



# **ITE (HOLDINGS) LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2002**

### **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 this announcement.*

*This announcement, for which the directors of ITE (Holdings) Limited (“ITE” or the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities (the “GEM Listing Rules”) on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, 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.*

## FINAL RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company is pleased to announce 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 previous year:

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Turnover	2&6	62,849	45,669
Cost of services rendered		(37,428)	(17,328)
Cost of goods sold		(447)	—
		24,974	28,341
Other revenue		768	199
Other net gain		8	—
Staff costs		(11,258)	(6,188)
Depreciation and amortisation		(1,554)	(552)
Other operating expenses		(7,657)	(2,730)
Profit from operations		5,281	19,070
Finance costs		(143)	(8)
Profit from ordinary activities before taxation		5,138	19,062
Taxation	3	(304)	(2,800)
Profit attributable to shareholders	7	4,834	16,262
Dividends attributable to the year:	4&7		
Interim dividend declared and paid during the year		2,724	3,418
Earnings per share – Basic	5	<u>0.53 cents</u>	<u>2.01 cents</u>
Earnings per share – Diluted	5	<u>0.50 cents</u>	<u>1.99 cents</u>

Notes:

### 1. Basis of preparation

The audited financial statements 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. The measurement basis used in the preparation of the audited financial statements is historical cost.

### 2. Turnover

Turnover represents service revenue arising from smartcard systems and related service contracts, information technology consultancy services, commissioning of turnkey computer systems development projects, electrical and mechanical installation work and related service contracts, and sales of smartcard and electrical and mechanical installation related products. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Provision of smartcard systems services	31,595	45,669
Consultancy fee income	15,342	–
Provision of electrical and mechanical installation work	14,127	–
Computer systems development project income	563	–
Provision of maintenance services	690	–
Sales of service related products	532	–
	<u>62,849</u>	<u>45,669</u>

### 3. Taxation

Taxation in the audited consolidated results represents:

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Provision for Hong Kong Profits Tax for the year	390	2,800
Overprovision in respect of prior years	(86)	–
	<u>304</u>	<u>2,800</u>

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year.

No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

### 4. Dividends

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Interim dividend declared and paid of HK\$0.003 per share (2001: HK\$1 per share)	<u>2,724</u>	<u>3,418</u>

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

## 5. Earnings per share

### (i) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK\$4,834,000 (2001: approximately HK\$16,262,000) and the weighted average of 903,581,535 ordinary shares (2001: 810,485,764 shares after adjusting for the bonus issue in 2002) in issue during the year.

### (ii) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of approximately HK\$4,834,000 (2001: approximately HK\$16,262,000) and the weighted average number of ordinary shares of 968,708,399 shares (2001: 817,245,240 shares after adjusting for the bonus issue in 2002) after adjusting for the effects of all dilutive potential ordinary shares.

## 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:

Smartcard systems services	:	The provision of smartcard systems services
Consultancy services	:	The provision of information technology consultancy services
Electrical and mechanical installation work	:	The provision of electrical and mechanical installation work

	Smartcard systems services		Consultancy services		Electrical and mechanical installation		Inter-segment elimination		Unallocated		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	31,595	45,669	15,342	-	14,127	-	-	-	1,785	-	62,849	45,669
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue from external customers	-	-	-	-	-	-	-	-	74	-	74	-
<b>Total</b>	<b>31,595</b>	<b>45,669</b>	<b>15,342</b>	<b>-</b>	<b>14,127</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,859</b>	<b>-</b>	<b>62,923</b>	<b>45,669</b>
Segment result	4,947	20,450	13	-	3,736	-	-	-	-	-	8,696	20,450
Unallocated operating income and expenses	-	-	-	-	-	-	-	-	-	-	(3,415)	(1,380)
Profit from operations	-	-	-	-	-	-	-	-	-	-	5,281	19,070
Finance costs	-	-	-	-	-	-	-	-	-	-	(143)	(8)
Taxation	-	-	-	-	-	-	-	-	-	-	(304)	(2,800)
Profit attributable to shareholders	-	-	-	-	-	-	-	-	-	-	4,834	16,262

