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ITE (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

DISCLOSEABLE TRANSACTION in respect of the acquisition of the entire issued share capital of Qesco Holdings Limited

This circular will remain on the “Latest Company Announcements” page of the GEM website for at least 7 days from the date of its posting and on the website of the Company at www.hkite.com.

27 December 2001

CHARACTERISTICS OF GEM

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 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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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“2002 Accounts”	means the audited consolidated balance sheet of Quesco and the Subsidiary as at 31 March 2002 and the audited consolidated profit and loss account of Quesco and the Subsidiary for the period commencing from 1 April 2001 and ending on 31 March 2002
“Actual Profit”	means the adjusted consolidated profits before taxation of Quesco and the Subsidiary for the year ending 31 March 2002 as shown in the 2002 Accounts
“Associates”	as defined in the GEM Listing Rules
“Board”	means the board of directors of ITE
“Consideration”	means the amount up to HK\$11,500,000 (subject to adjustment), being the consideration payable by the Purchaser to the Vendors pursuant to the Stock Purchase Agreement, which consists of the Initial Purchase Price and the Deferred Payment
“Deferred Payment”	means the amount of HK\$3,450,000 (subject to adjustment) to be paid by the Purchaser pursuant to the Stock Purchase Agreement
“Directors”	means the directors of ITE (including the independent non-executive directors)
“GEM Listing Rules”	means the Rules Governing the Listing of Securities on GEM
“GEM”	means the Growth Enterprise Market of the Stock Exchange
“Group”	means ITE and its subsidiaries
“Guaranteed Profit”	means the consolidated profit before taxation of Quesco and the Subsidiary for the year ending 31 March 2002 of HK\$2,000,000, as guaranteed by the Vendors and the Key Employee pursuant to the Stock Purchase Agreement
“HK\$”	means Hong Kong Dollars
“Initial Purchase Price”	means the amount of HK\$8,050,000 paid by the Purchaser to the Vendors at the completion of the Quesco Acquisition
“ITE” or “Company”	means ITE (Holdings) Limited

DEFINITIONS

“Key Employee”	means Yu Cheuk Sin, one of the Vendors
“Latest Practicable Date”	means 20 December 2001, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Purchaser”	means Capital Ledger Limited, a limited liability company incorporated in the British Virgin Islands on 15 September 2000, being a wholly-owned subsidiary of ITE
“Quesco”	means Quesco Holdings Limited, a private company incorporated in Hong Kong, which is independent from the Directors, chief executive, substantial shareholders or management shareholders of ITE and its subsidiaries or any of their respective Associates
“Quesco Acquisition”	means the acquisition by the Purchaser of the entire issued share capital of Quesco from the Vendors pursuant to the Stock Purchase Agreement
“SDI Ordinance”	means the Securities (Disclosure of Interests) Ordinance, Chapter 396 of the laws of Hong Kong (as amended)
“Share(s)”	means share(s) of par value of HK\$0.01 each in the capital of ITE
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Stock Purchase Agreement”	means the agreement dated 7 December 2001 entered into by the Purchaser, the Key Employee and the Vendors in respect of the Quesco Acquisition
“Subsidiary”	means Quesco Systems Limited, a limited liability company incorporated in Hong Kong, being a wholly-owned subsidiary of Quesco. Each of the directors of the Subsidiary prior to the Completion is independent to the Directors, chief executive, substantial shareholders or management shareholders of ITE and its subsidiaries or their respective Associates
“Vendors”	means the holders of all of the issued shares of Quesco immediately prior to the completion of the Stock Purchase Agreement. Immediately prior to the completion of the Stock Purchase Agreement, Quesco was owned as to 20% by Yu Cheuk Sin, 20% by Wong Wing Sang Stephen, 20% by Tang Hiu Lok, 25% by Yap Henry Fat Suan and 15% by Li Chun Kee. All of the Vendors are independent of the Directors, chief executive, substantial shareholders or management shareholders of ITE and its subsidiaries or their respective Associates

LETTER FROM THE BOARD



ITE (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

Directors:

Executive Directors:

Lau Hon Kwong, Vincent (*Chairman*)
George Roger Manho
Cheng Kwok Hung
Liu Hoi Wah

Independent non-executive Directors:

Lee Peng Fei, Allen
Tsao Kwang Yung, Peter

Registered Office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head Office and

Principal Place of Business:

21st Floor, Stelux House
698 Prince Edward Road East
San Po Kong
Kowloon

27 December 2001

To shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION
in respect of the acquisition of
the entire issued share capital of Qesco Holdings Limited**

