



Information Technology

System Information Technology (Holdings) Limited

(incorporated in the Cayman Islands with limited liability)

Interim Report 2002

Leading the Way in e-Business Innovations

www.systemkit.com

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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.

INTERIM RESULTS

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

		Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
	Note	2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	11,010	9,883	21,161	15,887
Cost of services and merchandise sold		<u>(7,250)</u>	<u>(4,405)</u>	<u>(14,513)</u>	<u>(7,934)</u>
Gross Profit		3,760	5,478	6,648	7,953
Other revenue		6	262	19	967
Research and development costs		(2,083)	(1,682)	(4,111)	(3,093)
Selling expenses		(1,404)	(3,144)	(2,226)	(7,485)
General and administrative expenses		<u>(7,378)</u>	<u>(12,828)</u>	<u>(14,489)</u>	<u>(24,551)</u>
(Loss)/profit from operations		<u>(7,099)</u>	<u>(11,914)</u>	<u>(14,159)</u>	<u>(26,209)</u>
Finance cost		—	(25)	—	(66)
(Loss)/profit from ordinary activities before taxation		<u>(7,099)</u>	<u>(11,939)</u>	<u>(14,159)</u>	<u>(26,275)</u>
Taxation	4	—	—	—	—
(Loss)/profit from ordinary activities after taxation		<u>(7,099)</u>	<u>(11,939)</u>	<u>(14,159)</u>	<u>(26,275)</u>
Minority interests		—	47	—	226
(Loss)/profit attributable to the shareholders		<u><u>(7,099)</u></u>	<u><u>(11,892)</u></u>	<u><u>(14,159)</u></u>	<u><u>(26,049)</u></u>
(Loss)/earnings per share Basic (HK cents)	5	<u><u>(0.685)</u></u>	<u><u>(1.147)</u></u>	<u><u>(1.366)</u></u>	<u><u>(2.513)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

	Unaudited 30 September 2002 HK\$'000	Audited 31 March 2002 HK\$'000
NON-CURRENT ASSETS		
Fixed assets	7,507	8,407
Intangible assets	28,426	30,109
Investment securities	700	700
	<u>36,633</u>	<u>39,216</u>
CURRENT ASSETS		
Gross amount due from customers for contracts	7,215	2,381
Inventories	281	153
Accounts receivable	6,666	8,453
Prepayment, deposits and other receivable	1,835	1,803
Tax recoverable	—	1,302
Pledged deposits	300	4,342
Cash and cash equivalents	3,521	13,600
	<u>19,818</u>	<u>32,034</u>
CURRENT LIABILITIES		
Receipts in advance	2,026	1,345
Other payables and accruals	7,215	8,536
Tax payable	266	266
	<u>9,507</u>	<u>10,147</u>
NET CURRENT ASSETS	<u>10,311</u>	<u>21,887</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	46,944	61,103
MINORITY INTERESTS	—	—
NET ASSETS	<u>46,944</u>	<u>61,103</u>
CAPITAL AND RESERVES		
Share capital	103,638	103,638
Reserves	(56,694)	(42,535)
	<u>46,944</u>	<u>61,103</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Net cash (outflow) from operating activities	(11,242)	(22,378)
Net cash inflow from investing activities	1,163	3,957
Net decrease in cash and cash equivalents	(10,079)	(18,421)
Effects of foreign exchange rate	—	(326)
Cash and cash equivalents at 1 April	13,600	34,392
Cash and cash equivalents at 30 September	3,521	15,645
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	3,521	15,047
Deposits with banks	—	598
	3,521	15,645

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Exchange Reserve <i>HK\$'000</i>	Retained (Loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	103,638	33,144	(32)	(21,168)	115,582
Exchange differences on translation of accounts of subsidiaries outside Hong Kong	—	—	(326)	—	(326)
Loss for the period	—	—	—	(26,049)	(26,049)
	<u>103,638</u>	<u>33,144</u>	<u>(358)</u>	<u>(47,217)</u>	<u>89,207</u>
At 30 September 2001	103,638	33,144	(358)	(75,321)	61,103
Loss for the period	—	—	—	(14,159)	(14,159)
	<u>103,638</u>	<u>33,144</u>	<u>(358)</u>	<u>(89,480)</u>	<u>46,944</u>
At 30 September 2002	103,638	33,144	(358)	(89,480)	46,944

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 Reorganisation and basis of presentation

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").

