SYSTEK Information Technology

SYSTEK INFORMATION TECHNOLOGY (HOLDINGS) LIMITED

訊泰科技(控股)有限公司*

(Incorporated in the Cayman Islands with limited liability)

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This announcement, for which 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 GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *for identification purpose only*

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RESULTS FOR THE YEAR ENDED 31 MARCH 2003

CHAIRMAN'S STATEMENT

2002 was a challenging year for the Group but with challenge comes changes. We had been facing with plummeted IT spending environment among the customers, increasing competition, narrowing profit margin and ineffective internal spending model. But, we had to made necessary changes to enable us to confront with these challenges, to fight for our presence in tough times and to be well positioned for future growth in eventual market recovery.

BUSINESS REVIEW

One of our first, and most urgent needs was to rapidly align our spending structure with the realities of a more difficult revenue environment. We then made the very painful, but unfortunately necessary, decision to implement a large-scale cost restructuring. These measures included reducing headcounts, consolidating offices and spending less on discretionary items like travel, marketing and research and development. The office space occupied by the Group was reduced by 40% and the size of the Group's workforce which had resulted in a saving of 40% in monetary terms. The redundant staff were either redeployed by seconding to customer accounts to earn revenue or laid off. This downsize from 202 to 132 employees was done not only in Hong Kong but also the other offices in the PRC resulting in the reduction of approximately 50% of staff during the year. These measures had contributed to the decrease in the Group's general and administrative expenses by 30%.

However, it was apparent that the Group's across-the-board cost cutting actions including the reduction of work space, salaries reduction, productivity improvements, reduction or redeployment of workforce, as well as simplification of reporting lines, were unable to fully absorb the narrow margin impact and now we must face more extreme measures to combat the effects of the pressure of the deteriorating market. It was foreseeable that further redeployment/reduction of workforce and the reduction of salaries would be ongoing. The Group would also attempt to divert current resources into higher margin business and strive for more productivity gain and to make more efficient use of resources. Subsequent to the Iraqi war and the SARS fiasco both broke out in the fourth quarter, the overall business downturn caused the Group's performance to fall short of the original expectation of recovery in the forth quarter and the coming year.

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Business Outlook

The Group had maintained its turnover in a relatively steady level in face of the depressed environment in the local information technology industry and slow recovery in economy in the last two years. Business remained tough with ever thinning margin and increasingly competitive. One of the subsidiaries of the Group was granted a HK$9 million contract from the Hong Kong Government in the fourth quarter, it was expected that the turnover in the forthcoming year would have the potential to improve. However, there was no assurance that the Group would be able to maintain its gross profit to a satisfactory level when the Group was adversely affected by intense price competition throughout the industry.

The Group had also been expanding its existing distribution channels in North America, Europe, Northern China and new distribution networks had been set up to include Southern China.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 March 2003, the Group recorded a turnover of HK$37.7 million (2002: HK$35.3 million). The loss attributable to the shareholders amounted to HK$56.8 million (2002: HK$54.2 million). Part of the current year loss is attributed by an impairment loss on capitalised research and development costs.

Liquidity and Financial Resources

As at 31 March 2003, shareholders' funds of the Group amounted to approximately HK$5.4 million (2002: HK$61.1 million). Current assets amounted to approximately HK$11.3 million (2002: HK$32.0 million), of which approximately HK$2.1 million (2002: HK$13.6 million) were cash and cash equivalents. Current liabilities were approximately HK$10.3 million (2002: HK$10.1 million) mainly comprised 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 further 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 31 March 2003 was 190.2% (2002: 16.6%).

Capital Structure

There has been no change to the share capital of the Company during the year ended 31 March 2003, amounted to HK$104 million (2002: HK$104 million). The Group did not use any debt and/or capital instruments during the year under review.

Foreign Currency Exposure

During the year ended 31 March 2003, the Group experienced only immaterial exchange rate fluctuations as the functional currencies of the Group's operations are mainly Hong Kong dollars and Renminbi ("RMB"). As the risk on exchange rate differences is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

New Products and Services

The information technology market is characterized by rapidly changing technologies, evolving industry standards, frequent new platform and application launch and ever-changing customer requirements. The introduction of products embodying new technologies and emerging new industry standards and practices can render current products obsolete and unmarketable. The Group's future direction will depend on its ability to enhance its products and to develop and introduce, on a timely and cost-effective basis, new products and product features that keep pace with business features, technological developments, and emerging industry standards to address the increasingly sophisticated needs of its customers.

Significant Investments, Acquisitions or Disposals of Subsidiaries

During the year ended 31 March 2003, the group had no significant investments held and had not made acquisitions or disposals of subsidiaries.

Future Plans for Material Investment

As at 31 March 2003, the Group had no future plans for material investment.

Segmental Information

The Group is principally engaged in four business segments mainly in Hong Kong and the 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: 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.

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 declining contributions to the overall revenue.

With respect to geographical segments, there was a decrease during the year under review. Turnover generated from the PRC represented approximately 9.5% of the total turnover of the Group during the year ended 31 March 2003 as compared to approximately 9.9% in the previous year under review. It is expected that the level of the Group's activities in the PRC will remain stable in future.