INTRODUCTION

On 10 December 2001, the Board announced that Capital Ledger Limited, a wholly-owned subsidiary of ITE, entered into the Stock Purchase Agreement for the acquisition of the entire issued share capital of Qesco at a consideration of HK\$11,500,000 (subject to adjustment) in cash. Based on the Consideration and the adjusted net tangible assets of the Group (calculated based on the audited consolidated net tangible assets of the Group as at 31 March 2001, as adjusted by the results for the six months ended 30 September 2001 and the dividend declared), the Qesco Acquisition constitutes a discloseable transaction of ITE pursuant to Chapter 19 of the GEM Listing Rules.

The purpose of this circular is to provide the shareholders of ITE with information relating to the Qesco Acquisition. This circular also contains information in compliance with the GEM Listing Rules.

LETTER FROM THE BOARD

STOCK PURCHASE AGREEMENT

Date: 7 December 2001

Purchaser: Capital Ledger Limited, a wholly-owned subsidiary of ITE

Vendors: the Vendors, who are independent to the Directors, chief executive, substantial shareholders or management shareholders of ITE and its subsidiaries or their respective Associates

Consideration

The total consideration for the Qesco Acquisition amounts to HK\$11,500,000 (subject to adjustment). The Consideration has been agreed to be paid in the manner detailed below:

(a) *Initial Purchase Price*

HK\$8,050,000, being 70% of the Consideration (subject to adjustment), has been paid in cash on 7 December 2001.

(b) *Deferred Payment*

The balance of the Consideration, which amounts to HK\$3,450,000 (subject to adjustment), shall be payable in cash on 15 June 2002.

The Consideration was determined on an arm's length basis and after taking into account of the client base, the unaudited financial results in the current financial year and the growth potential of Qesco. Since its establishment, Qesco has been awarded IT services contracts by a number of business, government and government-related organisations. Based on the unaudited management accounts of Qesco and the Subsidiary provided by the Vendors for the six months ended 30 September 2001, the unaudited adjusted consolidated net profit of Qesco and the Subsidiary amounted to approximately HK\$820,000. From 1 April 2001 to the date of the Stock Purchase Agreement, Qesco has completed 8 IT services contracts. According to the Vendors, as at 7 December 2001, Qesco has 99 contracts on hand for rendering IT human resources management services to government units with the latest expiring on 18 August, 2002 for a recurring monthly income of approximately HK\$3,600,000. Qesco is also bidding for a few large-scale government-related IT services contracts. The Directors consider that having taking into account of the above, the Consideration is fair and reasonable so far as ITE and its shareholders as a whole are concerned.

The payment method was resulted from arm's length negotiations between the parties to the Stock Purchase Agreement. The Directors consider that the payment method is fair and reasonable so far as ITE and its shareholders as a whole are concerned.

Under the Stock Purchase Agreement, if the adjusted consolidated profit before taxation of Qesco and the Subsidiary for the year ending 31 March 2002 as shown in the 2002 Accounts is less than HK\$2,000,000, the Vendors and the Key Employee shall jointly and severally pay to the Purchaser an amount equivalent to the difference between the Guaranteed Profit and the Actual Profit multiplied by a factor of 5.75. The shortfall, if any, shall be paid by the Vendors and the Key Employee to the Purchaser by way of (i) first, a deduction in the Deferred Payment provided that the maximum deduction shall not exceed HK\$3,450,000; (ii) second, a deduction in the salary of the Key Employee under his service agreement with Qesco for the period from 1 December 2001

LETTER FROM THE BOARD

to 31 March 2002; and (iii) third, claims against the personal properties of the Key Employee. The Key Employee is required to provide such guarantee, since he is one of the Vendors and is one of the senior management staff of Quesco before and after the completion of the Quesco Acquisition.

The Company will announce the Actual Profit and any shortfall or excess (if any) resulted therefrom in its annual results announcement for the year ending 31 March 2002.

The Consideration paid or to be paid by the Purchaser was and will be financed by the internal resources of the Group.

Board Composition

Pursuant to the Stock Purchase Agreement, all of the previous members of the board of Quesco have resigned on 7 December 2001 and the Purchaser has appointed the new board members comprising the Key Employee and three other members nominated by ITE.

Completion

The Quesco Acquisition was completed on 7 December 2001.