The Group resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the consolidated results have been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for both periods presented, rather than from 26 August 2000. Furthermore, the results of the Group for the periods ended 30 September 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.

The unaudited condensed consolidated interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 2.125 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants, and Chapter 18 of the Listing Rules of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended 31 March 2002, except that the Group has adopted the new and revised SSAPs which became effective on 1 January 2002. The adoption of these new and revised SSAPs has no material effect on the Group’s results.

2 Turnover

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

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

	Three months ended		Six months ended	
	30 September		30 September	
	2002	2001	2002	2001
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
<i>Principal activities</i>				
Systems development	7,183	5,866	13,337	8,419
Sales of software and hardware products	842	1,053	1,071	2,123
Professional service fees	2,532	2,503	5,746	4,087
Training fees	453	461	1,007	1,258
	11,010	9,883	21,161	15,887

3 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.

An analysis of the Group's turnover and results for the six months period by business segments is as follows:

	Systems development		Software and hardware products		Professional services		Training		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>13,337</u>	<u>8,419</u>	<u>1,071</u>	<u>2,123</u>	<u>5,746</u>	<u>4,087</u>	<u>1,007</u>	<u>1,258</u>	<u>21,161</u>	<u>15,887</u>
Contribution from operations	3,440	4,150	477	1,126	2,488	2,096	243	581	6,648	7,953
Unallocated operating income and expenses									<u>(20,807)</u>	<u>(34,162)</u>
Loss from operations									<u>(14,159)</u>	<u>(26,209)</u>
Finance costs									—	(66)
Taxation									—	—
Minority interests									—	<u>226</u>
Loss attributable to shareholders									<u>(14,159)</u>	<u>(26,049)</u>
Depreciation & amortization for the period	<u>5,341</u>	<u>4,261</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>62</u>	<u>64</u>	<u>5,403</u>	<u>4,325</u>
Significant non-cash expenses (other than depreciation and amortization)									251	—
Unallocated significant non-cash expenses (other than depreciation and amortization)									—	<u>226</u>
									<u>251</u>	<u>226</u>

The Group does not have any inter-segments sales.

An analysis of the Group's turnover for the period by geographical segments is as follows:

	Turnover	
	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong	19,029	14,038
The PRC	1,114	1,834
Other Countries	1,018	15
	<hr/>	<hr/>
Total external sales	21,161	15,887
	<hr/> <hr/>	<hr/> <hr/>

4 Taxation

No provision for taxation has been made for the three months and six months ended 30 September 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 and six months ended 30 September 2002 was based on the loss attributable to shareholders of approximately of HK\$7,099,000 and HK\$14,159,000 (2001: loss of HK\$11,892,000 and HK\$26,049,000) 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 and six months ended 30 September 2002 and 2001.

6 Accounts receivable

An aging analysis of accounts receivable is as follows:

	30 September	31 March
	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	4,086	4,129
More than 1 month but within 3 months	1,086	2,968
More than 3 months but less than 12 months	1,494	607
Beyond 1 year	—	749
	<u>6,666</u>	<u>8,453</u>

7 Pledged Deposits

	30 September	31 March
	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Pledged deposits	<u>300</u>	<u>4,342</u>
Banking facilities granted	<u>300</u>	<u>4,042</u>
Banking facilities utilitised	<u>100</u>	<u>100</u>

Deposits with banks were pledged to secure certain general banking facilities granted to the Group. At 30 September 2002, banking facilities utilised was the bank guarantee to a customer of the Group.