	Smartcard systems services		Consultancy services		Electrical and mechanical installation	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation and amortisation for the year	438	215	99	-	-	-
Significant non-cash expenses (other than depreciation and amortisation)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

#### *Geographical segments*

The Group's business participates in two principal economic environments. Hong Kong is a major market for all the Group's businesses, whereas the People's Republic of China (the "PRC") is a major market for the provision of smartcard systems and related services.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	Hong Kong		The PRC	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>54,274</u>	<u>34,785</u>	<u>8,575</u>	<u>10,884</u>

## 7. Reserves

	Share premium HK\$'000	(Accumulated losses)/ retained profits HK\$'000	Merger reserve HK\$'000	Total HK\$'000
At 1 April 2000	-	(1,254)	-	(1,254)
Premium on issue of shares	36,310	-	-	36,310
Share issue expenses	(9,801)	-	-	(9,801)
Difference on merger	-	-	10,749	10,749
Profit for the year	-	16,262	-	16,262
Interim dividend paid during the year	-	(3,418)	-	(3,418)
At 31 March 2001 and 1 April 2001	<u>26,509</u>	<u>11,590</u>	<u>10,749</u>	<u>48,848</u>
Bonus issue	(4,490)	-	-	(4,490)
Share options exercised during the year	838	-	-	838
Profit for the year	-	4,834	-	4,834
Interim dividend declared and paid during the year	-	(2,724)	-	(2,724)
At 31 March 2002	<u>22,857</u>	<u>13,700</u>	<u>10,749</u>	<u>47,306</u>

*Note:* The Company was incorporated in the Cayman Islands on 6 November 2000 under the Companies Law (2000 Revised) of the Cayman Islands and, through a group reorganisation in preparation for the listing of the Company's shares on GEM of the Stock Exchange, became the holding company of the Group on 18 November 2000. The Group has been treated as a continuing entity and accordingly the consolidated financial statements for the year ended 31 March 2001 were prepared on the basis that the Company was the holding company of the Group for the entire year, rather than from 18 November 2000. The merger reserve represents the excess value of the shares acquired over the nominal value of the shares issued in exchange.

## 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 31 March 2002, the Company had been notified of the following interests, being 10% or more of the issued share capital of the Company:

	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
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 “Directors’ interests in shares”.

*Note 2:* These shares have been disclosed as the personal interests of the director in the paragraph “Directors’ interests in shares”.

## DIRECTORS’ INTERESTS IN SHARES

The Directors who held office at 31 March 2002 had the following interests in the issued share capital of the Company at that date as recorded in the register of directors’ share interests:

<b>Beneficial interests</b>	<b>Ordinary shares of HK\$0.01 each</b>			
	<b>Personal interests</b>	<b>Family interests</b>	<b>Corporate interests</b>	<b>Other interests</b>
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 31 March 2002, 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 54.73% interest, in the Company.

As at 31 March 2002, the Directors had the following personal interests in options to subscribe for shares of the Company (market value per share is HK\$0.22 at the balance sheet date) granted at HK\$1 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 beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the year	Price per share on exercise of options	Market value per share at date of grant of options	Market value per share on exercise of options	No. of options granted during the year	No. of options lapsed during the year
Lau Hon Kwong, Vincent	6,109,440	6,109,440	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	-	Nil	Nil
George Roger Manho	4,000,000	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	-	Nil	Nil
Cheng Kwok Hung	4,000,000	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	-	Nil	Nil
Liu Hoi Wah	19,112,640	19,112,640	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	-	Nil	Nil
Lee Peng Fei, Allen	1,760,000	1,760,000	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	-	Nil	Nil
Tsao Kwang Yung, Peter	1,760,000	Nil	12 February 2001	21 August 2001 to 11 February 2011	1,760,000	HK\$0.095	HK\$0.375	HK\$0.50	Nil	Nil

Apart from the foregoing, at no time during the year was 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 acquisitions of shares in or debentures of the Company or any other body corporate.