Employees and Remuneration Policies

As at 31 March 2003, the Group had hired 132 (2002: 202) employees including the executive directors of the Company. Total staff costs including directors' remuneration for the year under review amounting to approximately HK$40.3 million (2002: HK$64.5 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 mandatory provident fund scheme and medical scheme for its employees and executive directors.

The Group has not made any changes to its remuneration policy and no bonuses were granted to any of its executive directors or employees for the year ended 31 March 2003.

During the year, directors' remuneration of HK$0.5 million (2002: Nil) was waived.

On 26 August 2000, the Company has conditionally adopted a share option scheme pursuant to which the executive directors and full-time employees of the Company and its subsidiaries may be granted options to subscribe for shares of the Company. No option was granted under the share option scheme since the inception of the share option scheme.

Charges on Group's assets and contingent liabilities

As at 31 March 2003, the Group was granted banking facilities for an amount of HK$0.5 million secured with pledged deposits of HK$0.5 million with banks. The banking facilities utilized was the bank guarantees to the customers of the Group.

Save as disclosed above, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding during the year under review.

FINAL RESULTS

The Board of Directors (the "Directors") of Systek Information Technology (Holdings) Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2003, together with the audited comparative figures for the corresponding year in 2002, expressed in Hong Kong dollars as follow:

Consolidated Income Statement

		2003	2002
	Note	***$'000***	*$'000*
Turnover	*2*	**37,698**	35,292
Cost of services and merchandise sold		**(25,490)**	(21,724)
Gross profit		**12,208**	13,568
Other revenue and net income		**27**	1,118
Research and development costs	*3(c)*	**(36,343)**	(15,366)
Selling expenses		**(3,160)**	(10,781)
General and administrative expenses		**(25,692)**	(36,589)
Other operating expenses		**(3,894)**	(6,080)
Loss from operations		**(56,854)**	(54,130)
Finance costs	*3(a)*	**(50)**	(23)
Loss from ordinary activities before taxation	*3*	**(56,904)**	(54,153)
Taxation	*4(a)*	**75**	–
Loss attributable to shareholders		**(56,829)**	(54,153)
Dividends	*5*	**–**	–
Loss per share	*6*		
– Basic *(HK cents)*		**(5.48)**	(5.23)
– Diluted *(HK cents)*		**N/A**	N/A

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial results 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 results also comply with the applicable disclosure 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 results

The Group continued to make significant losses in the current financial year and its cash position was reduced to $2.1 million as at 31 March 2003. The sustainability of the Group is dependent on its ability to generate sufficient cash flows from its operations, which are dependent on, among other things, its ability to successfully implement its business development plans. Upon the completion of a sale and purchase agreement in relation to the sale of the Company's shares on 14 May 2003, Wide Source Group Limited ("Wide Source") becomes the largest single shareholder of the Company. The Directors and Wide Source's directors do not expect that there will have any material impact on the business operation of the Group after the completion of the sale and purchase agreement. 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 generating sufficient cash flows from its operations or implementing its business development plans. Accordingly, the financial results have been prepared on a going concern basis.

The financial results 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.

The measurement basis used in the preparation of the financial results is historical costs.

2 TURNOVER

The principal activities of the Group are the provision of systems development, sale of software and hardware products, training and technical support services. 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:

	2003	2002
	$'000	*$'000*
Systems development	**20,039**	18,933
Software and hardware products	**3,984**	4,583
Professional service fees	**11,351**	9,382
Training fees	**2,324**	2,394
	37,698	35,292

3 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

		2003	2002
		$'000	*$'000*
(a)	Finance costs:		
	Interest on bank overdrafts and other borrowings repayable within five years	**50**	23
(b)	Staff costs: #		
	Salaries, wages and other benefits	**38,945**	62,551
	Less: Amount capitalised as intangible assets	**(3,537)**	(14,286)
		35,408	48,265
	Retirement costs	**1,389**	1,980
		36,797	50,245
(c)	Other items:		
	Cost of services and merchandise sold #	**25,490**	21,724
	Research and development costs #	**6,282**	25,167
	Less: Amount capitalised as intangible assets	**(3,872)**	(16,676)
	Add: Amortisation of research and development costs	**8,391**	6,875
	Add: Amount impaired	**25,542**	–
		36,343	15,366
	Operating lease rentals – properties	**5,008**	9,602
	Less: Amount capitalised as intangible assets	**(335)**	(1,832)
		4,673	7,770

	2003	2002
	$'000	*$'000*
Pre-operating costs written off	**–**	67
Amortisation of deferred assets #	**48**	96
Auditors' remuneration	**600**	750
Impairment loss on fixed assets	**391**	–
Depreciation	**2,527**	2,617
Loss on disposal of fixed assets	**1,293**	828
Provision for bad and doubtful debts	**242**	1,266
Provision for receivable from minority shareholder	**–**	985
Provision for diminution in value against investment securities	**700**	5,095
Settlement to a labour dispute @	**1,850**	–

\# Cost of services and merchandise sold, research and development costs, and amortisation of deferred assets include $23,311,000 (2002: $27,243,000) staff costs.