8 Share Capital

	30 September 2002		31 March 2002	
	No. of shares		No. of shares	
	'000	HK\$'000	'000	HK\$'000
Authorised:				
Ordinary share of \$0.1 each	<u>2,000,000</u>	<u>200,000</u>	<u>2,000,000</u>	<u>200,000</u>
Issued and fully paid:				
At beginning and end of the period	<u>1,036,375</u>	<u>103,638</u>	<u>1,036,375</u>	<u>103,638</u>

On 26 August 2000, the company had conditionally adopted a share option scheme pursuant to which full-time employees and executive directors of the Company and its subsidiaries excluding non-executive directors and independent non-executive directors of the Group, may be granted options to subscribe for shares of the Company.

During the six months ended 30 September 2002, no option was granted under the share option scheme (2001: Nil).

9 Reserves

	Share premium HK\$'000	Exchange reserves HK\$'000	(Accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2002	33,144	(358)	(75,321)	(42,535)
Loss for the period	<u>—</u>	<u>—</u>	<u>(14,159)</u>	<u>(14,159)</u>
At 30 September 2002	<u>33,144</u>	<u>(358)</u>	<u>(89,480)</u>	<u>(56,694)</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.

10 Commitments under operating leases

At 30 September 2002, the total future minimum lease payments under non-cancellable operating lease in respect of a number of properties are payable as follows:

	30 September	31 March
	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	1,789	3,194
After 1 year but within 5 years	123	344
	<hr/>	<hr/>
	1,912	3,538
	<hr/> <hr/>	<hr/> <hr/>

11 Litigation

In preparing the interim accounts, 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 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 interim accounts.

12 Material related party transactions

During the six months ended 30 September 2002, the Group had the following significant transaction with a related party:

Rentals of an office premise in Hong Kong occupied by the Group totalling HK\$428,365 during the period ended 30 September 2002 (2001: HK\$428,365) were borne by a related company which is controlled by an executive director of the Company.

DIVIDEND

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

CHAIRMAN'S STATEMENT

During the six month ended 30 September 2002, the Group reaffirmed the ISO 9001:2000 certification for its eBusiness Innovation Centres at its company offices in Hong Kong, Beijing and Guangzhou in the Peoples Republic of China (the "PRC") all of which have received certifications. This proof of formally meeting a recognized international standard in product quality is one of the positive elements that will give the Company a head start in developing its overseas business and in introducing its products worldwide.

In light of the continuing poor economic outlook of the technology sector in Hong Kong, the Group has turned some of its concentration to tailoring some of its packaged products for overseas markets. Along this avenue, the Group has also carefully performed the appropriate market research and subsequent marketing efforts. The Group is therefore actively seeking opportunities outside of Hong Kong and China, in addition to continuing its product development, and engaging in the provision of information technology services locally. The Group recognizes that the market at the moment is challenging in the sense that many potential clients have decided not to invest in upgrading or purchasing technology goods and services, and as a result, margins for those remaining contracts are extremely lean. However, the Group, the core of which has a history in the provision of technologically sound and sophisticated software products and services is confident of its prospects both at home, as well as overseas, once the market begins to recover.

Business Review

From the commencement of the new accounting year until 30 September 2002, the Group has continued to feel the negative effects of the weak market worldwide. The sluggish information technology market the past few quarters in Hong Kong has continued to spark fierce competition in the form of compressed margins. Deflation pressure works in a spiral fashion, most notably in the public sector as reflected in the new Hong Kong Government ITPSA rates. The Group cannot compromise itself into risky low margin projects for the sake of its clients, long term product integrity as well as service quality. The Group is adamant in believing that the financial results of the Group as reflected in this current report continues not to truly reflect the Group's value and full potential. However, it is apparent that the Group's across the board cost cutting action last quarter was unable to fully absorb the margin squeeze impact and now it must face more extreme measures to combat the effects of the deteriorating market pressures.