SERVICE AGREEMENT WITH THE KEY EMPLOYEE

Pursuant to the Stock Purchase Agreement, Quesco has agreed to employ the Key Employee as its managing director and the Key Employee accepts the appointment for an initial term starting from 1 December 2001 and expiring on 31 March 2004 and will continue thereafter until termination by three months' notice in writing served by either party on the other. The Key Employee will receive a monthly salary of HK\$100,000, which is subject to annual review and adjustment as set out in the paragraph headed "Consideration" above. In addition, the Key Employee is also entitled to a management bonus subject to performance review of each financial year.

INFORMATION OF QUESCO

Quesco is one of the leading IT services providers based in Hong Kong and is currently providing services to about 20 clients. Quesco provides IT solutions to a large number of major business, government and government-related organisations in Hong Kong including Information Technology Services Department, the Hospital Authority, the Independent Commission Against Corruption and Mandatory Provident Fund Schemes Authority. Its scope of activities consists of the provision of IT system integration services, applications design, development and implementation, application and system maintenance services and contract staff consultancy services. As at 7 December 2001, Quesco employed a total of 118 staff members, of which 110 staff members are engaged in IT-related functions.

Quesco was founded by the Key Employee in 1990. Immediately prior to the completion of the Quesco Acquisition, besides Yap Henry Fat Suan, all of the Vendors were directors of Quesco. After the completion of the Quesco Acquisition, only the Key Employee, remains as a director and senior management staff of Quesco, whilst the other Vendors resigned from the board of Quesco. Besides the Key Employee, none of the Vendors acted or will act as management staff of Quesco before or after the completion of Quesco Acquisition. Prior to the completion of the Quesco Acquisition, only the Key Employee involved in the daily management of Quesco. The Board has no present intention to appoint the Key Employee as a Director.

LETTER FROM THE BOARD

Quesco and the Subsidiary recorded an audited consolidated loss of approximately HK\$9,356,000 and approximately HK\$317,000 for each of the year ended 31 March 2001 and 31 March 2000 respectively. As at 31 March 2001, the audited consolidated net tangible assets of Quesco was approximately HK\$1,655,000. According to the Vendors, the loss incurred during the past financial year was mainly due to unexpected extra resources required for implementing certain projects. The Directors will review the operations of Quesco and implement necessary measures, as and when necessary, to avoid similar underestimation.

REASONS FOR THE QUESCO ACQUISITION

The Group is a smartcard solution provider and system integrator.

Quesco has established itself as a professional IT services provider in Hong Kong since 1990. Quesco has substantial track records and experiences in providing IT services to both public and private sectors in Hong Kong. In particular, Quesco has been engaged by various units of the Government of the Hong Kong SAR and delivered services in compliance with the best IT practices, standard and methodologies of the Information Technology Services Department.

The Directors believe that the Quesco Acquisition presents a good opportunity for the Group to strengthen the Group's professional IT services and to complement its existing business. In addition, Quesco has a broad customer base in both public and private sectors, which will add synergies to and expand the Group's business network and scope of services. The existing pool of IT professionals of Quesco will also strengthen the Group's research and development capability.

The Directors are of the view that the Quesco Acquisition is in line with the statement of business objectives of ITE as disclosed in ITE's prospectus dated 15 February 2001. The Board does not expect the Quesco Acquisition to have any immediate material impact to either the earnings or the assets and liabilities of the Group upon Completion.

GENERAL

The Directors consider that the Stock Purchase Agreement was entered into based on normal commercial terms in the ordinary course of business of the Group and that the terms of the Stock Purchase Agreement are fair and reasonable so far as ITE and its shareholders as a whole are concerned and in the interests of the Group.

Based on the Consideration and the adjusted net tangible assets of the Group (calculated based on the audited consolidated net tangible assets of the Group as at 31 March 2001, as adjusted by the results for the six months ended 30 September 2001 and the dividend declared), the Quesco Acquisition constitutes a discloseable transaction of ITE pursuant to Chapter 19 of the GEM Listing Rules.

The Directors confirm that they have no present intention to change the composition of the Board and the business objectives and the use of proceeds as set out in the prospectus of the Company dated 15 February 2001 have not been changed.

By order of the Board of
ITE (Holdings) Limited
Lau Hon Kwong, Vincent
Chairman

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to ITE. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that the Company has been notified of the following interest, being 10% or more of the issued share capital of the Company.

	Number of Shares held	Percentage of total issued Shares
Rax-Comm (BVI) Limited (<i>Note 1</i>)	496,990,348	54.73
George Roger Manho (<i>Note 2</i>)	148,142,254	16.32

Note 1: These Shares have been disclosed as the corporate interests of the relevant directors in the paragraph below.

