



**SYSTEMEK**

Information Technology

**Systemek Information Technology (Holdings) Limited**

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

**Third Quarterly Report 2002**

*Leading the Way in e-Business Innovations*

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

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

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

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

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*This document, for which the directors (the “Directors”) of Systek Information Technology (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) for the purpose of given information with regard to the Company. 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.*

### THIRD QUARTERLY RESULTS ENDED 31ST DECEMBER 2002

The Board of Directors (the “Board”) of Systek Information Technology (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 31 December, 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

#### UNAUDITED CONSOLIDATED RESULTS

	Note	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>Turnover</b>	2	<b>9,995</b>	9,755	<b>31,155</b>	25,642
Cost of services and merchandise sold		<u>(7,249)</u>	(6,250)	<u>(21,762)</u>	(14,184)
Gross Profit		<b>2,746</b>	3,505	<b>9,393</b>	11,458
Other revenue		<b>8</b>	92	<b>26</b>	1,059
Research and development costs		<b>(2,127)</b>	(1,827)	<b>(6,238)</b>	(4,921)
Selling expenses		<b>(291)</b>	(1,634)	<b>(2,517)</b>	(9,119)
General and administrative expenses		<u><b>(4,835)</b></u>	(9,132)	<u><b>(19,323)</b></u>	(33,683)
Loss from operations		<b>(4,499)</b>	(8,996)	<b>(18,659)</b>	(35,206)
Exceptional item – severance payment		<b>(421)</b>	–	<b>(421)</b>	–
Finance cost		<u>–</u>	(11)	<u>–</u>	(77)
<b>Loss from ordinary activities before taxation</b>	3	<b>(4,920)</b>	(9,007)	<b>(19,080)</b>	(35,283)
Taxation	4	<u>–</u>	–	<u>–</u>	–
<b>Loss from ordinary activities after taxation</b>		<b>(4,920)</b>	(9,007)	<b>(19,080)</b>	(35,283)
Minority interests		<u>–</u>	3	<u>–</u>	229
<b>Loss attributable to the shareholders</b>		<u><b>(4,920)</b></u>	<u>(9,004)</u>	<u><b>(19,080)</b></u>	<u>(35,054)</u>
Loss per share Basic (HK cents)	5	<u><b>(0.475)</b></u>	<u>(0.869)</u>	<u><b>(1.841)</b></u>	<u>(3.382)</u>

*Notes:-*

## **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 as if the Company has always been the holding company of the Group in accordance with the Statement of Standard Accounting Practice No. 27 “Accounting for Group Reconstruction”, under which the Company was the holding company of the Group for both periods presented, rather than from 26 August 2000. Furthermore, the results of the Group for the periods ended 31 December 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 consolidated results have been prepared in accordance with all applicable statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

## **2 Turnover**

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

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

	Three months ended		Nine months ended	
	31 December		31 December	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Principal activities</i>				
Systems development	4,883	6,958	18,454	15,808
Sales of software and hardware products	1,718	236	2,789	1,929
Professional service fees	2,892	2,098	8,638	6,185
Training fees	502	463	1,274	1,720
	<u>9,995</u>	<u>9,755</u>	<u>31,155</u>	<u>25,642</u>

### 3 Loss from ordinary activities before taxation

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

	Three months ended		Nine months ended	
	31 December		31 December	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Crediting</i>				
Interest income	<u>1</u>	<u>91</u>	<u>18</u>	<u>948</u>
<i>Charging</i>				
Interest on bank advances and other borrowings repayable within five years	-	11	-	77
Staff costs	7,299	9,989	22,038	32,164
Exceptional item				
- severance payment	421	-	421	-
Operating lease rentals – properties	1,030	1,353	3,231	3,852
Pre-operating costs written off	-	-	-	65
Amortisation of deferred assets	-	24	48	72
Auditors' remuneration	150	900	450	911
Depreciation	<u>646</u>	<u>709</u>	<u>1,911</u>	<u>1,942</u>

#### **4 Taxation**

No provision for taxation has been made for the three months and nine months ended 31 December 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.

No recognition of the potential deferred tax assets relating to tax losses of the Group has been made as the recoverability of the potential deferred tax assets is uncertain.

#### **5 Loss per share**

The calculation of basic loss per share for the three months and nine months ended 31 December 2002 was based on the loss attributable to shareholders of approximately of HK\$4,920,000 and HK\$19,080,000 (2001: loss of HK\$9,004,000 and HK\$35,054,000) 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 nine months ended 31 December 2002 and 2001.

