kong Profits Tax for the year	—	—
Provisional Hong Kong Profits Tax paid	—	(1,302)
	<u>—</u>	<u>(1,302)</u>
Balance of Hong Kong Profits Tax recoverable relating to prior years	(1,302)	—
	<u>(1,302)</u>	<u>(1,302)</u>
Balance of income tax payable outside Hong Kong relating to prior years	266	266
	<u>266</u>	<u>266</u>
	<u>(1,036)</u>	<u>(1,036)</u>
Representing:		
Tax recoverable	(1,302)	(1,302)
Tax payable	266	266
	<u>(1,036)</u>	<u>(1,036)</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 6. TAXATION - *continued*

(c) Deferred taxation

Movement of deferred taxation comprises:

	2002 \$'000	2001 \$'000
At 1 April	—	263
Written off to the profit and loss account	—	(263)
At 31 March	—	—

No deferred tax asset in respect of unutilised tax losses carried forward, which are available to set off against future assessable profits, has been recognised as it is uncertain that these tax losses will be utilised in the foreseeable future.

### 7. DIRECTORS' REMUNERATION

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

	2002 \$'000	2001 \$'000
Executive Directors:		
Salaries and other emoluments	4,285	5,800
Retirement scheme contributions	42	15
Other allowances	335	1,731
	<u>4,662</u>	<u>7,546</u>
Non-executive Directors:		
Fees	<u>321</u>	<u>204</u>

In addition to the emoluments disclosed above, no director was granted a signing bonus (2001: \$2,370,000) upon joining the Group.

The remuneration of the directors is within the following bands:

	2002 Number of directors	2001 Number of directors
Nil-\$1,000,000	10	8
\$1,000,001-\$2,000,000	3	4
\$2,000,001-\$3,000,000	—	—
\$3,000,001-\$4,000,000	—	1



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2001: three) are directors whose emoluments are disclosed in Note 7 above. The aggregate of the emoluments in respect of the other two (2001: two) individuals are as follows:

	2002 \$'000	2001 \$'000
Salaries and other emoluments	2,944	3,125
Retirement scheme contributions	22	6
Other allowances	—	500
	<u>2,966</u>	<u>3,631</u>

In addition to the emoluments disclosed above, no individual was granted a signing bonus (2001: \$1,500,000) upon joining the Group.

The emoluments of the two (2001: two) individuals with the highest emoluments are within the following bands:

	2002 Number of individuals	2001 Number of individuals
Nil-\$1,000,000	—	—
\$1,000,001-\$2,000,000	2	1
\$2,000,001-\$3,000,000	—	—
\$3,000,001-\$4,000,000	—	1
	<u>—</u>	<u>1</u>

### 9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of \$4,376,000 (2001: \$2,465,000) which has been dealt with in the financial statements of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 10. LOSS PER SHARE

(a) **Basic loss per share**

The calculation of basic loss per share is based on the loss attributable to shareholders of \$54,153,000 (2001: \$28,541,000) divided by the weighted average number of 1,036,375,000 (2001: 848,922,921) shares in issue during the year.

(b) **Diluted earnings per share**

There were no potential dilutive ordinary shares in issue as at 31 March 2002 and 2001.

## 11. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

### **Business segments**

The Group comprises the following main business segments:

Systems development:	Provision of systems development, maintenance and installation as well as consulting services.
Software and hardware products:	Sales of computer software and hardware products.
Professional services:	Provision of IT engineering and technical support services.
Training:	Provision of training courses.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 11. SEGMENT REPORTING - continued

