



## **ITE (HOLDINGS) LIMITED**

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

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2003**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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## FINAL RESULTS

The board (the “Board”) of directors (the “Director”) 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 2003, together with the comparative audited figures for the previous year.

### Consolidated Income Statement

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>	2	<b>77,302</b>	62,849
Cost of services rendered		<b>(74,852)</b>	(40,464)
Cost of goods sold		<b>(560)</b>	(447)
		<b>1,890</b>	21,938
Other revenue		<b>347</b>	768
Other net (loss)/gain		<b>(23)</b>	8
Other staff costs		<b>(7,706)</b>	(8,222)
Depreciation and amortisation		<b>(2,657)</b>	(1,554)
Other operating expenses		<b>(12,650)</b>	(7,657)
<b>(Loss)/Profit from operations</b>		<b>(20,799)</b>	5,281
Finance costs		<b>(582)</b>	(143)
<b>(Loss)/Profit from ordinary activities before taxation</b>	3	<b>(21,381)</b>	5,138
Taxation	4	<b>167</b>	(304)
<b>(Loss)/Profit attributable to shareholders</b>		<b>(21,214)</b>	4,834
Dividend	5	-	2,724
<b>(Loss)/Earning per share</b>	6		
Basic		<b>(2.34 cents)</b>	0.53 cents
Diluted		<b>(2.28 cents)</b>	0.50 cents

## Consolidated Statement of Changes in Equity

	<b>Share capital</b> HK\$'000	<b>Share premium</b> HK\$'000	<b>Merger reserve</b> HK\$'000	<b>Retained profits/ (Accumulated losses)</b> HK\$'000	<b>Total</b> HK\$'000
Balance at 1 April 2001	4,491	26,509	10,749	11,590	53,339
Bonus issue	4,490	(4,490)	-	-	-
Share issued upon exercise of share option under share option scheme	99	838	-	-	937
Profit for the year	-	-	-	4,834	4,834
Interim dividend declared and paid during the year	-	-	-	(2,724)	(2,724)
Balance at 31 March 2002	9,080	22,857	10,749	13,700	56,386
Repurchase of shares	(5)	(40)	-	-	(45)
Loss for the year	-	-	-	(21,214)	(21,214)
Balance at 31 March 2003	9,075	22,817	10,749	(7,514)	35,127

### Notes:

#### 1. Basis of preparation

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 and the disclosure requirements of the Hong Kong Companies Ordinance. The accounts also comply with the applicable disclosure provisions of the GEM Listing Rules. The measurement basis used in the preparation of the accounts is historical cost.

## 2. Segment information

Segment information is presented in respect of the Group's business and geographical segments. Business segments information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

### (a) Business segments

	Smartcard systems, RFID and information technology services		Consultancy services		Electrical and mechanical installation		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>TURNOVER</b>								
Revenue	14,921	33,380	46,103	15,342	16,278	14,127	77,302	62,849
<b>RESULTS</b>								
Segment results	(15,509)	6,289	3,414	36	(3,705)	3,736	(15,800)	10,061
Unallocated corporate revenue							347	768
Unallocated corporate expenses							(5,346)	(5,549)
(Loss)/Profit from operations							(20,799)	5,280
Finance costs							(582)	(142)
(Loss)/Profit before taxation							(21,381)	5,138
Taxation							167	(304)
(Loss)/Profit attributable to shareholders							(21,214)	4,834
Depreciation and amortisation	618	444	239	93	-	-		
Impairment loss	108	-	-	-	-	-		
Non-cash expenses other than depreciation, amortisation and impairment loss	3,672	-	-	-	500	-		

### (b) Geographical segments

	2003 HK\$'000	2002 HK\$'000
Hong Kong	77,159	54,274
The PRC	143	8,575

### 3. (Loss)/Profit from ordinary activities before taxation

(Loss)/Profit from ordinary activities before taxation is arrived at after charging:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Finance costs:		
Interest on bank loans and overdrafts	<b>581</b>	132
Finance lease charges	<b>1</b>	11
	<b>582</b>	<b>143</b>
Other items:		
Amortisation of goodwill	<b>951</b>	317
Auditors' remuneration	<b>322</b>	628
Cost of inventories	<b>9,403</b>	14,450
Depreciation:		
Owned fixed assets	<b>1,681</b>	1,186
Leased fixed assets	<b>25</b>	51
Impairment loss on investment securities	<b>108</b>	-
Operating lease charges: minimum lease payments for hire of properties	<b>2,677</b>	2,348
Staff costs including directors' emoluments and retirement benefit scheme contributions	<b>60,301</b>	29,941

### 4. Taxation

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Provision for Hong Kong profits tax for the year	-	(391)
Overprovision in respect of prior year	<b>167</b>	87
	<b>167</b>	<b>(304)</b>

No provision for Hong Kong profits tax is required since the Company has no assessable profit for the year. The amount provided for the year ended 31 March 2002 was calculated at 16% based on the assessable profit for that year.

