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)

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.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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.

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)

RESULTS FOR THE YEAR ENDED 31 MARCH 2002

CHAIRMAN'S STATEMENT

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

Business Review

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

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

During the first two quarters of the financial year, aggressive sales and marketing campaigns were undertaken. At this time, the Group also concentrated on streamlining its laboratories in the People's Republic of China (the "PRC") to compliment its development capability in Hong Kong. Unfortunately, the September 11th tragedy in the United States prolonged the downturn of the stock market in North America, Hong Kong and the PRC. The business climate in the world market remained as sluggish and pessimistic as the previous year. Stock market turnover in Hong Kong and the PRC remained thin. Local brokerage houses maintained their wary wait-and-see approach. This reluctance to invest in technology systems affected the Group as the anticipated take-up rate for the Group's signature stock brokerage trading systems and associated services fell short of expectations. In response to these negative signs, the Group took action to rationalize its sales and marketing strategy and reduced expenses.

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

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

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

Business Outlook

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

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

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

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

FINAL RESULTS

The Board of Directors (the "Board") 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 2002, together with the comparative audited figures for the corresponding year in 2001, as follow:

	Note	2002 $'000	2001 $'000
TURNOVER	2	35,292	35,628
Cost of services and merchandise sold		(21,724)	(15,020)
Gross profit		13,568	20,608
Other revenue		977	3,160
Other net income		141	431
Research and development costs		(15,366)	(7,906)
Selling expenses		(10,781)	(17,191)
General and administrative expenses		(36,589)	(24,543)
Other operating expenses		(6,080)	(3,200)
Loss from operations		(54,130)	(28,641)
Finance costs	3	(23)	(592)
LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION	3	(54,153)	(29,233)
Taxation	4	—	(295)
LOSS FROM ORDINARY ACTIVITIES AFTER TAXATION		(54,153)	(29,528)
Minority interests		—	987
LOSS ATTRIBUTABLE TO SHAREHOLDERS		(54,153)	(28,541)
Loss per share	5		
Basic (HK cents)		(5.225)	(3.362)
Diluted (HK cents)		N/A	N/A

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

(a) Group reorganisation

The Company was incorporated in the Cayman Islands on 16 March 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market operated by the Stock Exchange of Hong Kong Limited ("GEM"), the Company became the holding company of the subsidiaries now comprising the Group. Further details of the Reorganisation are set out in the Company's prospectus dated 4 September 2000.

(b) Basis of presentation

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

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

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

All significant intra-group transactions and balances have been eliminated on consolidation.

(c) Statement of compliance

These 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 results also comply with the applicable disclosure requirements of provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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.

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

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

3. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging

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

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

4. TAXATION

Taxation in the consolidated profit and loss account represents:

	2002	2001
	$'000	*$'000*
Provision for Hong Kong Profits		
Tax for the year	—	—
Underprovision in respect of prior years	—	32
	—	32
Deferred taxation	—	263
	—	295

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

Subsidiaries operating in the PRC are exempted from PRC income tax for two years commencing from the first profit making year and are entitled to a 50% relief from PRC income tax for the following three years, after which the profits are subject to PRC income tax at the standard rate of 33%. These subsidiaries sustained losses since incorporation and the two-year tax exemption period has not commenced.

5. LOSS PER SHARE

(a) Basic loss per share

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

(b) Diluted earnings per share

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

6. 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 and 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**	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	18,933	14,637	4,583	9,990	9,382	7,639	2,394	3,362	35,292	35,628
Contribution from operations	5,289	7,648	2,548	6,805	4,448	4,139	1,283	2,016	13,568	20,608
Unallocated operating income and expenses									(67,698)	(49,249)
Loss from operations									(54,130)	(28,641)
Finance costs									(23)	(592)
Taxation									—	(295)
Minority interests									—	987
Loss attributable to shareholders									(54,153)	(28,541)
Depreciation & amortisation for the year	9,463	3,623	—	—	—	—	125	117	9,588	3,740
Significant non-cash expenses (other than depreciation and amortisation)	2,094	8,685	—	—	—	—	—	—	2,094	8,685
Unallocated significant non-cash expenses (other than depreciation and amortisation)									6,080	3,200
									8,174	11,885
Segment assets	48,577	43,297	279	504	1,667	988	783	680	51,306	45,469
Unallocated assets									19,944	80,677
Total assets									71,250	126,146
Segment liabilities	7,807	10,846	441	75	1,265	—	368	362	9,881	11,283
Unallocated liabilities									266	266
Total liabilities									10,147	11,549
Capital expenditure incurred during the year	18,818	32,055	—	—	—	—	—	—	18,818	32,055
Unallocated capital expenditure incurred during the year									1,000	7,995
									19,818	40,050

The Group does not have any inter-segment sales.

Geographical segments

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

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

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

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

7. **RESERVES**

	Share premium *$'000*	Exchange reserves *$'000*	Retained profits/ (Accumulated losses) *$'000*	Total *$'000*
At 1 April 2000	—	41	7,373	7,414
Premium on the issuance of shares	127,840	—	—	127,840
Shares issue expenses	(15,389)	—	—	(15,389)
Capitalisation issue	(79,307)	—	—	(79,307)
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	—	(73)	—	(73)
Loss for the year	—	—	(28,541)	(28,541)
At 31 March 2001	33,144	(32)	(21,168)	11,944
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)

According to the relevant PRC accounting rules and regulations, the PRC subsidiaries may appropriate part of its profits after tax to general reserve, at the discretion of the board of directors of the subsidiaries. The general reserve can be used to make good losses and to convert into paid-up capital.

No transfer to the general reserve was made by the PRC subsidiaries during the year.

DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31 March 2002 (2001: $Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Results

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

Segment information

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

Financial resources and liquidity

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

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

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

Charges on Group's assets and contingent liabilities

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

The Directors have considered the possible outcome of a claim made against one of the Company's wholly-owned subsidiaries in relation to a labour dispute. The claim amounts to HK$9,522,400, inclusive of interest and cost. The Group has sought legal advice on the claim that it is not possible to determine the outcome of this matter with reasonable certainty at this time.

Based on this advice and on the information at present available to the Group, the Directors have considered that the claim is unlikely to be successful, therefore no provision has been made in respect of the alleged claims in the results.

Significant Investments and Acquisitions

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

Capital commitments

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

Employees and Remuneration Policies

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

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

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

During the year, no option was granted under the share option scheme.

Purchase, Sale and Redemption of The Company's Listed securities

From the date of listing since 8 September 2000 up to the year ended 31 March 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Compliance with the GEM Listing Rules

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.29 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the year ended 31 March 2002.

Audit Committee

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

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

On behalf of the Board
To Cho Kei
Chairman

Hong Kong, 27 June 2002

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.

* *for identification purpose only*