



First Quarterly Report 第一季度報告 2003

ITE (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

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This document, for which the directors of ITE (Holdings) Limited ("ITE" or the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") 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 (1) the information contained in this document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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Summary

Turnover for the three months ended 30 June 2002 amounted to approximately HK\$23,808,000, representing an increase of approximately 67% over the turnover of approximately HK\$14,279,000 for the same period in last year.

Loss attributable to shareholders for the three months ended 30 June 2002 amounted to HK\$2,833,000 compared to profit attributable to shareholders of HK\$4,888,000 for the same period in last year.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I hereby present the quarterly unaudited consolidated results for ITE and its subsidiaries (together, the "Group") for the three months ended 30 June 2002 (the "Period").

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

Business Review

The Group has continued to invest in R&D and has developed new application systems based on various smartcard and RFID technologies. Full range products deriving from ISO 15693 standard RFID technology have been completed including new model antennas, short and middle range readers and standalone electronic door lock readers. A Smart Key Management System ("SKMS") based on ISO15693 smartlabel technology is under development, and is expected to be launched in the second quarter of the financial year 2003. This system, which has been designed and developed for high volume physical keys management required for custody environment and public administration, is an innovative invention. The Group is going to file a patent for the system in Beijing as an intellectual property and will participate in the 2002 Hong Kong Awards for Industry.

Chairman's Statement (Con't)

Currently, the Group continues to introduce its new RFID solutions, especially the new ISO 15693 smartlabel applications, to various government departments, private and public organisations. The Group has successfully established its presence in the public sector, with several kinds of its products sold to a government department. On the other hand, being optimistic about the potential of RFID technology on the retail market, the Group is actively involved in linking up business relations with certain companies to further develop their loyalty scheme and customer relationship management.

To introduce and demonstrate this latest technology and applications, the Group has signed a sponsorship agreement with Oxfam Hong Kong to sponsor Trailwalk 2002 in April 2002 through the provision of an ISO 15693 RFID Smartlabel Tracking System and the related project management and training services. The system will support the identification and tracking of more than 4000 Trailwalkers carried with smartlabel wristband. The Group is proud of being selected as the provider for the latest ISO 15693 RFID technology for this international charity event. Since 1986, more than 33,000 participants have raised over HK\$138 million to support Oxfam's various poverty alleviation and emergency relief projects with poor people in Africa and Asia, including Hong Kong and the PRC.

During the Period, the Group has continued to be awarded with projects from campuses, real estates and logistics industry. More than 10,000 cards will be issued for the campus smartcard implementation of the Hong Kong Baptist University. The Group was also awarded with new contracts for student hostel applications of the Hong Kong Polytechnic University. For real estates, projects granted to the Group included the long-range Hitag parking system for Palm Spring, the supply and installation of contactless smartcard access control systems in Pinnacle, Nan Fung Plaza and Royal Terrace. Within the logistics market, the Group was awarded with the Mifare smartcard application system of CSX World Terminals Asia Limited during the Period.

The Company's subsidiary, Quesco Systems Limited ("Quesco"), has been awarded with the contract for the Provision of Information Technology Contract Staff Service to the Government of Hong Kong Special Administrative Region (the "Government"). The contract under this tender is for a period of 30 months with effect from 1 June 2002, with an optional extension period of 18 months. Based on a historical reference figure and the Government estimation, the total value of the contract per year will be approximately HK\$40,000,000.

Quesco was also awarded with the project for providing application enhancement services to the Databank And Trade Enquiry System (DATES) of the Hong Kong Trade Development Council (TDC). Due to the rapid expansion and changes of the business, there are a lot of Change Requests to be implemented to the DATES. The current project is to handle four batches of such Change Requests. Upon successful completion of the project, Hong Kong Trade Development Council will outsource another batch of Change Requests project. Quesco

Chairman's Statement (Con't)

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.

For the Government Smart ID card related projects, the Group has submitted the bid for tender of the implementation of the enhancement of immigration control automation system for the Immigration Department in June 2002. Evaluation of bids is currently under process and the result is expected to be announced in the second quarter of financial year 2003.

The Group has been actively expanding its business in the PRC market. During the Period, the Company's wholly-owned subsidiary, 上海阿艾依智控系統有限公司 (ITE (China) Limited), was invited by the Shanghai Public Traffic Card Company Limited ("SPTCC") to take part in the Shanghai IT Expo 2002 in June 2002. The Group's loyalty scheme, real estate access control system and parking system applications developed on SPTCC's card platform were launched and demonstrated in the exhibition.