No provision for PRC income tax has been made in the account as the Group has no assessable profits arising in PRC for the year (2002: Nil).

### 5. Dividend

No interim dividend (2002: HK\$0.003 per share) was paid during the year. The directors do not recommend the payment of a final dividend for the year ended 31 March 2003 (2002: HK\$Nil).

## 6. (Loss)/Earning per share

### (a) Basic (loss)/earning per share

The calculation of basic (loss)/earning per share is based on the loss attributable to shareholders of approximately HK\$21,214,000 (2002: profit of approximately HK\$4,834,000) and the weighted average of 907,759,068 ordinary shares (2002: 903,581,535 shares after adjusting for the bonus issue in 2002) in issue during the year.

### (b) Diluted (loss)/earning per share

The calculation of diluted (loss)/earning per share is based on the loss attributable to shareholders of approximately HK\$21,214,000 (2002: profit of approximately HK\$4,834,000) and the weighted average of 930,321,740 ordinary shares (2002: 968,708,399 share after adjusting for the bonus issue in 2002) after adjusting for the effects of all potential dilutive ordinary shares.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *Strategic Development*

Within the huge PRC market, the Group has paid great effort on its business expansion. In March 2003, Qesco (Holdings) Limited (“QHL”) had decided to establish a new software development center, 捷科軟件(珠海)有限公司, in Zhuhai, PRC. The primary function of the software development center will be to provide high-level cost effective production of our software application solutions while maintaining the high quality standards of our developed software products. It will also conduct R&D programs for the development of specific software tools and applications. We are confident that the software development center will maximise professional service delivery capabilities while significantly enhancing the time management and cost effective production of software deliverables to our clients. To be located in Tsinghua Science Park (the “Park”), the software development center will receive priority support from the Zhuhai National New and Hi-Tech Development Zone while being benefited from the Park’s accommodation, education, conference and business communication facilities.

As a move to streamline the business nature and activities of QSL, the Board has decided to make a strategic internal restructuring by transferring the entire IT Professional Services Division to another subsidiary of the Company, Qesco Information Services Limited (formerly known as Nat-Id Limited) (“QISL”) starting on 1 April 2003. The division functions, operations, management and personnel remain the same under QISL. The purpose of the restructure is to consolidate the internal areas of expertise of both QSL and QISL (together with QHL, the “Qesco”) and to enhance the specific services provided by the IT Professional Services Division. Upon completion, QSL will continue to focus on the provision of contract and recruitment services to clients.

To leverage on the booming real estate market in the PRC, the Group's PRC operation subsidiary, 上海阿艾依智控系統有限公司 (ITE (China) Limited, "ITEC") made an investment of approximately three million Hong Kong Dollars in the leading real estate system integrator in Shanghai, 上海延華智能科技有限公司, in the final quarter of fiscal year of 2003. It is expected that this vertical integration along smartcard value-added chain can create further business strategy within our PRC development roadmap.

During the year, the Group has been actively forming commercial alliances with certain smartcard and RFID related business partners and semiconductor manufacturers including the worldwide leading vehicle tagging technology company, Transcore LP, the leading semiconductor manufacturers, Infineon Technologies AG (Germany) and Texas Instruments (USA), the handheld RFID device producer, Datalogic AB (Sweden), the largest PDA manufacturer in the PRC, the Beijing Hi-Tech Wealth Electronic Product Company Limited and the MULTOS technology vendor, Keycorp Limited (Australia).

### *Sales and Marketing Activities*

During the year, ITEC commissioned the Shanghai Public Traffic Card based public parking payment system for the Shanghai Grand Gateway and several access control systems for real estates. ITEC entered into a contract to supply a PRC government bureau with a Hitag based tagging and automated gas filing system, which is the first pilot system of this kind in the Mainland China.