	Systems development		Software and hardware products		Professional services		Training		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	18,933	14,637	4,583	9,990	9,382	7,639	2,394	3,362	35,292	35,628
Contribution from operations	5,289	7,648	2,548	6,805	4,448	4,139	1,283	2,016	13,568	20,608
Unallocated operating income and expenses									(67,698)	(49,249)
Loss from operations									(54,130)	(28,641)
Finance costs									(23)	(592)
Taxation									—	(295)
Minority interests									—	987
Loss attributable to shareholders									(54,153)	(28,541)
Depreciation & amortisation for the year	9,463	3,623	—	—	—	—	125	117	9,588	3,740
Significant non-cash expenses (other than depreciation and amortisation)	2,094	8,685	—	—	—	—	—	—	2,094	8,685
Unallocated significant non-cash expenses (other than depreciation and amortisation)									6,080	3,200
									8,174	11,885

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 11. SEGMENT REPORTING - continued

	Systems development		Software and hardware products		Professional services		Training		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	48,577	43,297	279	504	1,667	988	783	680	51,306	45,469
Unallocated assets									19,944	80,677
Total assets									71,250	126,146
Segment liabilities	7,807	10,846	441	75	1,265	—	368	362	9,881	11,283
Unallocated liabilities									266	266
Total liabilities									10,147	11,549
Capital expenditure incurred during the year	18,818	32,055	—	—	—	—	—	—	18,818	32,055
Unallocated capital expenditure incurred during the year									1,000	7,995
									19,818	40,050

The Group does not have any inter-segment sales.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 11. SEGMENT REPORTING - *continued*

#### Geographical segments

The Group's four business segments are conducted mainly in Hong Kong and elsewhere in the PRC.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		The PRC		Other Countries	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Revenue from external customers	31,316	35,087	3,505	456	471	85
Segment assets	55,869	120,919	14,571	3,990	810	1,237
Capital expenditure incurred during the year	13,380	27,976	5,373	3,873	1,065	8,201

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

### 12. FIXED ASSETS

	The Group			Total \$'000
	Leasehold improvements \$'000	Computer and office equipment \$'000	Furniture and fixtures \$'000	
<b>The Group</b>				
Cost:				
At 1 April 2001	2,915	10,424	1,744	15,083
Additions	368	1,566	208	2,142
Disposals	(1,307)	—	—	(1,307)
At 31 March 2002	1,976	11,990	1,952	15,918
Aggregate depreciation:				
At 1 April 2001	526	4,216	631	5,373
Charge for the year	628	1,709	280	2,617
Written back on disposal	(479)	—	—	(479)
At 31 March 2002	675	5,925	911	7,511
Net book value:				
At 31 March 2002	1,301	6,065	1,041	8,407
At 31 March 2001	2,389	6,208	1,113	9,710

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 13. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002	2001
	\$'000	\$'000
Unlisted shares, at cost	<u>3,800</u>	<u>3,800</u>

Details of the subsidiaries at 31 March 2002 are as follows. The class of shares held is ordinary unless otherwise stated. All of these are controlled subsidiaries as defined under note 2(c), and have been consolidated into the Group financial statements.

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
Absolute Great Technology Limited	BVI	100%	—	100%	US\$1	Dormant
System Information System (Shanghai) Limited ( <i>Note</i> )	PRC	100%	—	100%	US\$200,000	Trading of software products
System Information Technology Inc.	United States of America	100%	—	100%	US\$10	Dormant
System Information Technology Limited ("SITL")	Hong Kong	100%	—	100%	\$520,000	Development and trading of software products and provision of training services
System Information Technology (Pte) Limited	Singapore	100%	—	100%	S\$2	Development and trading of software products
System Information Technology (Shanghai) Limited ( <i>Note</i> )	PRC	100%	—	100%	US\$200,000	Development of software products
System International Trading Company (Shanghai) Limited ( <i>Note</i> )	PRC	100%	—	100%	US\$200,000	Dormant
System Investment Inc.	BVI	100%	—	100%	US\$1	Investment holding

## 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		
System Solutions China Limited	Hong Kong	100%	—	100%	\$2	Investment holding
SYSTEKIT Innovations 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
Tiger Magic Holdings Limited	BVI	100%	—	100%	US\$1	Investment holding
United Venture Group Limited	Hong Kong	100%	—	100%	\$2	Dormant
WinClient Technologies (HK) Limited	Hong Kong	100%	—	100%	\$10,000	Development and trading of software products and provision of training services
Wingreat Investments Limited	BVI	100%	—	100%	US\$1	Investment holding