The Group is working on restoring a positive cash flow in the coming three months by aggressively cutting its operating expenses as well as engaging in other cost saving measures.

The management of the Group continues to be confident in its potential with its superb product portfolio. Once the overall market improves, the information technology sector will inevitably look upwards, and the Group will be strategically poised for this opportunity.

Prospects

The Group's plan for this coming 2003 is to launch an overseas pilot project for its packaged solutions. The ultimate kick-off date will depend on the market conditions and the compatibility of the products with overseas market needs. In fact, the Group's products have been purchased by several large organizations in North America, and the Group is hopeful that the pick up rate for these products will accelerate in the near future.

Meanwhile, both at home as well as overseas, the Group continues to receive positive feedback from its users and customers for its products and services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the six months ended 30 September 2002, the Group recorded a turnover of HK\$21.2 million (2001: HK\$15.9 million). The loss attributed to shareholders amounted to HK\$14.2 million (2001: HK\$26 million).

Liquidity and Financial Resources

As at 30 September 2002, shareholders' funds of the Group amounted to approximately HK\$46.9 million. Current assets amounted to approximately HK\$19.8 million, of which approximately HK\$3.5 million were cash and cash equivalents. Current liabilities of HK\$9.5 million mainly comprised of other payables and accruals.

The Group currently has not engaged in any borrowing activities except for lines of credit which are fully pledged in cash. The Group also confirms that it does not have any impending capital expenditure commitments.

The gearing ratio calculated on the basis of total liabilities over the total shareholders' fund as at 30 September 2002 was 20.3% (2001: 13.7%).

Capital Structure

There has been no change to the capital structure of the Company during the six months ended 30 September 2002 (2001: HK\$103 million).

The Group did not use any debt and/or capital instruments during the period under review. During the six months ended 30 September 2002, the Group experienced only immaterial exchange rate fluctuations as the functional currencies of the Group's operations are mainly in Hong Kong dollars and in Renminbi ("RMB"). The Group conducted its business transactions principally in these currencies. As the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

New Products and Services

There is sufficient breadth and depth in the Group's current product and services portfolio. The Group is actively promoting its products and services in both the local and international arena. In addition, the Group is actively seeking opportunities for OEM with business partners and alliances as well as developing derivative products by repackaging existing products.

Significant Investments and Acquisitions

During the six months ended 30 September 2002, the Group has not made any significant investments or acquisitions and has no future plans for any material investments or capital assets. In addition, the Group has no material acquisitions or disposals of subsidiaries or affiliated companies in the six months ended 30 September 2002.

Segmental Information

The Group is principally engaged in four business segments mainly in Hong Kong and other regions of the PRC. The Group presents its segmental information based on the nature of the products and services provided.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. The Group reports its businesses in four business segments namely:

- systems development,
- software and hardware products,
- professional services; and
- training.

In respect to the business segments, the Group continues to focus on systems development and professional services. Activity under software and hardware products has decreased in view of reduced contributions to the overall revenue.

With respect to geographical segments, there was an decrease during the period under review. Turnover generated from China represented approximately 5.3% of the total turnover of the Group during the six months ended 30 September 2002 as compared to approximately 11.5% in the previous period. It is expected that the level of the Group's activities in China will remain stable in future.

Employees and Remuneration Policies

As at 30 September 2002, the Group had hired 160 employees including the executive directors of the Company. Total staff costs including directors' remuneration for the six months period under review amounting to approximately HK\$20.9 million. The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of individual employees. The Group also provides retirement scheme and medical scheme for its employees and executive directors.

The Group has not made any changes to its remuneration policy, and it has been published in the Group's annual report that no options and no bonuses were granted during the six months ended 30 September 2002.