The Group has continued to strengthen its sales and marketing force. The Group has paid more effort in tendering for important and sizeable projects and has approached potential IT, smartcard and RFID based solution users. ITES has been aggressively preparing for the tendering of a sizeable government project, the automated passenger and vehicle clearance systems, the tender document was issued on 31 May 2003 and the result of award will be announced before the end of 2003.

Kicking off into the transportation and fleet management market, ITES has completed the first smartlabel based fleet management system and delivered to our client, the Kowloon Motor Bus Corporation. The system, built on the latest ISO15693 technology, is the first commercial application launched in Hong Kong. In parallel, ITES is actively marketing the technology and applications to logistics and asset management markets.

Within the campus market, the Group has maintained stable sales in local market and started its geographical expansion in Macau Special Administrative Region, China ("Macau"). In January 2003, ITES commissioned its first smartcard project for the University of Macau ("UMAC"), which covers an access control system, an e-purse system for photocopying and add-value machine using the existing Mifare smartcard of the UMAC. Recognising the business potential of Macau, the Group is actively working with UMAC for further development in its smartcard system while marketing its products and services to other tertiary institutions, government departments and private sectors.

During the year, Quesco undertook a system integration project for Goldjoy Shopping Paradise. Engaged as the prime systems integrator, Quesco helps the shopping arcade in the implementation of the structural cabling, network equipment, computer hardware and peripherals, and a suite of business support software applications. The project is expected to be completed by June 2003. Quesco is also in the final negotiation stage with a government department of HKSAR on a large scale application development project. The contract is expected to be concluded before the end of July 2003.

Besides, the Company's subsidiary, RF Tech Limited ("RFT"), had exhibited its latest RFID technology in the Information Infrastructure Expo and Conference 2003 held in February. Different kinds of smartcard and smartlabel based systems and products were shown. More than 200 visitors, clients and partners had visited our booth and shown interests in the new technologies and product lines. ITES also partnered with Junghans Uhren GmbH to exhibit the Octopus Smart Access Control and Turnstile System in the Hong Kong Watch & Clock Fair 2002.

### ***Research and Development***

The Group has continued to invest in R&D through its product arm RFT and developed new application systems based on various smartcard and RFID technologies.

In August 2002, the Smart Key Management System ("SKMS"), Smart Keybox and Smart Keytag based on the latest RFID and ISO15693 smartlabel technology were launched. To protect this intellectual property right, a patent for the system was filed to the State Patent Office in Beijing with the application preliminarily approved.

New reader series, application modules, evaluation kits, terminals and several prototype contactless WinCE PDA readers based on ISO14443 Type A Mifare, ISO15693 and Hitag technologies were launched. New E-payment System and Automated Passenger Management System were also developed.

### **Future Prospect**

During the year, the Group was operating in a very difficult market environment and the shake-out of the competition in the smartcard and IT markets is still in full swing. The recent outbreak of the Severe Acute Respiratory Syndrome ("SARS") is expected to further drive down the economy in Hong Kong with numerous industries which we serve contracting. As the SARS continues to cause widespread destruction in Hong Kong as well as the Mainland China, the Board estimates that demand on sophisticated multi-applications smartcard solutions by local and Asian clients will remain low.

Despite the difficult market environment, we have initiated a series of consolidation and restructuring measures to achieve cost reductions and to accelerate the synergies and integration of subsidiaries, the Board is confident that the Group is moving in the right direction, and will continue its active approach to promote new technology and solutions to large sized organisations to maintain stable income. For the fiscal year of 2004, we expect business to develop better than 2003.

### **Financial Performance**

For the year ended 31 March 2003, the Group recorded a total revenue of approximately HK\$77,302,000, representing an increase of 23% over last year. Loss attributable to the shareholders for the year ended 31 March 2003 was approximately HK\$21,214,000 as compared to a profit of approximately HK\$4,834,000 for the last year.



There is a substantial decrease in the gross profit margin for the year under review as the new subsidiary's turnover consolidated during the year included quite a large portion generating out of IT professional secondment business to the HKSAR government. It is a low risk business with low profit margin, hence, dragging down the Group's gross profit margin for the year. Besides, bidding costs of some sizeable IT and smartcard projects have been written off.

In addition, private sector is investing less money in their IT infrastructure and competition in the industry is getting keen during the current slow economy. Pricing has to be adjusted to a lower level so as to maintain the Group's competitiveness, therefore, leading a lower gross profit margin.