*Note:* The companies were established as wholly-foreign owned enterprises in the PRC.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 14. INTANGIBLE ASSETS

	Development costs \$'000	The Group Deferred assets \$'000	Total
Costs:			
At 1 April 2001	22,511	192	22,703
Additions through internal development	16,676	—	16,676
	<u>39,187</u>	<u>192</u>	<u>39,379</u>
Accumulated amortisation:			
At 1 April 2001	2,251	48	2,299
Charge for the year	6,875	96	6,971
	<u>9,126</u>	<u>144</u>	<u>9,270</u>
Net book value:			
At 31 March 2002	<u>30,061</u>	<u>48</u>	<u>30,109</u>
At 31 March 2001	<u>20,260</u>	<u>144</u>	<u>20,404</u>

### 15. INVESTMENT SECURITIES

	2002 \$'000	The Group 2001 \$'000
Unlisted equity securities, at cost	8,995	7,995
Less: provision for diminution in value	(8,295)	(3,200)
	<u>700</u>	<u>4,795</u>



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 16. GROSS AMOUNT DUE FROM CUSTOMERS FOR CONTRACTS

	The Group	
	2002 \$'000	2001 \$'000
Costs incurred	8,773	6,386
Recognised profits less (losses), net	(627)	5,665
	<u>8,146</u>	<u>12,051</u>
Less: progress billings	(5,765)	(8,494)
	<u>2,381</u>	<u>3,557</u>
Less: provision for foreseeable losses	—	(2,573)
	<u>2,381</u>	<u>984</u>

The gross amount due from customers for contracts at 31 March 2002 is expected to be recovered in the next twelve months.

### 17. INVENTORIES

	The Group	
	2002 \$'000	2001 \$'000
Finished Goods	<u>153</u>	<u>—</u>

None of the inventories at 31 March 2002 was carried at net realisable value.

### 18. ACCOUNTS RECEIVABLE

An ageing analysis of accounts receivable is as follows:

	The Group	
	2002 \$'000	2001 \$'000
Within one month	4,129	4,151
More than 1 month but within 3 months	2,968	3,116
More than 3 months but less than 12 months	607	1,847
Beyond 1 year	749	2,331
	<u>8,453</u>	<u>11,445</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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 19. AMOUNTS DUE FROM SUBSIDIARIES

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

### 20. PLEDGED DEPOSITS

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Pledged deposits	<u>4,342</u>	<u>40,188</u>	<u>3,742</u>	<u>39,023</u>
Banking facilities granted	<u>4,042</u>	<u>40,523</u>	<u>3,742</u>	<u>39,023</u>
Banking facilities utilised	<u>100</u>	<u>—</u>	<u>—</u>	<u>—</u>

Deposits with banks were pledged to secure certain general banking facilities granted to the Group. At 31 March 2002, banking facilities utilised was the bank guarantee to a customer of the Group.

### 21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Deposits with banks	729	22,763	—	22,639
Cash at bank and in hand	<u>12,871</u>	<u>11,629</u>	<u>20</u>	<u>276</u>
	<u>13,600</u>	<u>34,392</u>	<u>20</u>	<u>22,915</u>

### 22. RECEIPTS IN ADVANCE

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 23. MINORITY INTERESTS

	The Group	
	2002 \$'000	2001 \$'000
At 1 April	985	(2)
Loss exceeded minority shareholder's share	—	987
	<u>985</u>	<u>985</u>
Less: provision	<u>(985)</u>	—
At 31 March	<u>—</u>	<u>985</u>

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 represented contribution receivable from the minority shareholder.

