



Information Technology

**Systemek Information Technology (Holdings) Limited**

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

**First Quarterly Report 2002**

*Leading the Way in e-Business Innovations*

## **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.**

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*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.*

## QUARTERLY RESULTS

The board of directors (the “Board”) of Systek Information Technology (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30 June 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	<i>Note</i>	<b>Three months ended</b>	
		<b>30 June</b>	
		<b>2002</b>	<b>2001</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>10,151</b>	6,005
Cost of services and merchandise sold		<b>(7,263)</b>	(3,529)
Gross Profit		<b>2,888</b>	2,476
Other revenue		<b>479</b>	705
Research and development costs		<b>(2,028)</b>	(1,411)
Selling expenses		<b>(822)</b>	(4,325)
General and administrative expenses		<b>(7,576)</b>	(11,767)
Loss from operations		<b>(7,059)</b>	(14,322)
Finance cost		<b>(1)</b>	(13)
Loss from ordinary activities before taxation	3	<b>(7,060)</b>	(14,335)
Taxation	4	<b>—</b>	—
Loss from ordinary activities after taxation		<b>(7,060)</b>	(14,335)
Minority interests		<b>—</b>	179
Loss attributable to the shareholders		<b>(7,060)</b>	(14,156)
Loss per share	5		
Basic (HK cents)		<b>(0.681)</b>	(1.366)

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

### *(a) Reorganisation*

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

### *(b) Basis of presentation*

The Group resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the consolidated results have been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for both periods presented, rather than from 26 August 2000. Furthermore, the results of the Group for the periods ended 30 June 2002 and 2001 included the results of the Group with effect from 1 April 1999 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Board, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.

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

### *(c) Statement of compliances*

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

## **2 Turnover**

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

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

	<b>Three months ended</b>	
	<b>30 June</b>	
	2002	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Principal activities</i>		
Systems development	5,830	2,934
Sales of software and hardware products	229	642
Professional service fees	3,213	1,584
Training fees	553	797
Technical support fees	326	48
	<u>10,151</u>	<u>6,005</u>

### 3 Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after crediting and charging:

	<b>Three months ended</b>	
	<b>30 June</b>	
	2002	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Crediting</i>		
Interest income	<u>13</u>	<u>562</u>
<i>Charging</i>		
Interest on bank advances and other borrowings repayable within five years	—	13
Staff costs	10,174	12,627
Operating lease rentals - properties	1,095	1,107
Pre-operating costs written off	28	63
Amortisation of deferred assets	24	24
Auditors' remuneration	150	—
Depreciation	<u>710</u>	<u>611</u>

#### 4 Taxation

	Three months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong taxation	—	—
Overseas taxation	—	—
	<hr/>	<hr/>
	—	—
Deferred taxation	—	—
	<hr/>	<hr/>
	—	—
	<hr/> <hr/>	<hr/> <hr/>

No provision for taxation has been made for the three months ended 30 June 2002 and 2001 as the Group sustained losses for taxation purpose during both periods.

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.

#### 5 Loss per share

The calculation of basic loss per share for the three months ended 30 June 2002 was based on the loss attributable to shareholders of approximately of HK\$7,060,000 (2001: loss of HK\$14,156,000) divided by the weighted average number of 1,036,375,000 (2001: 1,036,375,000) shares in issue during the period.

There were no potential dilutive ordinary shares in issue during the three months ended 30 June 2002 and 2001.

## 6 Reserves

	<b>Share premium</b> <i>HK\$'000</i>	<b>Exchange reserves</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 April 2002	33,144	(358)	(75,321)	(42,535)
Loss for the period	—	—	(7,060)	(7,060)
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At 30 June 2002	<u>33,144</u>	<u>(358)</u>	<u>(82,381)</u>	<u>(49,595)</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 period.

## DIVIDEND

The Board has resolved not to recommend the payment of dividend for the three months ended 30 June 2002 (2001: Nil).

## Chairman's Statement

During the past quarter, the Group initiated action to rationalize its resource base, and refine its business direction and deployment approach. During this period, the Group further prepared its e-Business Innovation Centre for ISO 9001:2000 certification in the People's Republic of China (the "PRC").

## **BUSINESS REVIEW**

For the quarter ended 30 June 2002, the Group recorded a turnover of HK\$10.2 million (2001: HK\$6.0 million). The loss attributed to shareholders amounted to HK\$7.1 million (2001: HK\$14.2 million). The loss can be attributed to sluggish local and worldwide market factors. The Group has made every effort to strengthen cost control, the loss was therefore decreased tremendously when compared with that of last year.