The Group has set a new strategy to target for the government IT projects, going for bigger projects with longer duration time, while marketing smaller size projects for the commercial sector at the same time. The Group are currently exploring new revenue stream including expansion of our business in executive search division, explore of new market in Macau and further business development in Shanghai.

With the consolidation of whole financial year of QHL, the revenue percentage of consultancy fee income has increased significantly. The continual local economic slowdown compounded with competition within the smartcard and information technology industries have severely impacted the profit margins and hit the Group a historic loss result. Nonetheless, the Directors are confident that the restructuring exercises and business focus swap made during the year will turn the Group around, it expects that the business will develop better in 2004.

### **Segmental Information**

For the smartcard systems services segment, private sector is investing less and less money on their IT infrastructure. The dropping demand of sophisticated smartcard system leads to a decrease in the turnover compared with that of the same period in 2002. Besides, severe competition is pushing down the gross profit margin significantly. Currently the Group has reserved resources to bid for sizeable IT projects of government and other public sectors while marketing smaller projects among private sector at the same time. The Group is also devoting considerable resources to develop new applications markets and trying our best to chinch new clients and contracts.

For consultancy service segment, the revenue stream and margin will remain rather stable. Optimistically, the Directors believe that there will be a large sum of accounts receivable with longer credit period.

For electrical and mechanical installation segment, most of the contracts signed in previous years are being implemented and completed in the current year, hence, leading to a 15% increase in turnover comparing with that of the same period in 2002. However, its business nature is considered to be longer credit period. Therefore, the Group will be very cautious in bidding new contracts of this kind and may slow it down in the future.

The Group is currently exploring new business streams to generate higher profits for shareholders. R & D investment has been increased during the past 6 months in order to invent and develop new products, aiming at creating new revenue stream from the trading and sales of these product lines.

Besides, QISL is involved actively in software application development for private and public sectors. This would become a new business segment in the Group, therefore, generating new revenue.

### **Liquidity and Financial Resources**

The Group generally financed its operations with its internally generated cash flows and bank borrowings. During the year, a short-term loan of HK\$4,552,211 bore interest of 5.5% per annum and an installment loan HK\$5,000,000 bore interest of 5% per annum were drawn down from banks, which were applied as general working capital of the Group's business operations. The installation loan will be repaid by monthly installation over three years. At 31 March 2003, the current ratio of the Group was 2.15 (2002: 3.24) while the liquidity ratio was 1.97 (2002: 3.06)

Taking into consideration the banking facilities granted and the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation, development requirements and investments in the future.

### **Capital Structure**

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollars, or in the local currencies of the operating subsidiaries, keeping minimum exposure to foreign exchange risk. The Group's liquidity and financing arrangements are reviewed regularly.

### **Significant Investments**

The Group had no significant investments during the year under review.

### **Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies**

During the year under review, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

### **Employment Information**

At 31 March 2003, the Group had 200 full-time employees of which 183 are based in Hong Kong and the rest are in the PRC. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus systems, which are reviewed annually. Staff cost, including directors' emoluments, was approximately HK\$60 million for the year ended 31 March 2003. Besides, the Company has also introduced share option schemes to recognise the contributions of the employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

### **Charges on Group Assets**

At 31 March 2003, time deposits of HK\$13,511,368 (2002: \$9,394,828) were pledged to banks to secure certain banking facilities of the Group.

### **Future Plans for Material Investments**

Other than those disclosed in the Prospectus under the section headed “Business Objectives Review”, the Group did not have any plans for material investment and acquisition of material capital assets as at 31 March 2003.

### **Gearing Ratio**

At 31 March 2003, the gearing ratio of the Group, which is calculated as the ratio of total secured bank loans due after one year to shareholders’ funds, was 0.06 (2002: Nil).

### **Exposure to Fluctuations in Exchange Rates and Any Related Hedges**

Most of the Group’s monetary assets and liabilities were denominated in Hong Kong dollars and Renminbi. As the exchange rate of Renminbi is fairly stable during the year under review, the exchange rate risks of the Group were considered to be minimal. At 31 March 2003, no related hedges were made by the Group.

### **Contingent Liability**

At 31 March 2003, the Company had undertaken to guarantee certain banking facilities granted to two wholly-owned subsidiary to the extent of HK\$32 million (2002: HK\$31 million).