At 31 March 2002, the Directors consider that it is more likely than not that such amount will not be recoverable. Included in "Other operating expenses" was the provision for receivable from the minority shareholder.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 24. SHARE CAPITAL

		2002		2001	
	Note	Number of shares '000	\$'000	Number of shares '000	\$'000
<i>Authorised:</i>					
Ordinary share of \$0.1 each	(ii)	<u>2,000,000</u>	<u>200,000</u>	<u>2,000,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>					
At 1 April	(i)	1,036,375	103,638	5,000	500
Capital eliminated on consolidation	(ii)	—	—	(5,000)	(500)
Issuance of shares for the acquisition of subsidiaries	(ii)	—	—	5,200	520
Issuance of shares upon the conversion of convertible notes	(iii)	—	—	1,733	173
Capitalisation issue	(iv)	—	—	793,067	79,307
Issuance of shares for cash	(v)	—	—	236,375	23,638
At 31 March		<u>1,036,375</u>	<u>103,638</u>	<u>1,036,375</u>	<u>103,638</u>

*Notes:*

- (i) The share capital as at 1 April 2000 represented the issued capital of SITL.
- (ii) 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.
- (iii) 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 convertible note.
- (iv) 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.
- (v) 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.
- (vi) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 25. RESERVES

#### (a) The Group

	Share premium \$'000	Exchange reserves \$'000	Retained profit/ (accumulated losses) \$'000	Total \$'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 financial statements 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 financial statements of subsidiaries outside Hong Kong	—	(326)	—	(326)
Loss for the year	—	—	(54,153)	(54,153)
At 31 March 2002	<u><u>33,144</u></u>	<u><u>(358)</u></u>	<u><u>(75,321)</u></u>	<u><u>(42,535)</u></u>

According to the relevant PRC accounting rules and regulations, the PRC subsidiaries may appropriate part of its profits after tax to general reserve, at the discretion of the board of directors of the subsidiaries. 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 subsidiaries during the year.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 25. RESERVES - *continued*

#### (b) The Company

	Share premium \$'000	Accumulated losses \$'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)
	<u>33,144</u>	<u>(2,465)</u>	<u>30,679</u>
At 31 March 2001	33,144	(2,465)	30,679
At 1 April 2001	33,144	(2,465)	30,679
Loss for the year	—	(4,376)	(4,376)
	<u>33,144</u>	<u>(6,841)</u>	<u>26,303</u>
At 31 March 2002	<u>33,144</u>	<u>(6,841)</u>	<u>26,303</u>

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 2002, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to \$26,303,000 (2001: \$30,679,000), subject to the restriction stated above.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 26. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

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

	2002 \$'000	2001 \$'000
Loss from operations	(54,130)	(28,641)
Interest income from bank deposits	(977)	(3,160)
Depreciation	2,617	1,441
Amortisation of intangible assets	6,971	2,299
Loss on disposal of fixed assets	828	170
Barter sales revenue	—	(195)
Provision for diminution in value against investment securities	5,095	3,200
Gain on disposal of a subsidiary	—	(430)
Provision for bad and doubtful debts	1,266	5,942
Provision for foreseeable losses	—	2,573
Provision for receivable from minority shareholder	985	—
Increase in gross amount due from customers for contracts	(1,397)	(1,356)
Increase in inventories	(153)	—
Decrease/(increase) in accounts receivable	1,726	(4,753)
Decrease/(increase) in prepayments, deposits and other receivables	1,123	(893)
Decrease in amounts due from related parties	—	1,583
Decrease in gross amount due to customers for contracts	—	(330)
Increase/(decrease) in receipts in advance	1,345	(156)
Decrease in amounts due to related parties	—	(2,659)
(Decrease)/increase in other payables and accruals	(797)	3,111
Net cash outflow from operating activities	<u>(35,498)</u>	<u>(22,254)</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 26. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT - *continued*

#### (b) Analysis of change 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 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	—	—	(2,000)	—
Conversion into ordinary shares	16,000	—	(16,000)	—
Share of losses by minority shareholder	—	—	—	(987)
At 31 March 2001	136,782	—	—	(985)
At 1 April 2001	136,782	—	—	(985)
Provision for receivable from minority shareholder	—	—	—	985
At 31 March 2002	136,782	—	—	—

