



Third Quarterly Report 第三季度報告

2003

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



CONTENTS

Summary	2
Chairman's Statement	2
Quarterly Results	6
Substantial Interests in the Share Capital of the Company	8
Directors' Interests in Shares	9
Share Option Scheme	10
Purchase, Sale and Redemption of Shares	11
Competing Interests	12
Board Practices and Procedures	12
Audit Committee	12
Sponsor's Interest	12

Summary

Turnover of the Group for the nine months ended 31 December 2002 was approximately HK\$63,105,000, representing an increase of approximately 72% over the turnover of approximately HK\$36,712,000 for the same period in 2001.

Loss attributable to shareholders for the nine months ended 31 December 2002 amounted to approximately HK\$10,983,000 compared to profit attributable to shareholders of approximately HK\$7,116,000 for the same period in 2001.

The Directors do not recommend the payment of interim dividend for the three months ended 31 December 2002 (for the three months ended 31 December 2001: Nil).

Chairman's Statement

Dear Shareholders,

On behalf of the board of Directors (the "Board"), I hereby present the unaudited consolidated results for ITE and its subsidiaries (together, the "Group") for the nine months ended 31 December 2002 (the "Period").

ITE has established a leading profile in the Hong Kong smartcard and radio frequency identification ("RFID") industry with proven track record and excellent reputation. The mission of the Group is to become the leading smartcard and RFID solutions provider and system integrator in the Asia Pacific region. With profound expertise, strong research and development ("R&D") capability, the Group has taken a proactive approach to introduce innovative and customised smartcard and RFID 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 its business to the People's Republic of China (the "PRC") and other countries in the Asia Pacific region.

Business Review

The Group has increased investment in the R & D of new reader series and application modules based on various smartcard and RFID technologies. Collaborating with Beijing Hi-Tech Wealth Electronic Product Company Limited, several prototype contactless WinCE PDA readers based on ISO 14443 Type A Mifare, ISO15693 and Hitag technologies have been developed during the third quarter of the current financial year. New versions of terminals and systems including turnstiles access and passenger control, smartcard add-value machines and smartcard vending machine have also been launched.

Chairman's Statement (Con't)

During the Period, the Group continued to be awarded with new projects within the campus market. They included smartmeter projects of the student hostels of Hong Kong University of Science and Technology and The Chinese University of Hong Kong and smartcard access control system for the student hostel of The Hong Kong Polytechnic University. The trading business of smartcards and smartcard readers for campus market also remained relatively stable.

Besides, the Group has been awarded with the smartcard project for The University of Macau (UMAC), starting its geographical business expansion into Macau Special Administrative Region ("Macau"), China. This UMAC campus smartcard project covers an access control system, an e-purse system for photocopying and add-value machine using the existing Mifare smartcard of the university. Recognising the prosperous economic growth and business potential of Macau, the Group has been actively working with UMAC for further development in its smartcard system while marketing its products and services to other tertiary institutions in Macau.

New business expansion in Macau includes not only the UMAC project, the Group has been awarded with another smartcard project from the Macau Government. The system is operated under a 3-tier architecture, powered by IBM WebSphere J2EE Server as the middle tier and IBM Universal Database running on AS/400 as the back-end. The whole user interface is a web-based front-end to support the operations. With a tight security requirement for some authentication and registration operations, each transaction must use the Triple-DES private key stored inside a contact type smartcard together with password to complete the operations. In this project, the Group has deployed the latest FlashCOS PK technology, which is one of the first flash memories CPU cards in the world.

As one of the six sub-contractors of Octopus Access Control system, the Group continues to install the system for new clients. During the Period, the Group has been awarded with the supply and installation of Octopus Electronic Access Control System for Kowloon-Canton Railway Corporation ("KCRC") Light Rail Division. The system is capable of controlling the interlocked doors within the same zone and provide interface for the auto-dialer. It can also be easily expanded to replace the existing proximity card access control systems of other customer service centres of Light Rail Transit so as the access control system of West Rail to be built.

The Group's subsidiary, Quesco Systems Limited ("Quesco"), capitalising on the strength of its capabilities in selecting and providing top quality information technology ("IT") professionals for private and public sectors' project assignments, has started to expand its operations in the region to offer executive search services to its clients. It has appointed Mr. Kieran O' Mullan as the Senior Manager of the Executive Search Division. Prior to

Chairman's Statement (Con't)

joining Quesco, Mr. Kieran O' Mullan was a Management Consultant with TMP Worldwide eResourcing based in Hong Kong providing IT executive search service to the Investment Banking sector. He specialises in the recruitment of IT professionals ranging from the Board to programmer and analyst level.