## BONUS ISSUE

The Directors recommended a bonus issue of one new ordinary share for every one then existing ordinary share of HK\$0.01 each, credited as fully paid, to shareholders whose names appeared on the register of members at the close of business on 29 June 2001. Upon the shareholders' approval at the annual general meeting of the Company held on 10 July 2001 and the permission from the Stock Exchange, the bonus shares were allotted and despatched in July 2001. The bonus shares rank pari passu in all respects with the then existing shares of the Company.

## SHARE OPTION SCHEME

Under the share option schemes of the Company adopted on 12 February 2001, the Company had granted, as at 31 March 2002, 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
9,652,000	11 October 2001	HK\$0.35	–	–	9,652,000
2,000,000	28 December 2001	HK\$0.195	–	–	2,000,000

\* *Pre-IPO share options*

## MANAGEMENT DISCUSSION AND ANALYSIS

The mission of the Group 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, the Group 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 its clients. Leveraging on its extensive industry experience, ITE is developing smartcard and RFID solutions for clients from many industries and expanding its business activities into the PRC and other countries in the Asia Pacific region.

### Financial Performance

For the year ended 31 March 2002, the Company recorded a total revenue of approximately HK\$62.8 million, representing an increase of 38% over last year. Profit attributable to the shareholders for the year ended 31 March 2002 was approximately HK\$4.8 million, representing a decrease of approximately 70% as compared to a profit of approximately HK\$16.3 million for last year.

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

### Discussion and analysis of the Group’s financial condition and results of operations:

#### *Liquidity and Financial Resources*

The Group generally financed its operations and investing activities with internally generated cash flows, the balance of the proceeds from the Placing and bank loans.



As at 31 March 2002, the Group had bank and cash balances of approximately HK\$15 million (2001: approximately HK\$38 million) and secured bank loans of approximately HK\$4 million (2001: Nil).

The Board is confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

#### *Foreign Exchange Exposure*

It is the Group's policy for each operating entity to borrow in local currencies, where possible, to minimise currency risk.

#### *Capital Structure*

During the year, the Company issued 458,928,000 new ordinary shares of par value of HK\$0.01 each, comprising 449,068,000 bonus shares issued and 9,860,000 shares allotted at HK\$0.095 each pursuant to the exercise of the share options under the pre-IPO share option scheme of the Company.

#### *Charges on the Group's Assets*

As at 31 March 2002, the Group's time deposits of HK\$5,387,186 were pledged to a bank as security for general banking facilities granted to a subsidiary of the Company.

#### *Material Acquisition*

On 7 December 2001, the Group acquired the entire issued share capital of Quesco Holdings Limited ("Quesco") at the consideration of HK\$11,500,000 paid and payable in cash. Quesco is one of the leading IT services providers based in Hong Kong. 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.

#### *Gearing*

As at 31 March 2002, the Group did not have any long-term obligations.

#### *Capital Commitment*

As at 31 March 2002, the Group did not have any capital commitment.

#### *Contingent Liabilities*

As at 31 March 2002, the Company had undertaken to guarantee certain banking facilities granted to a wholly-owned subsidiary of the Company to the extent of HK\$11,000,000.

## **Business Review**

On February 22, 2002, the Company's wholly-owned subsidiary, ITE (China) Limited, signed an co-operative agreement with the Shanghai traffic smartcard service provider, the Shanghai Public Traffic Card Company Limited ("SPTCC") to adopt their card platform for the development and marketing of value-added applications, solutions and services for the Shanghai transportation market. The business scope covers access control, parking, e-purse, loyalty scheme and e-ticketing. The Directors believe that such strategic alliance has further proven the strength and reputation of the Group and will bring to the Group an immediate access to the fast growing PRC market and strong revenue stream from the Shanghai area.