#### (c) Major non-cash transactions

- (i) During the year ended 31 March 2002, the Group did not enter into any barter sales (2001: \$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 convertible notes.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 27. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2002, the total future minimum lease payments under non-cancellable operating leases payable are as follows:

	The Group	
	2002 \$'000	2001 \$'000
Within 1 year	3,194	6,087
After 1 year but within 5 years	<u>344</u>	<u>5,275</u>
	<u><u>3,538</u></u>	<u><u>11,362</u></u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one year to two years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

### 28. LITIGATIONS

In preparing the financial statements, the Directors have considered the possible outcome of a claim made against one of the Company's wholly-owned subsidiaries, SITL, in relation to a labour dispute. The claim amounts to \$9,522,400, inclusive of interest and cost. The Group has sought legal advice on the claim that it is not possible to determine the outcome of this matter with reasonable certainty at this time. Based on this advice and on the information at present available to the Group, the Directors have considered that the claim is unlikely to be successful, therefore no provision has been made in respect of the alleged claims in the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 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 \$1,464,000 (2001: \$463,000). Minimum contribution to the MPF is 5% of the employees' basic salaries.

### **PRC, other than Hong Kong**

The PRC subsidiaries of the Group participate in pension schemes organised by the respective municipal governments whereby they are 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 \$425,000 (2001: \$107,000) 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. No contributions to the CPF in respect of the year ended 31 March 2002 were made (2001: \$8,700).

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

## 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 (2001: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 31. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transaction with a related party:

- (i) Rentals of an office premises in Hong Kong occupied by the Group totalling \$856,730 during the year ended 31 March 2002 (2001: \$286,000) 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 2002 to be Trouble Free Technology Limited, which is incorporated in the BVI.

# FOUR-YEAR SUMMARY

(Expressed in Hong Kong dollars)

## COMPARATIVE TABLES OF RESULTS, ASSETS AND LIABILITIES

The following table summaries the results, assets and liabilities of the Group for each of the last four financial years:

	2002 \$'000	2001 \$'000	2000 \$'000 (Note)	1999 \$'000 (Note)
Turnover	<u>35,292</u>	<u>35,628</u>	<u>40,013</u>	<u>25,500</u>
(Loss)/profit from ordinary activities before taxation	<u>(54,153)</u>	(29,233)	8,539	1,088
Taxation	<u>—</u>	<u>(295)</u>	<u>(1,870)</u>	<u>(338)</u>
(Loss)/profit from ordinary activities after taxation	<u>(54,153)</u>	(29,528)	6,669	750
Minority interests	<u>—</u>	<u>987</u>	<u>—</u>	<u>—</u>
(Loss)/profit attributable to shareholders	<u>(54,153)</u>	<u>(28,541)</u>	<u>6,669</u>	<u>750</u>
Total assets	<u>71,250</u>	127,131	28,845	
Total liabilities	<u>(10,147)</u>	<u>(11,549)</u>	<u>(20,931)</u>	
Net asset	<u>61,103</u>	<u>115,582</u>	<u>7,914</u>	

*Note:* In the preparation of the accountants' report included in the Prospectus (the "Accountants' Report"), as is the usual practice in respect of accountants' reports included in prospectuses, the financial results of the Group represented the combined results of the Group for the years ended 31 March 1999 and 2000 as if the Group structure set out on page 112 of the Prospectus had been in existence during the relevant period covered by the Accountant's Report.

# 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 the Ballroom, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 28 August 2002 at 2:30 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 2002;
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
4. 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

## NOTICE OF ANNUAL GENERAL MEETING

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).”

## NOTICE OF ANNUAL GENERAL MEETING

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."

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, 27 June 2002

## NOTICE OF ANNUAL GENERAL MEETING

*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, Computershare Hong Kong Investor Services Limited, Room 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 of the notice will be sent to the Shareholders together with the 2002 Annual Report.