## BUSINESS OBJECTIVES REVIEW

### Comparison of Objectives and Actual Business Progress

#### Key business initiatives

- *Identify opportunities for smartcard applications targeted to public and private sector users in Hong Kong*  
The Group has continued to identify opportunities for smartcard applications targeted to public and private sectors. For opportunities identified, the marketing team has successfully promoted some new application systems like fleet and logistics management, loyalty scheme and network security management to private and public sectors. During the year, the sales and marketing team has also exhibited its new RFID and Octopus Smart Access applications in the Information Infrastructure Expo and Conference 2003 and the Hong Kong Watch & Clock Fair 2002 through which a number of potential clients have been identified and follow-up works are undergoing.
- *Identify opportunities for smartcard applications targeted to public and private sector users in the Asia Pacific region*  
The Group has continued to identify opportunities for smartcard applications targeted to public and private sectors in Asia Pacific region. The Group has successfully expanded its business to Macau and completed two projects for the University of Macau and a government bureau.
- *Promote smartcard solutions to large to medium sized corporations*  
The Group has initiated marketing campaigns targeting large to medium sized corporations like ports and terminals, department and retail chain stores to promote smartcard solutions. Campaigns during the year included exhibitions in the Hong Kong Watch and Clock Fair 2002, Information Infrastructure Expo and Conference 2003 and mass mailing of presentation materials to a number of potential clients.
- *Promote smartcard solutions to medium to small sized corporations in Hong Kong*  
The Group has continued to devote sales effort to promote smartcard solutions to medium to small sized corporations. Marketing campaign includes exhibitions in the Hong Kong Watch and Clock Fair 2002 and Information Infrastructure Expo and Conference 2003. New website of the Group has been constructed to support internet based promotion and sales enquiry.
- *Commence negotiation to smartcard services provider business in other countries in the Asia Pacific region*  
The Group has continued to discuss and negotiate with smartcard services provider business in the PRC. During the year, further business cooperation has been initiated with the Shanghai Public Traffic Card Corporation on the provisions of value-added solutions and services related to the e-purse environment. The Group has continued to solicit interests of other traffic card operators in the PRC on similar cooperation. Agreements with Keycorp Limited in Australia as the sub-issuer of MULTOS and with Transcore, LP as its international channel part have been signed.

- *Launch smartcard based e-commerce, ASP and ERP applications*  
Due to dropping in demand for sophisticated applications, the Group has suspended the launch of smartcard based e-commerce, ASP and ERP applications. Further decision will be made when there is increase in the demand for smartcard based e-commerce, ASP and ERP applications.
- *Commence commercial negotiation relating to smartcard project for mass transportation systems in the Asia Pacific region*  
The Group has commenced negotiation relating to smartcard project for mass transportation system in the PRC and Taiwan during the year. As at the date hereof, no agreement has been reached.
- *Apply for approvals by relevant financial institutions for Group's smartcard solutions*  
Since the market in financial sector has been contracting, the plan to develop smartcard solutions for financial institutions has been suspended. Further decision will wait until the recovery of the financial industry.
- *Explore opportunities to acquire or form alliances with companies providing synergies and technological support*  
The Group has signed several strategic business and technical agreements with companies including Beijing Hi-Tech Wealth Electronic Product Co. Ltd. (PRC), Infineon Technologies AG (Germany), Texas Instruments (United States), Keycorp Limited (Australia) and Transcore, LP (United States) during the year. The Group is continuing to explore opportunities to form alliances with other companies actively.

## **Sales and marketing**

- *Intensive marketing efforts in the United States to promote smartcard and RFID related applications*  
Due to uncertainty about the United States market and limited resources, the Group has stopped its marketing efforts to promote smartcard and RFID related applications in the United States. Further decision on marketing efforts will be made when there is significant improvement in the Group resources. The Group is currently focusing marketing efforts and resources to Macau, the PRC and other Asia Pacific countries.
- *Promote smartcard application in service industry such as tourism and retail*  
The Group has been actively promoting smartcard and smartlabel application in service industry especially in tourism industry. During the year, the Group has promoted its smartcard application to Goldjoy Shopping Paradise from which our subsidiary, Quesco, has successfully undertaken an IT system integration project. The project covered the implementation of structural cabling, network equipment, computer hardware and peripherals, and a suite of business support software applications.
- *Promote smartcard based loyalty programme*  
The Group has been actively promoting smartcard based loyalty programme to the retail market. Since the economy is undergoing a difficult stage and smartcard based loyalty programme investment is contracting, no sales agreements have yet been made.