@ For the year ended 31 March 2002, a claim was made against one of the Company's wholly-owned subsidiaries in relation to a labour dispute instigated by a former employee, claiming $9,522,400 (inclusive of interest and cost). The Group had sought legal advice on the claim that it was not possible to determine the outcome of this matter with reasonable uncertainty as at 31 March 2002. However, based on additional information available to the Group as at 31 March 2002, the Directors had considered that the claim was unlikely to be successful, therefore no provision was made in respect of the alleged claims in the financial statements for the year ended 31 March 2002. On 26 August 2002, the claim was transferred from the Labour Tribunal to the High Court. On 27 February 2003, a consent order was filed by the Group and the former employee with the High Court. According to the consent order, the Group paid a sum of $650,000 and caused 20,000,000 shares of the Company at market value of $1,200,000 to be transferred from the substantial shareholder of the Company to the former employee. The aforesaid $1,200,000 due to the substantial shareholder was waived during the year. The waived amount is in substance equivalent to a capital contribution to the Group. As such the Group records an increase in capital reserve *(note 8)*.

4 TAXATION

(a) Taxation in the consolidated income statement represents:

	2003	2002
	$'000	*$'000*
Overprovision for overseas tax in respect of prior years	**75**	–

No provision for taxation has been made for the years ended 31 March 2003 and 2002 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 establishment and the two-year tax exemption period has not commenced.

(b) Deferred taxation

Major components of unrecognised deferred tax assets are set out below:

	2003	2002
	$'000	*$'000*
Unutilised tax losses carried forward	18,079	11,219

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.

There were no other material unprovided deferred taxation assets or liabilities as at 31 March 2003 and 2002.

5 DIVIDENDS

The Directors do not recommend the payment of any final dividend for the year ended 31 March 2003 (2002: Nil).

6 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $56,829,000 (2002: $54,153,000) divided by 1,036,375,000 (2002: 1,036,375,000) shares in issue during the year.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares in issue as at 31 March 2003 and 2002.

7 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.

	Systems development		Software and hardware products		Professional services		Training		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**20,039**	18,933	**3,984**	4,583	**11,351**	9,382	**2,324**	2,394	**37,698**	35,292
Contribution from operations	**5,467**	5,289	**1,778**	2,548	**4,432**	4,448	**531**	1,283	**12,208**	13,568
Unallocated operating income and expenses									**(69,062)**	(67,698)
Loss from operations									**(56,854)**	(54,130)
Finance costs									**(50)**	(23)
Taxation									**75**	–
Minority interests									**–**	–
Loss attributable to shareholders									**(56,829)**	(54,153)
Depreciation and amortisation for the year	**10,840**	9,463	**–**	–	**–**	–	**126**	125	**10,966**	9,588
Impairment loss for the year	**25,933**	–	**–**	–	–	–	**–**	–	**25,933**	–
Significant non-cash expenses (other than depreciation and amortisation)	**1,536**	2,094	**–**	–	**–**	–	**–**	–	**1,536**	2,094
Unallocated significant non-cash expenses (other than depreciation and amortisation)									**1,899**	6,080
									3,435	8,174

The Group does not have any inter-segment sales.

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.

	Hong Kong		**The PRC**		**Other Countries**	
	2003	2002	**2003**	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**32,428**	31,316	**3,598**	3,505	**1,672**	471

8 RESERVES

	Share premium $'000	Capital reserve $'000	Exchange reserves $'000	Accumulated losses $'000	Total $'000
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	33,144	–	(358)	(75,321)	(42,535)
At 1 April 2002	33,144	–	(358)	(75,321)	(42,535)
Waiver of amount due to a shareholder (note 3(c))	–	1,200	–	–	1,200
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	(37)	–	(37)
Loss for the year	–	–	–	(56,829)	(56,829)
At 31 March 2003	**33,144**	**1,200**	**(395)**	**(132,150)**	**(98,201)**

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 which sustained losses during the year.

PROSPECTS

The Group's services and products provided are largely discretionary in nature and its customers can temporarily postpone purchases. To help diversify its customer base and sales prospects, the Group has been aggressively expanding its international distribution capabilities since last year. The Group will continue to provide the customers with quality, efficient and cost-effective solutions and products even in face of the thin margin.

Through the painful cost rationalization process, we have reacted and made changes necessary to strengthen our organization and prepare us for future success. And importantly, we retain a team of experience, talented employees who can successfully operate at a lower break-even turnover and provide a solid base for growth as the market rebounds.

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 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

During the year under review, the Company was in compliance with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

Pursuant to Rules 5.23 to 5.25 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 comprises two independent non-executive Directors, namely, Mr. Ching Tai Ming David and Dr. Wong Albert, 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 the audit committee of the Company with effect from 30 November 2002 to replace The Hon. Dr. Wong, Yu Hong Philip who resigned on 31 October 2002.

During the year under review, four audit committee meetings were held for reviewing the Group's annual report, half-year report and quarterly reports, and providing advices and recommendations to the board of Directors.

On behalf of the Board
To Cho Kei
Chairman

Hong Kong, 27 June 2003

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the Company's website at www.systekit.com.hk.