Established in May 1999, the SPTCC was approved by the Shanghai Municipality Government as the only smartcard platform provider for transportation fare collection applications. The platform has issued close to 3 million pieces of cards with more than 40,000 readers and terminals installed. Being the largest traffic smartcard platform in the PRC, SPTCC forecasts that the number of users in Shanghai will hit 5 million by the end of 2002. Apart from Shanghai, which has a population in exceed of 10 million, the SPTCC is actively expanding the platform to cover cities surrounding Shanghai including Suzhou and Wuxi, etc.

Subsequent to the signing of the co-operative agreement with SPTCC, ITE (China) Limited has obtained a number of contracts with several leading intelligent real estate system integrators in Shanghai. Up to the end of this fiscal year, a number of developers have confirmed the adoption of the new system. ITE (China) Limited has continued its discussions with SPTCC regarding a loyalty scheme infrastructure, and has proceeded discussion with other traffic card services providers across the PRC on similar business model. Since its establishment in June 2001, ITE (China) Limited has already completed a project in Guangzhou and has generated profit to the Group.

In December 2001, the Group acquired the entire issued share capital of Quesco. Quesco is one of the leading IT services providers based in Hong Kong. Its scope of activities consists of the provision of IT systems 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 business, government and government-related organisations in Hong Kong.

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 the public and the private sectors, which will add synergies to and expand the Group's business network and scope of services.

According to the audited results of Quesco, the profit guarantee provision contained in the stock purchase agreement dated December 7, 2001 entered into by the Group has been met and the completion of the purchase will be made before June 15, 2002.

During the period, the Group continued to strengthen its R&D and has developed new application systems based on various smartcard and RFID technologies. The Group incurred more expenditure in R&D in order to implement its core strategies.

In November 2001, ITE's Smart Items Management System SIMS-400 was awarded with a Certificate of Merit for Machinery and Equipment Design - Hong Kong Awards for Industry by the Chinese Manufacturers' Association of Hong Kong. SIMS-400 has been developed using RFID smartlabel

technology to detect a diverse range of objects attached with a smartlabel or any means of form (e.g. tag) which contains a microchip with an antenna connected. The smartlabel/tag is capable of being identified, tracked and managed at a read/write distance of up to 50cm. This latest RFID technology provides benefits a broad variety of applications such as anti-counterfeiting, library system, parcel services, animals and objects sorting & tracking, retailing & rental supply chain management. With an official launch during the Innovation Expo 2001, the Group has been actively marketing this new RFID solutions for e-government and e-campus applications.

Besides the SIMS-400, a series of smartcard, biometrics and ISO 15693 readers and controllers have been developed. The Group's new Mifare MF-30SM was launched and type approved by the Office of Telecommunication Authority. The ISO 15693 readers developed supports Infineon's My-d and Texas Instrument's Tag-It technology. R&D continued for handheld, mid and long range readers of ISO 15693 standard.

The Group has continued to strengthen its sales and marketing team. Within the campus market, the Group has continued to promote its solutions and to enhance the campus smartcard services to its clients. The Group was awarded the largest single campus smartcard implementation services contract by the Hong Kong Institute of Education, and selected by the Hong Kong Baptist University for implementation of campus smartcard solutions. The Group completed the first smartcard solution for the Hong Kong Housing Society and has continued to serve existing and new clients for real estate applications.

Despite that the Group did not participate in the first phase of the smart ID card project of the Government of Hong Kong Special Administrative Region, the Group has continued to prepare for the tendering of the subsequent phases (immigration control and automatic passenger control systems), which are expected to be issued in the financial year 2003.

For overseas business expansion, the Group has decided not to establish any overseas branches for the time being in view of the global economic slowdown. The Group has, however, continued to work with its partners in Singapore, Malaysia, Philippines and Australia to negotiate for new projects.