## **Geographical expansion**

- *Set up branch offices or other form of presences in other countries in the Asia Pacific region*  
Besides our Shanghai branch office, the Board has decided to set up a wholly owned subsidiary, 捷科軟件 (珠海) 有限公司, in Zhuhai, PRC. The new subsidiary will focus on the research and development of software, enterprise resource management solutions, government system software and related products which are supposed to be sold in the PRC, Hong Kong and overseas. Due to uncertainty of the economic condition in the Asia Pacific region and limited resources of the Group, no branch offices have been set up so far except in the PRC. The Group is seeking other form of presence in the Asia Pacific region.
- *Promote solutions for smartcard services provider business in the Greater China Region*  
The Group has continued promoting solutions for smartcard services provider business in the Greater China Region. Our subsidiary, ITEC has successfully built up business relation with Shanghai Public Traffic Card Company Limited (“SPTCC”). Several Shanghai Public Traffic Card based parking and access control systems have been implemented.
- *Promote RFID applications in the Asia Pacific region*  
The Group has continued to promote RFID applications in the Asia Pacific region. Several RFID applications have been implemented in Hong Kong and the PRC during the year, which include the first smartlabel based fleet management system. The Group has also entered into a contract to supply a government bureau in the PRC with a Hitag based tagging and automated gas filing system.
- *Promote mass transportation related smartcard project in the Asia Pacific region*  
The Group has continued to promote mass transportation related smartcard project in the Asia Pacific region. As at the date hereof, no agreement has yet been reached.

## **Key Project**

- *Participate in smartcard project for major international event and theme park in the Greater China Region*  
The Group has sponsored the famous international fundraising activity, Trailwalker, with its ISO15693 RFID solution. No participation in smartcard project for theme park in the Greater China has yet been made as no suitable theme park project has been identified in the Greater China Region.
- *Launch smartcard based loyalty program*  
Since the economy is undergoing a difficult stage and smartcard based loyalty investment is contracting, no sales agreements have yet been made.
- *Participate in national ID and/or social security project in the Asia Pacific region*  
The Group is preparing to tender for sizeable government IT application development projects related to national ID and social security.

- *Participate in smartcard based automatic fare collection project for mass transportation system in the Asia Pacific region*

Since there is no major development of fare collection project for mass transportation system in the Asia Pacific region, the Group has not participated in any smartcard based automatic fare collection project for mass transportation system in the Asia Pacific region yet.

- *Participate in smartcard based e-commerce project in Hong Kong*

Due to the uncertain economic condition and slow development in e-commerce market, the Group has frozen the plan to participate in smartcard based e-commerce project in Hong Kong.

## **Applications and services**

- *Launch RFID based supply chain, e-logistics management and MRP solutions*

The Group has successfully launched several RFID based e-logistics management for fleet management, terminals and ports.

- *Launch embedded Linux solution for intelligent facility management system*

The Group has launched a news controller interface unit (“CIU”) with embedded Linux technology for intelligent facility management system in July of 2002.

- *Launch wireless and mobile network solution*

The Group has launched a number of handheld PDA products for offline, wireless and mobile applications.

- *Launch financial institution approved smartcard solutions*

Since the market in financial sector has been contracting, the plan to launch smartcard solutions for financial institutions has been suspended. Further development will be upon the recovery of the financial industry.

## **R & D**

- *Complete development of RFID based supply chain, logistics management and MRP solutions*

Several RFID based logistics management solutions have been completed during the year and the Group is continuing to develop and enhance the features of RFID based supply chain and MRP solutions.

- *Complete development of embedded Linux solution for intelligent facility management system*

The Group has completed and launched a new controller CIU with embedded Linux technology for intelligent facility management system in July 2002.

- *Complete development of wireless and mobile solution*

The Group has developed and launched a series of handheld device and applications, and will further invest into new wireless and mobile solutions.

- *Complete development of smartcard based e-commerce, ASP and ERP applications*  
Due to dropping in demand for sophisticated applications, the Group has suspended the development of smartcard based e-commerce, ASP and ERP applications. Further decision will be made when there is increase in the demand for such applications.
- *Launch prototype product and commence trial test on smartcard solution for financial institutions*  
Due to uncertainty of the development on financial sectors, the Group has suspended the launch of prototype product and smartcard solutions for financial institutions until the situation in the financial sectors improves. The Group has launched several ISO15693 evaluation kits, smart key box, smart tags and asset management product lines.
- *Continue R&D of smartcard based automatic fare collection and metering application for the mass transportation system*  
The Group has continued R&D of smartcard based automatic fare collection and metering application for the mass transportation system, which is still at an early research stage.
- *Complete development of financial institution approved smartcard solutions*  
Since the market in financial sector has been contracting, the plan to develop financial institution approved smartcard solutions has been suspended. Further development will be made upon the recovery of the financial industry.