Note 2: These Shares have been disclosed as the personal interests of the directors in the paragraph below.

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they have taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Beneficial interests	Number of Shares			
	Personal interests	Family interests	Corporate interests	Other interests
Lau Hon Kwong, Vincent (<i>Note</i>)	–	–	496,990,348	–
George Roger Manho	148,142,254	–	–	–
Cheng Kwok Hung (<i>Note</i>)	16,961,000	–	496,990,348	–

Note: As at the Latest Practicable Date, Mr. Lau Hon Kwong, Vincent and Mr. Cheng Kwok Hung were substantial shareholders of Rax-Comm (BVI) Limited which beneficially held 496,990,348 Shares, representing approximately 54.73% interest, in the Company.

As at the Latest Practicable Date, 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.

Pursuant to the share option scheme of the Company adopted on 12 February 2001, the Directors 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.

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

Apart from the above interests, so far as is known to any Director or chief executive of the Company, any of its holding company, or subsidiaries a party to any arrangement to enable the Directors 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.

3. OUTSTANDING SHARE OPTIONS

As at the Latest Practicable Date, options to subscribe for an aggregate of 98,932,000 Shares granted pursuant to the share option scheme adopted by ITE on 12 February 2001 and the share option scheme were outstanding. Details of which are as follows:

(a) Pre-IPO share option scheme

As at the Latest Practical Date, options to subscribe for an aggregate of 70,140,000 Shares were outstanding at a subscription price of HK\$0.095 per Share were outstanding. All the options have the duration of 10 years from 12 February 2001.

(b) Share option scheme

Options to subscribe for an aggregate of 28,792,000 ITE Shares were outstanding as at the Latest Practicable Date, breakdown of which are set out below:

No. of share options	No. of employees HK\$	Subscription price per Share	Option period (commencing from date of date and terminating up to ten years thereafter)
7,856,000	24	0.455	10 April 2002 to 9 April 2004
14,536,000	51	0.35	10 October 2002 to 9 October 2004
6,400,000	1	0.35	10 October 2002 to 9 October 2011

4. DIRECTORS' SERVICE CONTRACTS

Each of the independent non-executive Directors was appointed for a period of two years commencing on 4 December 2000. Their remuneration was determined by the shareholders at the Company's annual general meeting.

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 February 2001 and which will continue thereafter until terminated by three months' notice in writing served by either party on the other.

Save as disclosed, none of the Directors has entered into any service agreement with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

5. 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 advisory fee.

As at the Latest Practical Date, 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.

6. LITIGATION

Neither ITE nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened against ITE or any of its subsidiaries.

7. GENERAL

- (a) The head office and principal place of business of ITE is at 21st Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong. The share registrar and transfer office of ITE is Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.
- (b) The Compliance Officer is Mr. Lau Hon Kwong, Vincent. He is responsible for overall strategic planning and management of the Group. He has over 14 years of experience in executive management. Before founding the Group, Mr. Lau was engaged in China trade. Mr. Lau graduated from The University of Hong Kong with a first class honours Degree of Bachelor of Science in Mechanical Engineering.
- (c) The Company Secretary and the Qualified Accountant of ITE is Mr. Liu Hoi Wah. He graduated from The London School of Economics and Political Science of the University of London with a Bachelor of Science degree, first class honours in Management Sciences. He is an associate member of each of the Institute of Chartered Accountants in England and Wales and the Hong Kong Society of Accountants. Mr. Liu is the younger brother of Mr. Lau Hon Kwong, Vincent.
- (d) The Company has established an audit committee on 12 February 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. 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 Lee Peng Fei, Allen and Tsao Kwong Yung, Peter, and Liu Hoi Wah, an executive Director.

Mr. Lee Peng Fei, Allen, JP, CBE, is currently a director of a number of public companies in Hong Kong. Mr. Lee holds an honorary degree of Doctor of Engineering from the Hong Kong Polytechnic University, an honorary degree of Doctor of Laws from the Chinese University of Hong Kong.

Mr. Tsao Kwong Yung, Peter, CBE, CPM, is currently the chairman of a private company and a director of a number of companies in Hong Kong and the United Kingdom. Mr. Tsao was the former Secretary for Home Affairs of the Hong Kong Government. He was appointed as the special envoy to Geneva in 1979. He was the head of the Trade and Industry Departments in 1981 and the head of the Government Information Services in 1983.

- (e) The English text of this circular shall prevail over the Chinese text.