## 6 Reserves

	Share premium HK\$'000	Exchange reserves HK\$'000	(Accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2001	33,144	(32)	(21,168)	11,944
Exchange differences on translation of accounts of subsidiaries outside Hong Kong	–	(326)	–	(326)
Loss for the period	–	–	(35,054)	(35,054)
At 31 December 2001	<u>33,144</u>	<u>(358)</u>	<u>(56,222)</u>	<u>(23,436)</u>
<b>At 1 April 2002</b>	<b>33,144</b>	<b>(358)</b>	<b>(75,321)</b>	<b>(42,535)</b>
Exchange differences on translation of accounts of subsidiaries outside Hong Kong	–	2	–	2
Loss for the period	–	–	(19,080)	(19,080)
<b>At 31 December 2002</b>	<b><u>33,144</u></b>	<b><u>(356)</u></b>	<b><u>(94,401)</u></b>	<b><u>(61,613)</u></b>

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 nine months ended 31 December 2002 (2001: Nil).

## CHAIRMAN'S STATEMENTS

In face of the continual global economic downturn in technology markets and slow uncertain recovery in economy, business remains tough and increasingly competitive. The Group has achieved a turnover of HK\$31,155,000 for the nine months period

ended 31 December 2002 representing 21.5% increase over the same period in 2001. We expected that the turnover for the fourth quarter would be improved with new contracts signed.

Tough times are tests for strength and capabilities. Customers' spending on information technology are either delayed or plummeted. In order to enable the Group to be more competitive in the tough economic environment, the Group continues on the direction to reposition itself as a product company on one hand. And continue to be a price-competitive total technology solutions provider with more cutting edge technologies. The Group believes that its technical capabilities, in conjunction with its improved effectiveness, will allow it to continue to overcome with and strive in the hard times.

### **Financial Highlights**

	<b>Three months ended 31 December 2002 HK\$'000</b>	<b>Three months ended 30 September 2002 HK\$'000</b>
Turnover	9,995	11,010
Cost of Services and Merchandise Sold	(7,249)	(7,250)
Gross Profit	2,746	3,760
General and Administrative Expenses	(4,835)	(7,378)
Loss from Operations	(4,499)	(7,099)
Loss Attributable to the Shareholders	(4,920)	(7,099)

### **Financial Performance**

Loss attributable to the shareholders for the three months ended 31 December 2002 was approximately HK\$4,920,000 as compared to a loss of approximately HK\$7,099,000 for the previous quarter representing an improvement of 30.7%. The management of the Group has made its best endeavors to improve its general and administrative expenses which was approximately HK\$4,835,000 as compared to that of the previous quarter amounting to HK\$7,378,000 representing a decrease of 34.5%. With the decrease in the general and administrative expenses, loss attributable to the shareholders for the three months period amounted HK\$4,920,000 representing an improvement of 30.7% over the previous quarter.



## BUSINESS OUTLOOK

Our goal is to restore the Group to profitability through a series of actions decided to optimize operating efficiency during the downturn. These actions include the reduction in the size and rental rates of office space occupied and the rationalization of the workforce both in its size and in pay level. This downsize is done not only in Hong Kong but also in the PRC. The management of the Group has been monitoring the effectiveness of the measures taken closely and continuously.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 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 the securities of the Company or any associated corporations (as defined in the SDI Ordinance) were as follows:

### 1. Shares in 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.

## 2. Directors' and Chief Executive's 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 nine months ended 31 December 2002, no option was granted under the Share Option Scheme.

Save as disclosed above, at no time during the nine months ended 31 December 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 nine months ended 31 December 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 or chief executive (including their spouses or children under 18 years of age) to have any rights to subscribe for shares in or debentures of, the Company or any other body corporate.

### **SUBSTANTIAL SHAREHOLDERS**

Other than interests disclosed above in respect of directors and their associates, as at 31 December 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:* Trouble Free Technology Limited is 100% beneficially owned by Mr. To.

## **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.

## **DIRECTOR'S 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 GEM Listing Rules.

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 which competes, directly or indirectly, with the business of the Group save for the current business of Extracomm Technologies which is the distribution and marketing of Extrafax.

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 or has any other conflicts of interest with the Group.

## **INTERESTS OF SPONSOR**

As notified by the Company's retained sponsor, Core-Pacific – Yamaichi Capital Limited ("CPY"), CPY, its directors, employees and its associates have held 280,000 shares in the Company as at 31 December 2002. Saved as disclosed above, neither CPY nor its directors, employees and its associates had any interests in the share capital of the Company.

CPY has entered into a sponsor 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 conditions set out therein.

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

During the nine months ended 31 December 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **AUDIT COMMITTEE**

The Company has 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, 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 has reviewed the unaudited results for the nine months ended 31 December 2002 and has provided advice and comment thereon.

The audit committee comprised two independent non-executive directors, namely, Mr. Ching, Tai Ming David and Dr. Albert Wong, and Mr. Ching, Tai Ming David is the chairperson of the audit committee. Dr. Albert Wong was appointed as the independent non-executive director and member of audit committee with effect from 30 November 2002 to replace The Hon. Dr. Wong, Yu Hong Philip who resigned on 31 October 2002.

By Order of the Board

**To Cho Kei**

*Chairman*

Hong Kong, 10 February 2003