#### **Quality Assurance**

- *Obtain ISO 9000 quality certification*  
On 17 October 2002, ITE Smartcard Solutions Limited and ITE Engineering Limited were accredited with the ISO 9001:2000 Certificates. The Certifications are within the timetable set forth in the Statement of Business Objectives of our IPO Prospectus. Continuing Assessment Visit was carried out on 5 May 2003 with both companies passing the assessment.



## Use of Net Proceeds from the Placing

	Amount to be used up to 31 March 2003 as disclosed in the Prospectus HK\$'M	Actual amount Used up to 31 March 2003 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	3.0
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	1.5
Working capital of the Group	2.0	2.5
	28.0	28.0

## 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 2003, the Company had been notified of the following interests, being 10% or more of the issued share capital of the Company:

	<u>Ordinary shares held</u>	<u>Percentage of total issued shares</u>
Rax-Comm (BVI) Limited (Note 1)	496,990,348	54.76%
Mr. George Roger Manho (Note 2)	148,142,254	16.32%

Note:

1. These shares have been disclosed as the corporate interests of the relevant directors in the section "Directors' Interests in Shares".
2. These shares have been disclosed as the personal interests of the director in the section "Directors' Interests in Shares".

## DIRECTORS' INTERESTS IN SHARES

The directors of the Company who held office at 31 March 2003 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>	<u>Ordinary shares of HK\$0.01 each</u>			
	<u>Personal interests</u>	<u>Family interests</u>	<u>Corporate Interests</u>	<u>Other interests</u>
Mr. Lau Hon Kwong, Vincent (Note)	-	-	496,990,348	-
Mr. George Roger Manho	148,142,254	-	-	-
Mr. Cheng Kwok Hung (Note)	16,961,000	-	496,990,348	-

Note: At 31 March 2003, 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 54.76% interest, in the Company.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance.

As at 31 March 2003, the directors had the following personal interests in options to subscribe for shares of the Company granted at HK\$1 under a share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

	<u>Number of options outstanding at 31 March 2003</u>	<u>Date granted</u>	<u>Period during which options exercisable</u>	<u>Number of shares acquired on exercise of options during the year</u>	<u>Price per share to be paid on exercise of options</u>	<u>Market value per share at date of grant of options</u>	<u>Market value per share on exercise of options</u>
Mr. Lau Hon Kwong, Vincent	6,109,440	12 February 2001	21 August 2001 to 11 February 2011	-	HK\$0.095	N/A	-
Mr. George Roger Manho	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	-	HK\$0.095	N/A	-
Mr. Cheng Kwok Hung	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	-	HK\$0.095	N/A	-
Mr. Liu Hoi Wah	19,112,640	12 February 2001	21 August 2001 to 11 February 2011	-	HK\$0.095	N/A	-
Mr. Lee Peng Fei, Allen	1,760,000	12 February 2001	21 August 2001 to 11 February 2011	-	HK\$0.095	N/A	-

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **SHARE OPTION SCHEME**

The Company adopted a pre-IPO share option scheme (the “Pre-IPO Scheme”) and a post-IPO share option scheme (the “Post-IPO Scheme”) on 12 February 2001. In addition, the Company adopted a 2002 share option scheme (the “2002 Scheme”) on 8 August 2002, and the Pre-IPO Scheme and the Post-IPO Scheme were simultaneously terminated. Upon termination of the Pre-IPO Scheme and the Post-IPO Scheme, no further options may be offered thereunder. However, in respect of the outstanding options, the provisions of the Pre-IPO Scheme and the Post-IPO Scheme shall remain in force. The outstanding options granted under the Pre-IPO Scheme and the Post-IPO Scheme shall continue to be subject to the provisions of the Pre-IPO Scheme and the Post-IPO Scheme, respectively, and the provisions of Chapter 23 of the GEM Listing Rules and the adoption of the 2002 Scheme will not in any event affect the terms in respect of such outstanding options.