## **Outlook**

The Directors believe that the business of the Group had been under significant economic pressure. Decrease in profit attributable to shareholders was primarily due to the increase expenditure in R&D and the rapid slowdown of the local economy which led to dampened demand of sophisticated multi-applications smartcard solutions. After the September 11 incidents, the Group has consolidated the local staffing in the fourth quarter of the year. However, the Group will continue its quick expansion into the promising PRC market, which is expected to offset the slowdown in the local economy. The Directors also believe that the new ISO 15693 product ranges and solutions will provide a new stream of revenue and profit to the Group in the near future.

## COMPARISON OF OBJECTIVES AND ACTUAL BUSINESS PROGRESS

### Business objectives up to 31 March 2002 as stated in the prospectus

### Actual business progress up to 31 March 2002

#### Key business initiatives

- |   |  |
|---|--|
| a. Explore and identify opportunities for smartcard applications target to public and private sector users in Hong Kong | The Group has continued to explore opportunities for smartcard and RFID applications targeted at public and private sectors. The marketing team actively promoted new applications like ISO 15693 RFID Smart Items Management, loyalty, asset and e-logistics management to business and government organisations. |
| b. Prepare and submit the bid for the tender of smart ID card project of the Hong Kong Government                       | The Group is preparing for the tendering of the new phases which are expected to be issued in the first and third quarters of the financial year 2003.   |
| c. Identify social security and/or national ID projects in the Greater China Region                                     | The Group has continued to identify opportunities relating to the second generation national ID card project in the PRC.   |
| d. Commence commercial negotiation in relation to smartcard services business opportunities in Hong Kong                | The Group has commenced commercial negotiations in relation to smartcard services business opportunities in Hong Kong. However no agreement has been reached yet.  |

**Business objectives up to 31 March 2002 as stated in the prospectus**

- e. Finalise alliance arrangement with RFID technology inventor
- f. Finalise investment in and/or alliance with manufacturer of smartcard and related peripheral hardware products
- g. Identify business partner to form alliances with and explore smartcard project for mass transportation system in the Asia Pacific region
- h. Explore opportunities to acquire or form alliances with companies providing synergies and technological supports

**Actual business progress up to 31 March 2002**

The Group has partnered with Philips Semiconductors, Infineon and HuaHong NEC to develop products based on their RFID technologies and specifications. The Group is under negotiations to form alliance with a world leading RFID technology inventor. An agreement is expected to be finalised in the first quarter of the financial year 2003.

Due to the uncertain economic recovery, the Group has slowed down its investment strategy towards manufacturer of smartcard and related peripheral hardware products.

The Group has signed a co-operative agreement with the SPTCC to develop value-added solutions and services based on their card platform. Further discussions are being made on partnership in other business areas.

On 7 December 2001, the Group acquired the entire issued share capital of Qesco a leading information technology system integrator in Hong Kong specialising in application development for government and public administration.

The Group is finalising a strategic investment in a leading intelligent real estate system integrator in Shanghai. No agreement has been signed yet.

**Business objectives up to 31 March 2002 as stated in the prospectus**

**Actual business progress up to 31 March 2002**

**Sales and marketing**

- |  |  |
|--|--|
| a. Expansion of the Group's Hong Kong sales and marketing forces by recruiting additional staff members  | During the year, the Group has continued to increase its sales and marketing forces.   |
| b. Brand building activities including placing print advertisements, and participation in relevant seminars and exhibitions in the Asia Pacific region | The Group has continued its brand building activities in Hong Kong through direct marketing efforts. The Group has also participated in the Innovation Expo 2001 Hong Kong and has arranged visits with clients to overseas card vendor SchlumbergerSema.  |
| c. Initiate sales and marketing activities in the PRC and the Greater China Region   | ITE (China) Limited has initiated sales and completed a project in Guangzhou. A number of contracts were signed with contractors in Shanghai for the distribution of SPTCC card based access control and parking solutions. New projects are being negotiated with other system integrators outside of Shanghai. |
| d. Commence co-marketing campaign with manufacturers of smartcard and related peripheral hardware products   | The Group has commenced co-marketing campaign with smartcard manufacturers and other solutions providers.  |
| e. Promote smartcard solution to large to medium sized corporations in Hong Kong   | The Group has continued to promote smartcard and RFID solutions to large to medium sized corporations in Hong Kong.  |