On 26 August 2002, the Company had conditionally adopted a share option scheme pursuant to which the executive directors of the Company and full-time employees of the Company and its subsidiaries may be granted options to subscribe for shares of the Company. During the six months ended 30 September 2002, no option was granted under the share option scheme.

Charges on Group Assets and Contingent Liabilities

As at 30 September 2002, deposits with banks amounting to HK\$0.3 million were pledged to secure certain general banking facilities of HK\$0.3 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 claiming for an amount up to HK\$9,522,400 (inclusive of interest and cost). The claim had been transferred from the Labour Tribunal to the High Court and entered into the Register of Civil Actions as High Court Action No. 3144 of 2002. The Directors consider that the claim is unlikely to be successful, therefore no provision has been made in respect to the alleged claims in the results.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business Objectives as stated in the prospectus dated 4 September 2000

Actual business progress in respect of the first six months ended 30 September 2002

(a) Product Enhancement and Development

Financial Technology Unit

- | | |
|---|---|
| <ul style="list-style-type: none">• Launch WinVest Release 5.0 to local and overseas markets, including the Asia Pacific region, Europe and North America, and develop Release 5.5.
• Continue to develop WAP applications and, if applicable, implement additional WAP functions for WinVest.
• Launch BIX Release 3.0 to the local market and design Release 4.0. | <ul style="list-style-type: none">• Implementation of WinVest 5.0 has been delayed in response to the current economic conditions and lack of market demand. Over 80 local brokers has ceased business
• Implementation of WAP applications has been temporarily halted in response to the current economic conditions and lack of market demand. Over 80 local brokers has ceased business
• BIX has been modified for messaging services and is a candidate under consideration by a Hong Kong Government Department tender |
|---|---|

**Business Objectives as stated
in the prospectus dated
4 September 2000**

**Actual business progress in
respect of the first six months
ended 30 September 2002**

*Internet Interactive Technology
Unit*

- | | |
|--|--|
| <ul style="list-style-type: none">• Design and develop ezConnect Release 4.0.• Continue the development of additional ezXML products and launch to the market when appropriate.• Launch the knowledge management application products when appropriate and continue the development and enhancement. | <ul style="list-style-type: none">• Development activities have been revised in response to slow market demand• Development activities have been revised in response to slow market demand• Activities have been revised in response to slow market demand |
|--|--|

*Internet and Messaging Security
Unit*

- | | |
|--|---|
| <ul style="list-style-type: none">• Launch additional applications for SecurTrac Release 4.0 and develop Release 4.5.• Develop other security software products, if applicable. | <ul style="list-style-type: none">• SecurTrac Release versioning system modified to reduce disruption of customer's audit requirements• Release 2.1.5 has become available and Sun Solaris version is under systems testing• Under suspension reflecting market demand and resources have been redeployed for SecurTrac multi-platform versions |
|--|---|

**Business Objectives as stated
in the prospectus dated
4 September 2000**

**Actual business progress in
respect of the first six months
ended 30 September 2002**

**(b) Provision of e-Business
Innovation Services**

- | | |
|---|---|
| <ul style="list-style-type: none">• Design and launch Internet portals for the clients.• Enhance and implement additional applications for the global intranet system of a major client.• Implement Internet interactive centres for the clients. | <ul style="list-style-type: none">• Resources deployed according to market demand• Resources deployed according to market demand• Resources deployed according to market demand |
|---|---|

(c) Marketing and Distribution

- | | |
|--|--|
| <ul style="list-style-type: none">• Negotiate with software vendors on the terms of standard software packages for new releases of software products.• Promote sales of software products through the network of software vendors, distributors and resellers.• Promote new releases of software products through marketing tours, advertising on IT magazines and participation in IT conferences and trade shows.• Evaluate the results of the campaign regularly and adjust the brand building strategy accordingly. | <ul style="list-style-type: none">• Negotiations are on-going as normal business activities• On-going expansion of current reseller network. New resellers were signed up in Australia• Regular advertising in focused international technology magazines• Download statistics were regularly analyzed to evaluate campaign effectiveness. SecurTrac is ranked #4 in one of the international Lotus software download sites |
|--|--|

**Business Objectives as stated
in the prospectus dated
4 September 2000**

**Actual business progress in
respect of the first six months
ended 30 September 2002**

- Establish additional overseas sales and support centers, when necessary.
- Sponsor user group activities at IT conferences and trade shows.