(a) Pre-IPO Scheme and Post-IPO Scheme

As mentioned above, the Pre-IPO Scheme and the Post-IPO Scheme were terminated on 8 August 2002 and no further options may be offered thereunder. Details of the outstanding share options of these schemes during the year are as follows:

Name or category of participant	Number of share options				Outstanding at 31 March 2003	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
	Outstanding at 1 April 2002	Granted during the year	Exercised during the year	Lapsed during the year					
<i>Pre-IPO Scheme</i>									
Lau Hon Kwong, Vincent /Director	6,109,440	-	-	-	6,109,440	12 February 2001	21 August 2001 to 11 February 2011	\$0.095	N/A
George Roger Manho /Director	4,000,000	-	-	-	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	\$0.095	N/A
Cheng Kwok Hung /Director	4,000,000	-	-	-	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	\$0.095	N/A
Liu Hoi Wah /Director	19,112,640	-	-	-	19,112,640	12 February 2001	21 August 2001 to 11 February 2011	\$0.095	N/A
Lee Peng Fei, Allen /Director	1,760,000	-	-	-	1,760,000	12 February 2001	21 August 2001 to 11 February 2011	\$0.095	N/A
Employees	35,157,920	-	-	-	35,157,920	12 February 2001	21 August 2001 to 11 February 2011	\$0.095	N/A
	<u>70,140,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,140,000</u>				
<i>Post-IPO Scheme</i>									
Employees	7,856,000	-	-	1,952,000	5,904,000	10 April 2001	10 April 2002 to 9 April 2004	\$0.455	\$0.455
Employees	9,652,000	-	-	1,216,000	8,436,000	11 October 2001	11 October 2002 to 10 October 2004	\$0.35	\$0.3
Employees	2,000,000	-	-	-	2,000,000	28 December 2001	1 July 2004 to 31 December 2011	\$0.195	\$0.195
	<u>19,508,000</u>	<u>-</u>	<u>-</u>	<u>3,168,000</u>	<u>16,340,000</u>				

(b) 2002 Scheme

The Company operates the 2002 Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2002 Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, advisers and consultants, etc. The 2002 Scheme became effective on 8 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares of the Company in issue. The maximum number of shares issuable under share options to each eligible participant in the 2002 Scheme and any other share option schemes of the Company within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share option granted to a director, chief executive or a substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of \$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the 2002 Scheme, if earlier.

The exercise price of the share option is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares on the date of the offer of the share options; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the share.

Details of the outstanding share options of the 2002 Scheme during the year are as follows:

Name or category of participant	Number of share options				Outstanding at 31 March 2003	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
	Outstanding at 1 April 2002	Granted during the year	Exercised during the year	Lapsed during the year					
Employees	-	3,500,000	-	-	3,500,000	9 August 2002	9 August 2003 to 8 August 2012	\$0.175	\$0.175
Corporate consultant	-	6,400,000	-	-	6,400,000	9 August 2002	9 February 2003 to 8 August 2012	\$0.175	\$0.175
	-	<u>9,900,000</u>	-	-	<u>9,900,000</u>				

At 31 March 2003, the number of shares issuable under the Pre-IPO Scheme, the Post-IPO scheme and the 2002 Scheme was 70,140,000, 16,340,000 and 9,900,000, respectively, which represented approximately 11% in aggregate of the Company's shares in issue as at that date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

On 25 September 2002, the Company repurchased on the GEM of the Stock Exchange a total of 460,000 ordinary shares of HK\$0.01 each in the share capital of the Company at an aggregate cost of HK\$45,162. The directors considered that the above repurchases were made with a view to enhancing the net asset and earnings per share of the Company. Those shares were subsequently cancelled and the issued share capital of the Company was correspondingly reduced.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

## **COMPETING INTERESTS**

At 31 March 2003, 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.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 March 2003.

## **AUDIT COMMITTEE**

The audit committee comprises two independent non-executive directors, Mr. Lee Peng Fei, Allen and Mr. Tsao Kwang Yung, Peter, and an executive director, Mr. Liu Hoi Wah. Mr. 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 report 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 DBS Asia, DBS Asia, its directors, employees and associates (as defined in the GEM Listing Rules) did not have any interest in the share capital of the Company or its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or its subsidiaries as at 31 March 2003.

By order of the Board  
Lau Hon Kwong, Vincent  
Chairman

Hong Kong, 11 June 2003

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) 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).*