



ITE (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT For the six months ended 30 September 2001

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This announcement, for which the directors of ITE (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 for the purpose of giving information with regard to the Company. The directors of 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 announcement 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 announcement misleading; and (3) 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.

SUMMARY

For the six months ended 30 September 2001, ITE (Holdings) Limited and its subsidiaries (the "Group") recorded a revenue of approximately HK\$25.67 million. Profit attributable to the shareholders for the same period was approximately HK\$6.25 million.

The Group obtained Certificate of Merit for Machinery and Equipment Design in the 2001 Hong Kong Awards for Industry.

The board of Directors are proposing an interim dividend of HK0.3 cent per share.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors ("the Board"), I hereby present the interim unaudited consolidated results for ITE (Holdings) Limited ("ITE" or the "Company") for the six months ended 30 September 2001 (the "Period").

The mission of the Company is to become the leading smartcard and radio frequency identification ("RFID") solution provider and system integrator in the Asia Pacific region. ITE has been pioneering smartcard system solutions and integration and has been performing outstandingly in Hong Kong. With profound expertise, strong research and development ("R&D") capability, proven track record and excellent reputation in the industry, our Company has established the leading profile in the smartcard industry in Hong Kong and has taken a proactive approach to introduce innovative smartcard applications to our clients. Leveraging on our extensive industry experience, ITE is developing smartcard and RFID solutions for clients from many industries and expanding our business activities into the People's Republic of China ("PRC") and other countries in Asia Pacific region.

Business Review

- The Company has continued to invest in R&D and has developed new application systems based on various smartcard and RFID technologies. The Chinese Manufacturers' Association of Hong Kong awarded our SIMS 400 Smart Items Management System with a Certificate of Merit for Machinery and Equipment Design in the 2001 Hong Kong Awards for Industry. The official system launch is scheduled to be during the Innovation Expo organised by the Innovation and Technology Commission of the HKSAR on 19 November 2001 targeting various e-logistics, anti-theft and anti-counterfeiting applications. Along with the Philips Semiconductors' I-code technology, we have initiated our R&D based on Infineon's security and chip card ICs SRF55VxxP contactless memories and interface complying to ISO/IEC15693. Reader and antenna development are expected to be completed within six months.
- We have continued to develop Multos and Java card applications with biometric and PKI features. Biometric FingerTIP of Infineon has been incorporated in our new readers MFV-50AC (contactless type) and CFV-50AC (contact type) development.

New USB version of contact/contactless readers (URM-50P, URC-15P), PDA based handheld contactless reader MF-25PDA, smartmeters (MF-30SM, MF-100AC/M) are scheduled to be launched in the fourth quarter of this year. The contactless readers under development are designed to support various RFID standards such as ISO 14443A, 14443G, 15693 and those of technology inventors including Philips Semiconductors, HuaHong NEC and Infineon.

- For the market of intelligent facility management system, a series of controller board is under development. These include a remote control interface RIM, processing unit with RAM and COM card, ETR-100 CIU controller unit with embedded Linux and a new infra-red gate control board SIF-300. Besides, a security key management system (KSM-309) is under a R&D process, and new applications of digital certification and security identity module are being developed on the Multos platform.
- Along with the completion of the first smartcard solution for the Housing Authority, we were also awarded the first pilot public estate contactless smartcard project of the Housing Society. We expect that a number of Octopus Card based Smart Access Systems will be installed within this year. Our marketing team has entered into discussion relating to more real estate projects and has been promoting the solution to corporations in Hong Kong.
- Within the campus market, we have continued to promote our solutions and to enhance the campus smartcard services to both our existing and new clients. A number of new contracts have been awarded. The pilot Java campus card project of the University of Science and Technology was completed and is currently under trial run. We have also set up a cooperation arrangement with a world leading smartcard manufacturer for an overseas marketing campaign. We were invited to submit proposal and conducted subsequent demonstration and showcase to the Australia New South Wales Department of Education and Training for the TAFE card-related Campus Applications. TAFE cards have already been issued to all staff members and more than 300,000 students at over 130 campuses in TAFE New South Wales since the beginning of 2001. The TAFE card carries a Proton e-purse which is a national e-purse program currently being implemented by the Australian Government. The overall project evaluation stage will last until the first quarter of 2002.
- For overseas business expansion, we continue to negotiate for new projects in the Mainland China and other South East Asia countries. The incorporation of our wholly owned subsidiary in Mainland China, 上海阿艾依智控系統有限公司 (ITE (China) Limited), was approved by the Shanghai government authorities on 27 June 2001. ITE (China) Limited was incorporated as a foreign enterprise in the PRC with scope of business activities covering from R&D, production, project implementation, sales and marketing. The successful incorporation of ITE (China) Limited represents a big step ahead to the tremendous market of Mainland China.

