



ITE (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

3RD QUARTERLY REPORT For the nine months ended 31 December 2001

CHARACTERISTICS OF THE GEM

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This announcement, for which the directors of ITE (Holdings) Limited (the "Company" or "ITE") 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 nine months ended 31 December 2001, the Group recorded a revenue of approximately HK\$37 million, representing an increase of 7% over the same period in 2000.

Profit attributable to the shareholders for the nine months ended 31 December 2001 was approximately HK\$7 million, representing a decrease of approximately 42% as compared to the corresponding period in 2000.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I hereby present herein the unaudited consolidated results for the Company and its subsidiaries (together, the "Group") for the nine months ended 31 December 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 performing outstandingly in Hong Kong. With profound expertise, strong research and development ("R&D") capability, proven track record and excellent reputation in the industry, the Company has established a leading profile in the smartcard industry in Hong Kong and has taken a proactive approach to introduce innovative and customised smartcard applications to the Group's clients. Leveraging on its extensive industry experience, ITE is developing smartcard and RFID solutions for its clients and is expanding its business activities into the People's Republic of China (the "PRC") and other target markets in the Asia Pacific region.

Acquisition of Quesco

On 7 December 2001, the Group acquired the entire issued share capital of Quesco Holdings Limited ("Quesco"). Founded in 1990, Quesco is one of the leading IT services providers based in Hong Kong. Quesco is principally engaged in the provision of IT system integration services, applications design, development and implementation, application and system maintenance services and contract staff consultancy services. Quesco provides IT solutions to a large number of major corporations, government and government-related organisations in Hong Kong including the Information Technology Services Department, the Hospital Authority, the Independent Commission Against Corruption and Mandatory Provident Fund Schemes Authority and delivers services in compliance with the best IT practices, standard and methodologies of the Information Technology Services Department. As at 7 December 2001, Quesco employed a total of 118 staff members.

The Directors believe that the acquisition of Quesco presents a good opportunity for the Group to strengthen its 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 R&D capability.

Business Review

During the period under review, the business of the Group had been under general economic pressure. The decrease in profit attributable to shareholders was primarily due to both the increased expenditure in research and development and the rapid slowdown of local economy, which led to dampened demand of sophisticated multi-applications smartcard solutions.

At the same time, the Company has continued to strengthen its R&D and has developed new application systems based on various smartcard and RFID technologies. The investment has proved to be fruitful. On 19 November 2001, the Group's SIMS 400 Smart Items Management System was awarded a Certificate of Merit for Machinery and Equipment Design in the 2001 Hong Kong Awards for Industry by the Chinese Manufacturers' Association of Hong Kong. After an official launch during the Innovation Expo 2001, the Company has been actively marketing this new RFID solutions to various government departments and public and private organisations. New smartcard readers and controllers have been under development using the latest technologies and standards. The Group's new MF-30SM was also launched in January 2002 and type approved by the Office of Telecommunication Authority.

The Company has continued to strengthen its sales and marketing team. Along with the completion of first smartcard solution for the Housing Authority, the Company was also awarded the first pilot public estate contactless smartcard project of the Hong Kong Housing Society. Within the campus market, the Company continued to promote its solutions and has enhanced the campus smartcard services. The Company was awarded the largest single campus smartcard implementation services contract by one of its existing clients. The Company also completed and delivered its solutions to two public libraries.

For overseas business expansion, the Group continued to negotiate for new projects. 上海阿艾依智控系統有限公司 (ITE (China) Limited) has quickly built up a professional team in excess of 10 members and was awarded the first contract in Guangzhou. With respect to the Australia TAFE smartcard-related campus project, the Company has passed the first demonstration phase and is preparing for the subsequent showcase evaluation before mid 2002.

Outlook

The Directors believe that the general business outlook for the global economy remains uncertain in the short to medium term especially after the terrorist attacks on the United States on 11 September 2001. Under such circumstances, the Directors consider it appropriate to quicken the Group's expansion into the PRC market, which is relatively unaffected.

The Company is currently discussing with a smartcard service provider in the transportation sector in Shanghai, in relation to strategic cooperation to use the potential partner's platform to develop applications and solutions for the Shanghai real estate market. As at the date hereof, no agreement has been signed yet, but the Directors expect the agreement to be reached by mid 2002. Established in May 1999, the potential partner in Shanghai has issued approximately 2 million pieces of card with more than 40,000 readers and terminals installed. Currently, the potential partner in Shanghai is expanding its platform to cover cities surrounding Shanghai including Suzhou and Wuxi.

The Company has also been negotiating with other potential business partners in the PRC targeting at the manufacturing and system integration services of the Second Generation National Identity Card Project of the PRC and the Security Identification Module applications for the telecommunication industry. As at the date hereof, no agreement has been signed yet.

Appreciation

I would like to take this opportunity to express my deepest gratitude to all members of the Board and staff for their dedication and hard work to our Company and to those who have continuously supported us.