The Group has continued to build up the quality assurance system according to the requirements of ISO 9000 quality certification. The first third party trail audit on ISO9001:2000 System is scheduled to be held in the second quarter of financial year 2003.

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Outlook

Due to the remaining uncertainty of general economic condition, the Directors believe that the business of the Group is still under significant economic pressure. The slowdown of the local economy has led to dropping demand of sophisticated multi-applications smartcard solutions. However, the Group has continued its quick expansion into the promising PRC market, which is under rapid economic growth. The Directors also believe that the full range of new ISO 15693 products and solutions will provide new stream of revenue and profit to the Group in the foreseeable future.

Appreciation

On behalf of the Board, I would like to take this opportunity to express our deepest thanks to our directors, management and staff for their effort and dedication to the Group. With the continuing support from our shareholders, financiers and business partners, the Group will try to drive profitability by creating scaleable revenue growth.

By order of the Board
Lau Hon Kwong, Vincent
Chairman

Hong Kong, 31 July 2002

Quarterly Results

The Board announces that the unaudited consolidated results of the Group for the Period together with the comparative unaudited consolidated figures of the corresponding period in 2001 as follows:

		Three Months ended 30 June	
	<i>Note</i>	2002 HK\$'000	2001 HK\$'000
Turnover	2	<u>23,808</u>	<u>14,279</u>
Gross profit		<u>3,026</u>	<u>9,277</u>
(Loss)/Profit before taxation		(2,833)	5,788
Taxation	3	<u>—</u>	<u>(900)</u>
(Loss)/Profit attributable to shareholders		<u>(2,833)</u>	<u>4,888</u>
(Loss)/Earnings per share	4		
Basic		(0.31 cents)	0.54 cents
Diluted		(0.30 cents)	0.51 cents

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. 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 2002.

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.

Quarterly Results (Con't)

3. Taxation

No provision for Hong Kong profits tax has been made for the three months ended 30 June 2002 as the Group did not generate any assessable profit arising in Hong Kong during the period. For the three months ended 30 June 2001, the provision of Hong Kong profits tax has been calculated at the rate of 16%.

No provision for PRC income tax has been made in the account as the Group has no assessable profits arising in PRC for the three months ended 30 June 2002 and the corresponding period in 2001.

4. (Loss)/Earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic loss (2001: earnings) per share is based on the loss attributable to shareholders of HK\$2,833,000 (2001: profit HK\$4,888,000) and the weighted average of 907,996,000 ordinary shares (2001: 898,136,000 shares after adjusting for the bonus issue in 2002) in issue during the Period.

(b) Diluted (loss)/earnings per share

The calculation of diluted loss (2001: earnings) per share is based on the loss attributable to ordinary shareholders of HK\$2,833,000 (2001: profit HK\$4,888,000) and the weighted average number of ordinary shares of 943,377,002 shares (2001: 962,913,979 shares after adjusting for the bonus issue in 2002) after adjusting for the effects of all dilutive potential ordinary shares.

5. Dividends

The directors do not recommend the payment of dividend for the three months ended 30 June 2002 (three months ended 30 June 2001: Nil)

6. Movement of reserves

	Share premium HK\$'000	Retained profits HK\$'000	Merger reserve HK\$'000	Total HK\$'000
As at 1 April 2001	26,509	11,590	10,749	48,848
Profit for the period	—	4,888	—	4,888
As at 30 June 2001	<u>26,509</u>	<u>16,478</u>	<u>10,749</u>	<u>53,736</u>
As at 1 April 2002	22,857	13,700	10,749	47,306
Loss for the period	—	(2,833)	—	(2,833)
As at 30 June 2002	<u>22,857</u>	<u>10,867</u>	<u>10,749</u>	<u>44,473</u>

Substantial Interests in the Share Capital of the Company

The register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 30 June 2002, 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 (<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 as at 30 June 2002 had the following interests in the issued share capital of the Company as recorded in the register of directors' share interests:

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

Note: As at 30 June 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.

Directors' Interests in Shares (Con't)

As at 30 June 2002, 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.

	No. of options outstanding at the Period end	Date granted	Period during which options exercisable	No. of shares			
				exercised during the Period	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
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	-

Apart from the foregoing, 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 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

As at 30 June 2002, 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	–	1,800,000	6,576,000
9,652,000	11 October 2001	HK\$0.35	–	548,000	9,104,000
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 of its shares during the Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Period.

Competing Interests

As at 30 June 2002, the Directors were not aware of any business or interest of each Director, management shareholder of the Company and their respective associates 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.

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 reports of the Group.

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 securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30 June 2002.

By order of the Board
Lau Hon Kwong, Vincent
Chairman

Hong Kong, 31 July 2002