Financial Performance

For the six months ended 30 September 2001, the Group recorded a revenue of approximately HK\$25.67 million, representing an increase of 19% over the same period in 2000. Profit attributable to the shareholders for the six months ended 30 September 2001 was approximately HK\$6.25 million, representing a decrease of approximately 29% as compared to the corresponding period in 2000. The Directors are proposing an interim dividend of HK0.3 cent per share for the Period.

The local economic slowdown has an adverse impact on the demand of sophisticated multi-applications smartcard solutions. Accordingly, the sales growth and profit margins of the Group for the past six months have been affected. We also expect that the terrorist attacks in the United States on 11 September 2001 will further compound an already difficult market environment. Nonetheless, with the solid foundation that we have built up in our core markets, we are highly confident in the sales outlook of the second half.

I am deeply grateful to my directors, management and staff for their dedication and hard work. I would also like to thank our shareholders, financiers and business partners for their continued strong support.

Lau Hon Kwong, Vincent
Chairman

Hong Kong, 13 November 2001

Business Objectives for the review period as set out in the prospectus

Key business initiatives

- *Explore opportunities for smartcard applications targeted to public and private sector users in Hong Kong*

The Company has continued to explore opportunities for smartcard applications targeted to public and private sectors. The marketing team actively promoted new application systems like loyalty, asset and logistics management to business and government organisations.

- *Prepare the bid for the tender of smart ID card project of the Hong Kong Government*

The Company has completed a bidding proposal together with certain partners for the smart ID card project of the Government of Hong Kong Special Administrative Region. The result of the tender is expected to be announced before the end of 2001.

- *Commence commercial negotiation relating to smartcard services provider business opportunity in Hong Kong*

The Company has continued to explore opportunities in services provider business, however no solid commercial negotiation has started yet.

- *Finalise alliance arrangement with RFID technology inventor*

The Company has finalised alliance arrangement with RFID technology inventors (Infineon and HuaHong NEC) to develop products based on their RFID technologies and specifications.

- *Finalise investment in and/or alliance with manufacturer of smartcard and related peripheral hardware products*

The Company has continued to identify investment opportunities in PRC based smartcard and related peripheral hardware product manufacturers.

- *Explore opportunities to acquire or form alliances with companies providing synergies and technological support.*

The Company has been negotiating and is in the process of finalising terms with three companies in Hong Kong and the PRC in relation to acquisition and investment opportunities. These companies can provide synergies and technological support in the areas of intelligent facilities management system and information technology services and system integration.

Sales and marketing

- *Expand the Company's Hong Kong sales and marketing team by recruiting additional staff members*

During the period, the Company has continued to increase sales and marketing forces by adding 3 staff members.

- *Brand building activities including placing print advertisements, and participation in relevant seminars and exhibitions in the Asia Pacific region*

The Company has continued its brand building activities in Hong Kong through direct marketing efforts. The Company has actively participated in industry seminars, exhibitions and arranging visits with clients to overseas vendors.

- *Initiate sales and marketing activities in the PRC*

A marketing and sales team of 4 staff members has been established through ITE (China) Limited to initiate sales and marketing activities in the PRC

- *Commence co-marketing campaign with manufacturers of smartcard and related peripheral hardware products*

The Company has commenced co-marketing campaign with smartcard manufacturers and other solution providers.

Geographical expansion

- *Set up branch office or other forms of presence in major cities of the PRC (including Shanghai, Guangzhou and Beijing) and Taiwan*

With the incorporation of ITE (China) Limited in Shanghai, the Company is planning for the next stage of geographical expansion to Beijing and Guangzhou. The Guangzhou branch office is scheduled to be set up in the third quarter while a branch office in Beijing is still under consideration. The Company is not planning to expand into Taiwan this year.

New Services and applications

- *Launch Octopus card based access control solution*

The Company has completed the development of Octopus Smart Access Solution and has initiated sales and marketing campaign. A sales portal was created for such purpose. Revenue from the solution is expected to be generated in the near future.

Major project

- *Participate in smartcard project for campus and real estate in Hong Kong*

The Company has continued to participate in smartcard projects for campus and real estate. Both public and private housing organisations are clients of the Company, while new developers and real estate management companies are being added on to the client list. We have tendered for the new phases of campus card implementation services, and is currently under negotiation with one of our existing clients for the largest single campus project in Hong Kong. The project is expected to be awarded in the 1st quarter of 2002.

R & D

- *Complete development of Octopus card based access control solution*

The Company has completed the development of Octopus card based access control solution.