- Support is on-going with headcounts adjusted based on commercial activities
- Registered for exhibition participation in North America for conferences in October, 2002, January, 2003 and April 2003

**(d) Corporate Development
and Strategic Alliance**

- Expand the operations of the commercialisation centre, when necessary.
- Establish a subsidiary in the US, if feasible.
- Expand and enhance the Internet interactive centres in Hong Kong, Beijing and Shanghai, when necessary.
- Initiate additional research and development projects with the universities in the PRC, if necessary.
- Expand the business of Internet portal and ASP services if applicable.
- Identify potential IT companies with product synergy for acquisition or alliance.

- Expansion on suspension mode but operations is on-going.
- Subsidiary not yet operational due to cost rationalization program.
- Expansion program revised downward due to slow market demand.
- Research and Development program cut back due to cost rationalization program.
- Activities revised downward due to slow market demand.
- The activities are on-going and marketing alliance formed both in North America, Europe and China

USE OF PROCEEDS

As stated in the prospectus issued by the Company on 4 September 2000, the Group expected to use a total of HK\$100.2 million for the activities namely product research and development, strategic investments and marketing up to 31 March 2002. However, the actual amount out of the total proceeds being spent up to 31 March 2002 was HK\$75.8 million. The remaining unused proceeds was retained by the Group and for the six months ended 30 September 2002, the Group spent HK\$6.3 million on product research and development and HK\$0.1 million on marketing.

The analysis of the use of proceeds is set out as follows:

	Estimated per prospectus up to 31 March 2002	Actual up to 31 March 2002	Actual for six months ended 30 September 2002
<i>(\$ million)</i>			
Product research and development	50.0	60.4	6.3
Strategic investments	35.0	8.8	—
Marketing	15.2	6.6	0.1
	<u>100.2</u>	<u>75.8</u>	<u>6.4</u>

During the reporting period, the Group has been following the 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' INTEREST IN SECURITIES

As at 30 September 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' AND CHIEF EXECUTIVE'S INTERESTS IN 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. Since the adoption of the Share Option Scheme, no option was ever granted.

Save as disclosed above, as at 30 September 2002, none of the directors, chief executives or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the period under review 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 executives 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 September 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:

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.

No option has been granted by the Company under the Share Option Scheme during the period under review or outstanding as at 30 September 2002.

Save as disclosed herein, as at 30 September 2002 none of the directors, chief executives or management shareholders or their respective associates (as defined under the GEM Listing Rules) had any right to subscribe for the shares of the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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.

Save as disclosed herein, none of the directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by the sponsor of the Company, Core-Pacific - Yamaichi Capital Limited ("CPY"), CPY, its directors, employees and its associates have held 280,000 shares in the Company as at 30 September 2002. Save as disclosed herein, neither CPY nor its directors, employees and its associates had any interests in the share capital of the Company.

CPY has entered into a sponsorship agreement with the Company whereby, for a fee, CPY will act as the Company's continuing sponsor for the period from 8 September 2000 to 31 March 2003 or until the sponsor agreement is terminated upon the terms and condition set out therein.

AUDIT COMMITTEE

The Company established an audit committee on 18 May 2000 with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. 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. With effective from 31 October 2002, The Hon. Dr. Wong, Yu Hong Philip resigned as an independent non-executive director and member of the audit committee.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 September 2002, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

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

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

By Order of the Board
To Cho Kei
Chairman

Hong Kong, 8 November 2002