During the three months ended 30 June 2002, the Group continued to invest in further developing its products and devising ways to accelerate time-to-market for those products it believes as having high potential. Certain research and development costs were written off as expenses as a prudent measure to reflect the impact.

The Group also continued to streamline its laboratories in the PRC to compliment the Group's primary development capability in Hong Kong. The corporate fiascos in the United States compounded the already depressed investment psychology that had resulted from the September 11th tragedy; the recent events further 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, if not more severe.

As such, the stock market turnover in Hong Kong and the PRC remained thin this past quarter, and local brokerage houses have continued to maintain their wary wait-and-see approach. This reluctance to invest in technology systems continued to affect 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 further action to rationalize its production, sales and marketing strategy in addition to reducing expenses.

The Group has also made appropriate directional adjustments for both long term and short term marketing strategies for its products and services. In response to fierce competition, the Group has reduced its sales and marketing teams as cut-throat pricing have become rampant and disproportional to actual costs.

During this period, the Group instituted down-sizing exercises in response to the further downturn of the information technology solutions market, and across the board downward salary adjustments were instituted.



The Group has been increasing production efficiency overall and has reduced costs by steering non-reactive workload from Hong Kong to the PRC. The Group's product development team in the PRC has achieved the dual role of enhancing its research and development capabilities - which is kept to a level proportionate to product demand - and extending its capabilities in performing skilled systems development work.

During the first quarter, the Group continued to focus on distribution channels while continuing to make enhancements on the Group's product lines in both 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 and its products has recently been certified by a major international pharmaceutical company as being appropriate for their international use. 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 OVERVIEW**

It continues to be a challenge for the Group to maintain a satisfactory turnover for this financial year. The wariness of the adverse business environment worldwide further deepens the intense price competition throughout the service industries, resulting in even leaner margins.

The recently announced ITSD T-20 outsourcing contract further reflects the depressed state of the Hong Kong's information technology marketplace. The Group foresees further salary reduction and further attrition of IT personnel in Hong Kong within the next two years.

The Group's method of overcoming these 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 products' competitive edge and elevating the Group's status to that of an international technology provider rather than a local integrator. Finally, in positioning the Group for the economic recovery, the Group will also need to keep its good people challenged.

The Group will continue to observe the market situation and adjust its resource deployment tactics and strategy in anticipation of the economic situation.

## Financial Performance

For the three month ended 30 June 2002, the Group recorded a turnover of approximately HK\$10.2 million which represents an increase of approximately 69% over the same period in 2001. Loss attributable to the shareholders for the three months ended 30 June 2002 was approximately HK\$7.1 million as compared to a loss of approximately HK\$14.2 million, representing a decrease of approximately 50% over the same period in 2001.

Some of the losses during this quarter were attributed to costs associated with the termination of employees.

## DIRECTORS' INTEREST IN SECURITIES

As at 30 June 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, as at 30 June 2002, none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY**

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 three months period ended 30 June 2002, no option was granted under the Share Option Scheme.

Save as disclosed above, as at 30 June 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 three months period ended 30 June 2002 was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Company's directors (including their spouses or children under 18 years of age) or chief executive of the Company to acquire benefits by means of the acquisition of shares in or debentures of, the Company or any other body corporate.

## **SUBSTANTIAL SHAREHOLDERS**

Other than interests disclosed above in respect of directors and their associates, as at 30 June 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 percent or more of the issued share capital of the Company:

<b>Name</b>	<b>Number of issued shares</b>	<b>Percentage of shareholding</b>
Trouble Free Technology Limited ( <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 reporting period, 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 Technology Limited and Mr. To Cho Kei has irrevocably undertaken to the Company that each of them will not, and will use their best endeavours to procure that none of their respective associates will carry on or be engaged, concerned, interested, or assist whether directly or indirectly, whether as a shareholder, director, executive partner, agent or otherwise, in any business of Extracomm Technologies.

## **INTEREST OF SPONSOR**

As at 30 June 2002, the Sponsor of the Company, Core-Pacific - Yamaichi Capital Limited, its directors, employees and its associates have held 280,000 shares in the securities of the Company or any subsidiaries of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Core-Pacific - Yamaichi Capital Limited has entered into a sponsorship agreement with the Company whereby, for a fee, Core Pacific - Yamaichi Capital Limited will act as the Company's continuing sponsor for the period from 8 September 2000 to 31 March 2003.

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

During the three months ended 30 June 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Directors.

The audit committee comprised of 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. The audit committee has reviewed this financial result and provided advice and comments thereon.

By Order of the Board  
**To Cho Kei**  
*Chairman*

Hong Kong, 14 August 2002