- *Launch prototype product and commence trial test on biometrics and public key infrastructure based smartcard solution for PC & network security application*

The Company has continued the development of its biometrics and public key infrastructure based smartcard products and solutions with the Infineon FingerTIP technology and Java/Multos platform.

- *Continue technical and application development for Hong Kong smart ID card project*

The Company has continued the technical and application development for Hong Kong smart ID card project, and has modified the solution for social security applications.

- *Continue R&D of smartcard based automatic fare collection and metering application for mass transportation system*

The Company has continued R&D of smartcard based automatic fare collection and metering application for mass transportation system.

- *Continue R&D of embedded Linux solution for intelligent facility management system*

The Company has continued the development of a remote control interface RIM, a processing unit with RAM and COM card, a controller unit ETR-100 CIU with embedded Linux and a new infra-red gate control board SIF-300.

- *Continue R&D of solutions for smartcard services provider business*

The Company has continued the R&D of smartcard solutions for vending services.

- Commence R&D of RFID based supply chain and logistics management solution
The Company has completed the development of SIMS 400 Smart Items Management System based on the Philips I-Code technology. Applications development is continuing for various supply chain and logistics business areas.
- Commence R&D of wireless and mobile network solution
The Company has commenced R&D of a mobile PDA based reader MF-25PDA, and R&D of the GSM and CDMA technologies for an integrated solution.
- Commence R&D of smartcard solution for financial institutions
The Company has commenced R&D of smartcard solution based on the EMV (Europay-Master-Visa) standard and Proton specifications.
- Commence R&D of smartcard application for e-commerce, ASP, ERP solutions
The Company has commenced technical and commercial studies of smartcard applications for internet online games.

Quality assurance

- Establish quality assurance system in accordance with requirements of ISO9000:2000 quality certification
The Company has continued to build up the quality assurance system according to ISO9001:2000 System. The first third party trial audit is scheduled to be in the first quarter of 2002.

Approximately HK\$7.8 million from the net proceeds of the placing of the shares of the Company immediately prior to the listing of its shares on GEM (as compared to HK\$20.7 million as stated in the prospectus) has been incurred for funding the actual business activities for the first six months ended 30 September 2001. The under-utilisation is mainly attributable to the unfavourable market sentiment in the region. The net proceed not used has been placed as short term deposits with financial institutions in Hong Kong.

By order of the Board
Lau Hon Kwong, Vincent
Chairman

Hong Kong, 13 November 2001

QUARTERLY RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 September 2001 together with the comparative unaudited consolidated figures of the corresponding period in 2000 as follows:

	Note	Six Months ended 30 September 2001 HK\$'000	2000 HK\$'000	Three Months ended 30 September 2001 HK\$'000	2000 HK\$'000
Turnover	2	25,667	21,631	11,388	10,606
Gross profit		15,138	12,990	5,861	6,652
Profit before taxation		7,375	10,151	1,587	5,018
Taxation	3	(1,130)	(1,369)	(230)	(769)
Profit attributable to shareholders		6,245	8,782	1,357	4,249
Dividend		2,724	–	2,724	–
Earnings per share	4	0.69 cent	1.1 cents	0.15 cent	0.53 cent
Basic					
Diluted		0.65 cent	–	0.14 cent	–

Notes:

1. Basis of preparation

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the companies comprising the group on 18 November 2000. Details of the Reorganisation are set out in the Prospectus of the Company dated 15 February 2001. Under the merger basis of accounting, the unaudited consolidated results of the Group comprise the results of all companies now comprising the Group as if the current Group structure had been in existence throughout the period(s) covered by this report or since their respective dates of incorporation, where this is a shorter period.

The accounts 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. The principal accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2001.

All significant intra-group transactions and balances have been eliminated in preparing the consolidated financial statements.

2. Turnover

Turnover represents service revenue arising from smartcard and related service contracts.

3. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the periods.

4. Earning per share

The calculation of the basic earnings per share for the six months ended 30 September 2001 is based on the profit attributable to shareholders for the period of approximately HK\$6,245,000 (six months ended 30 September 2000: approximately HK\$8,782,000) and 899,256,765 shares (six months ended 30 September 2000: 800,000,000 shares) in issue during the respective periods. In determining the weighted average number of shares, a total of 800,000,000 shares issued after the incorporation of the Company and reorganisation of the Group immediately but before the issue of new shares to the public pursuant to the listing of the Company's share were deemed to have been issued since 1 April 2000.

The calculation of diluted earnings per share for the Period is based on the profit attributable to shareholders for the Period of approximately HK\$6,245,000 and the weighted average number of ordinary shares of 961,722,636 share after adjusting for the effects of all dilutive potential ordinary shares. The comparative diluted earnings per share has not been calculated because no diluting events existed during the period.