Lau Hon Kwong, Vincent
Chairman and Chief Executive Officer

Hong Kong, 7 February 2002

QUARTERLY RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the three months and the nine months ended 31 December 2001 together with the comparative unaudited consolidated figures of the corresponding period in 2000 as follows:

| | Note | Nine Months ended 31 December | | Three Months ended 31 December | |
|--|------|----------------------------------|------------------|-----------------------------------|------------------|
| | | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Turnover | 2 | 36,712 | 34,431 | 11,045 | 12,800 |
| Gross profit | | 21,620 | 19,302 | 6,482 | 6,312 |
| Profit before taxation | | 8,416 | 14,387 | 1,041 | 4,236 |
| Taxation | 3 | (1,300) | (2,042) | (170) | (673) |
| Profit attributable to shareholders | | 7,116 | 12,345 | 871 | 3,563 |
| Earnings per share | 4 | | | | |
| Basic | | 0.79 cent | 1.54 cents | 0.10 cent | 0.45 cent |
| Diluted | | 0.74 cent | – | 0.09 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, the Interpretations issued by the Hong Kong Society of Accountants and 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 sales of smartcard, the related service contracts and provision of information technology consultancy services.

3. Taxation

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

No provision for PRC income tax has been made in the account as the Group has no assessable profits arising in PRC for the nine months ended 31 December 2001 and the corresponding period in 2000.

4. Earnings per share

The calculation of the basic earnings per share for the nine months ended 31 December 2001 is based on the profit attributable to shareholders for the period of approximately HK\$7,116,000 (nine months ended 31 December 2000: approximately HK\$12,345,000) and 902,136,800 shares (nine months ended 31 December 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 the Reorganisation 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\$7,116,000 and the weighted average number of ordinary shares of 962,978,333 shares 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 31 December 2001 are set out below:

| | Share premium HK\$'000 | Retained earnings HK\$'000 | Merger reserve HK\$'000 | Total HK\$'000 |
|--|------------------------------|----------------------------------|-------------------------------|-------------------|
| As at 1 October | 22,517 | 15,111 | 10,749 | 48,377 |
| Share options exercised during the period | 340 | – | – | 340 |
| Profit for the period | – | 871 | – | 871 |
| <hr/> | | | | |
| As at 31 December 2001 | 22,857 | 15,982 | 10,749 | 49,588 |

INTERIM DIVIDEND

The Company paid an interim dividend of HK0.30 cent per share for the six months ended 30 September 2001 (six months ended 30 September 2000: HK\$3,418,336). The Directors do not recommend the payment of an interim dividend for the three months ended 31 December 2001 (three months ended 31 December 2000: Nil).

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interest) Ordinance shows that as at 31 December 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 | 54.73 |
| George Roger Manho (Note 2) | 148,142,254 | 16.32 |

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

Note 2: These shares are also disclosed as the personal interests of the director in the paragraph headed "Directors' interest in shares".

DIRECTORS' INTEREST IN SHARES

The Directors who held office at 31 December 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 |
| 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 31 December 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 shares, representing approximately 54.73% interest, in the share capital of the Company. As each of Mr. Lau Hon Kwong, Vincent and Mr. Cheng Kwok Hung is entitled to exercise over one-third of the voting rights of Rax-Comm (BVI) Limited, each of them is deemed to be interested in the 496,990,348 shares held by Rax-Comm (BVI) Limited.

As at 31 December 2001, the Directors had the following interests in the 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 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 |

Apart from the above 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.

SHARE OPTION SCHEME

Under the share option schemes of the Company adopted on 12 February 2001, the Company had granted the following share options:

| Number of share options granted | Date of Grant | Subscription Price per Share | Number of share options exercised | Number of share options lapsed | Number of share options outstanding |
|---------------------------------|------------------|------------------------------|-----------------------------------|--------------------------------|-------------------------------------|
| *80,000,000 | 12 February 2001 | HK\$0.095 | 9,860,000 | – | 70,140,000 |
| 8,376,000 | 10 April 2001 | HK\$0.455 | – | 520,000 | 7,856,000 |
| 21,260,000 | 11 October 2001 | HK\$0.35 | – | 824,000 | 20,436,000 |
| 2,000,000 | 28 December 2001 | HK\$0.195 | – | – | 2,000,000 |

* Pre-IPO share options

PURCHASE, SALE AND REDEMPTION OF SHARES

The Company has not redeemed any 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

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee on 12 February 2001 with written terms of reference which deal clearly with its authority and duties. 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

DBS Asia Capital Limited ("DBS Asia") has been appointed as the continuing sponsor of the Company for the purpose of the GEM Listing Rules. Pursuant to the sponsorship agreement between the Company and DBS Asia, for a fee, DBS Asia acts as the Company's continuing sponsor for the period up to 31 March 2003.

As updated and notified by DBS Asia, DBS Asia, 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 31 December 2001.

By order of the Board
Lau Hon Kwong, Vincent
Chairman

Hong Kong, 7 February 2002