**Geographical expansion**

- |  |   |
|--|---|
| a. Set up branch office or other forms of presence in major cities of the PRC (including Shanghai, Guangzhou and Beijing) and Taiwan | The Group has established a wholly-owned foreign enterprise in Shanghai, ITE (China) Limited. A business and project unit was established in Guangzhou. The Group targets to establish a subsidiary in Beijing in the third quarter of the financial year 2003. The Group has not set up branch office in Taiwan this year. |
| b. Set up branch office or other form of presence in the United States   | In view of global economic slowdown, the Group has not set up branch office in the United States this year.   |
| c. Form strategic alliance with services providers in the Greater China Region   | The Group has formed strategic alliances with the SPTCC. Discussions are being made with other services providers in the PRC.   |

**Business objectives up to 31 March 2002 as stated in the prospectus**

**Actual business progress up to 31 March 2002**

**New services and applications**

- |   |   |
|---|---|
| a. Launch Octopus card based access control solution  | The Group has launched Octopus card based access control. Revenue has been generated during the year.   |
| b. Launch biometrics and public key infrastructure based smartcard solutions for PC & network security applications solutions | The Group has launched a series of fingerprint based smartcard products and solutions. The Group has continued to develop public key infrastructure based smartcard solutions for PC and network security applications solutions. |
| c. Launch smartcard services provider business in Hong Kong   | The Group has delayed the launch of smartcard service provider business in Hong Kong.   |

**Major project**

- |  |  |
|--|--|
| a. Participate in smartcard project for campus and real estate in Hong Kong  | The Group has continued to participate in smartcard projects for campus and real estate. The Group was awarded one of the largest campus smartcard projects by the Hong Kong Institute of Education and was selected by the Hong Kong Baptist University to supply for their campus smartcard solutions. |
| b. Participate in national smart ID card project and other smartcard based social security project in the Greater China Region | The Group has continued to explore opportunities in the PRC national smart ID card and social security projects.   |

**R&D**

- |  |   |
|--|---|
| a. Complete development of Octopus card based access control solutions   | The Group has completed the Octopus card based access control solutions.  |
| b. Launch prototype product, commence trial test and complete development on biometrics and public key infrastructure based smartcard solution for PC & network security application | The Group has launched a series of biometrics smartcard products and solutions for PC and network security application based on Infineon FingerTIP technology and Java/Multos platform. |
| c. Continue technical and application development for Hong Kong smart ID card project  | The Group has continued the technical and application development for Hong Kong smart ID card project including the immigration control and automatic passenger control systems.        |

**Business objectives up to 31 March 2002 as stated in the prospectus**

- d. Continue R&D of smartcard based automatic fare collection and metering application for mass transportation system
- e. Continue R&D, launch prototype product and commence trial test on embedded Linux solution for intelligent facility management system
- f. Continue R&D of solutions for smartcard services provider business
- g. Commence R&D, launch prototype product and commence trial test on RFID based supply chain and logistics management solution
- h. Commence R&D, launch prototype product and commence trial test on wireless and mobile network solution
- i. Commence and continue R&D of smartcard solution for financial institutions
- j. Commence R&D, launch prototype product and commence trial test on smartcard application for e-commerce, ASP, ERP solutions
- k. Continue system development of other RFID application

**Actual business progress up to 31 March 2002**

The Group has continued R&D of smartcard based automatic fare collection and metering application for mass transportation system according to Philips Mifare and ISO 14443 Type B standard.

The Group has completed and launched a new embedded Linux controller (CIU) for intelligent facility management system.

The Group has commenced the R&D of GSM SIM applications for a potential mobile virtual network operator (MVNO) in Hong Kong.

The Group has completed the development of a new RFID Smart Items Management System (SIMS-400). The System was awarded with a Certificate of Merit for Machinery and Equipment Design – Hong Kong Awards for Industry by the Chinese Manufacturers' Association of Hong Kong.