MOVEMENT IN RESERVES

Movements in the reserves of the Group during the three months ended 30 September 2001 are set out below:

	Share premium HK\$'000	Retained earnings HK\$'000	Merger reserve HK\$'000	Total HK\$'000
As at 1 June	26,509	16,478	10,749	53,736
Bonus issue	(4,490)	–	–	(4,490)
Share options exercised during the period	498	–	–	498
Profit for the period	–	1,357	–	1,357
Interim dividend	–	(2,724)	–	(2,724)
As at 30 September 2001	22,517	15,111	–	48,377

INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK0.30 cent per share for the six months ended 30 September 2001 (six months ended 30 September 2000: Nil). The dividend will be payable on 7 December 2001 to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 30 November 2001.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 28 November 2001 to Friday, 30 November 2001, both days inclusive, during which period no transfer of shares will be effected. To rank for the aforesaid interim dividend, all completed transfer forms, accompanied by the relevant shares certificates, must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 27 November 2001.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 30 September 2001, the Company had been notified of the following interests, being 10% or more of the issued share capital of the Company.

	Ordinary shares held	Percentage of total issued shares
Rax-Comm (BVI) Limited (Note 1)	496,990,348	54.98
George Roger Manho (Note 2)	148,142,254	16.39

Note 1: These shares have been disclosed as the corporate interests of the relevant directors in the paragraph "Directors' interest in shares".

Note 2: These shares have been disclosed as the personal interests of the directors in the paragraph "Directors' interest in shares".

SHARE OPTION SCHEME

During the period, options for the subscription of 5,860,000 shares under the pre-IPO share option scheme of the Company adopted on 12 February 2001 were exercised at the subscription price of HK\$0.095 per share. As at 30 September 2001, the pre-IPO share options to subscribe for 74,140,000 shares remained outstanding.

For the share options granted on 10 April 2001, the share options to subscribe for 520,000 shares were lapsed. As at 30 September 2001, the remaining share options to subscribe for 7,856,000 shares at the subscription price of HK\$0.455 per share remained outstanding.

DIRECTORS' INTEREST IN SHARES

The directors of the Company who held office at 30 September 2001 had the following interests in the issued share capital of the Company at that date as recorded in the register of directors' share interests:

Beneficial interests	Ordinary shares of HK\$0.01 each			
	Personal interests	Family interests	Corporate interests	Other interests
Lau Hon Kwong, Vincent (Note)	—	—	496,990,348	—
George Roger Manho	148,142,254	—	—	—
Cheng Kwok Hung (Note)	16,961,000	—	496,990,348	—

Note: As at 30 September 2001, Mr. Lau Hon Kwong, Vincent and Mr. Cheng Kwok Hung were substantial shareholders of Rax-Comm (BVI) Limited which beneficially held 496,990,348 share, representing approximately 54.98% interest, in the Company.

As at 30 September 2001, the directors of the Company had the following personal interests in options to subscribe for shares of the Company granted at nominal consideration under a share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

Apart from the following interests, at no time during the Period was the Company, any of its holding company, or subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

	No. of options outstanding at the Period end	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the Period	Price per share to be paid on exercise of options	Market value per share at date of grant of options	Market value per share on exercise of options
Lau Hon Kwong, Vincent	6,109,440	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–
George Roger Manho	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–
Cheng Kwok Hung	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–
Liu Hoi Wah	19,112,640	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–
Lee Peng Fei, Allen	1,760,000	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–
Tsao Kwang Yung, Peter	1,760,000	12 February 2001	21 August 2001 to 11 February 2011	1,760,000	HK\$0.095	HK\$0.375	HK\$0.50

PURCHASE, SALE AND REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Period.

COMPETING INTERESTS

During the Period, none of the directors or the initial management shareholders or substantial shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

AUDIT COMMITTEE

The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Lee Peng Fei, Allen and Mr. Tsao Kwang Yung, Peter and an executive director, Mr. Liu Hoi Wah.

SPONSOR'S INTEREST

Pursuant to the agreement dated 23 November 2000 entered into between the Company and Vickers Ballas Capital Limited ("Vickers Ballas"), Vickers Ballas has been retained to act as the Company's continuing sponsor for the period from 21 February 2001 to 31 March 2003 in return for a monthly advisory fee.

To the best knowledge of the Company, Vickers Ballas, its directors, employees or associates (as defined in the GEM Listing Rules), did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30 September 2001.

By order of the Board
Lau Hon Kwong, Vincent
Chairman

Hong Kong, 13 November 2001

This announcement will remain on the "Latest Company Announcements" page of the GEM Website for at least 7 days from its date of publication and on the website of the Company at www.hkite.com.