The Group has completed a series of RFID reader supporting the new ISO 15693 standard, Infineon's My-d and Texas Instrument's Tag-It smartlabel technologies.

The Group has continued to develop a series of mobile reader module with compact flash slot interface to PDA. The product range is expected to be launched in the second quarter of the financial year 2003.

The Group has continued to develop reader and smartcard solutions according to the EMV (Europay-Master-Visa) standard and Proton specifications.

The Group has continued the technical and commercial studies of smartcard applications for internet online games.

The Group has commenced the development of Smart Key Management System for custody environment based on the new ISO 15693 standard.



**Business objectives up to 31 March 2002 as stated in the prospectus**

**Actual business progress up to 31 March 2002**

**Quality assurance**

- a. Establish quality assurance system in accordance with the requirements of ISO9000 quality certification

The Group has continued to build up the quality assurance system according to ISO9001:2000 System. The first third party trial audit is scheduled to be held in the second quarter of the financial year 2003.

## USE OF NET PROCEEDS FROM THE PLACING

	Amount scheduled to be used up to 31 March 2002 as disclosed in the Prospectus HK\$'M	Actual amount used up to 31 March 2002 HK\$'M
R&D of smartcard and RFID technological know-how and applications relating to, inter alia, national ID, social security, e-commerce and e-logistics	8.0	8.0
Expanding the Group's operations in the Asia Pacific region (including the PRC) and other selected countries by way of, inter alia, establishment of offices and organising promotional activities in those countries	5.0	5.0
Strategic acquisition of and/or investment in companies whose businesses are of synergistic value to the Group	4.0	4.0
Vertical integration along the smartcard value-added chain by way of, inter alia, investment in manufacturers of smartcard and the related peripheral equipment	4.0	0.0
	<i>Note</i>	
Promotion and business development for new value-added services and application fields	3.0	3.0
Expanding the Group's operations in Hong Kong by way of expansion of sales, force, direct marketing and brand building activities	1.0	1.0
Enhancement of the Group's quality assurance system	1.0	1.0
Working capital of the Group	2.0	2.0
	<u>28.0</u>	<u>24.0</u>

*Note:* The Group is in the process of negotiating with several potential companies and no concrete agreement has been reached.

The remaining net proceeds have been deposited in licensed banks in Hong Kong pending appropriate investments.

## **PURCHASE, SALE AND REDEMPTION OF SHARES**

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

## **COMPETING INTERESTS**

As at 31 March 2002, the directors were not aware of any business or interest of each director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such persons have or may have with the Group.

## **COMPLIANCE WITH THE GEM LISTING RULES**

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules since the shares of the Company were listed on GEM of the Stock Exchange on 21 February 2001.

## **AUDIT COMMITTEE**

The audit committee comprises two independent non-executive directors, namely Lee Peng Fei, Allen and Tsao Kwang Yung, Peter, and Liu Hoi Wah, an executive director. Lee Peng Fei, Allen was appointed the Chairman of the audit committee in compliance with the requirements as set out in Rules 5.23 to 5.27 of the GEM Listing Rules. The audit committee meets with the Group's senior management and external auditors to review the effectiveness of the internal control systems and the annual reports of the Group.

The audit committee held one meeting during the year.

## **SPONSOR'S INTERESTS**

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 entered into between the Company and DBS Asia, for a fee, DBS Asia acts as the Company's continuing sponsor for the period from 21 February 2001 to 31 March 2003.

As updated and notified by at DBS Asia, DBS Asia, its directors, employees and associates (as defined in the GEM Listing Rules), as 31 March 2002, 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 March 2001, DBS Vickers (Hong Kong) Limited (formerly known as Vickers Ballas Capital Limited), a fellow subsidiary of DBS Asia, held 180,000 shares in the Company, representing approximately 0.04% of the Company's then issued share capital.

By Order of the Board  
**Lau Hon Kwong, Vincent**  
Chairman

Hong Kong, 12 June 2002

*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](http://www.hkite.com).*