During the Period, Quesco undertook a system integration project for Goldjoy Shopping Paradise. Engaged as the prime systems integrator, Quesco has been assisting 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 in the second quarter of 2003. For the past few months, Quesco has been going through a tendering process for a sizeable government IT application development project. Quesco was shortlisted for a tender demonstration during the Period, the result of which is expected to be announced in the next quarter.

The Group's PRC business arm, 上海阿艾依智控系統有限公司 (ITE (China) Limited), has commissioned the first Shanghai Public Traffic Card based access control and parking system for the newly developed real estate, Modern Time City Phase I. This system, provides real estates with higher security and access control through the application of Shanghai Public Traffic Card (SPTCC), is the first system of this kind ever implemented in the PRC. ITE (China) Limited continues to build up SPTCC based smartcard system for the Phase II of Modern Time City. The user card will also be used in the clubhouse and the car park of Phase II, which is expected to be in use in the third quarter of 2003.

Being a responsible and caring corporate citizen, the Group has been actively involved in serving the community. ITE Smartcard Solutions Limited successfully sponsored Trailwalker 2002 through the provision of an ISO15693 RFID Smartlabel Tracking System and related project management and training services. The system supported the identification and tracking of more than 4,000 Trailwalkers wearing a smartlabel wristband. On 5 December 2002, the Hong Kong Council of Social Service presented ITE with the Caring Company Award for its good corporate citizenship. The goal of the Caring Company Scheme is to "build a caring community spirit through cultivating corporate citizenship and strategic partnership between the business and social service sectors".

With the accreditation of ISO9001:2000 Certificates, the Group's subsidiaries, ITE Smartcard Solutions Limited and ITE Engineering Limited, continue to carry out process and control according to the ISO9001:2000 Quality Assurance System to maintain professional management and quality assurance.

Chairman's Statement (Con't)

Financial Performance

For the Period, the Group recorded a total revenue of approximately HK\$63,105,000, representing an increase of 72% over the same period in 2001. Loss attributable to the shareholders for the nine months ended 31 December 2002 was approximately HK\$10,983,000 as compared to a profit of approximately HK\$7,116,000 for the corresponding period in 2001.

Due to the slowdown in the economy, private sectors' demand on sophisticated multi-applications smartcard solutions remained low for the Period. Despite the difficult market environment, the Group has continued its quick expansion into other regional markets, developing new business and revenue streams. The Group continues to execute its strategy targeting for sizeable government IT projects with longer duration time while marketing smaller projects for the commercial sectors. The Group will also work on cutting overheads and consolidating slow moving business activities.

I would also like to take this opportunity to express my thanking to directors, management and staff for their dedication and hard work, and shareholders, financiers and business partners for their continued support.

By order of the Board

Lau Hon Kwong, Vincent

Chairman

Hong Kong, 7 February 2003

Quarterly Results

Condensed Consolidated Profit and Loss Account

	Notes	Three Months ended		Nine Months ended	
		31 December		31 December	
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	2	17,565	11,045	63,105	36,712
Cost of services rendered		(19,257)	(4,179)	(59,377)	(14,708)
Cost of goods sold		(120)	(384)	(453)	(384)
		<u>(1,812)</u>	<u>6,482</u>	<u>3,275</u>	<u>21,620</u>
Other revenue		261	147	317	686
Other net (loss)/gain		27	17	(6)	20
Staff costs		(1,644)	(3,599)	(5,668)	(8,895)
Depreciation and amortisation		(666)	(374)	(2,037)	(889)
Other operating expenses		(1,450)	(1,612)	(6,900)	(4,100)
		<u>(5,284)</u>	<u>1,061</u>	<u>(11,019)</u>	<u>8,442</u>
(Loss)/Profit from operations					
Finance costs		(182)	(20)	(412)	(26)
		<u>(5,466)</u>	<u>1,041</u>	<u>(11,431)</u>	<u>8,416</u>
(Loss)/Profit from ordinary activities before taxation					
Taxation	3	448	(170)	448	(1,300)
		<u>(5,018)</u>	<u>871</u>	<u>(10,983)</u>	<u>7,116</u>
(Loss)/Profit attributable to shareholders					
Dividends attributable to shareholders					
Interim dividend declared and paid	4	–	–	–	2,724
		<u>–</u>	<u>–</u>	<u>–</u>	<u>2,724</u>
(Loss)/Earnings per share	5				
Basic		(0.55 cents)	0.10 cents	(1.21 cents)	0.79 cents
Diluted		(0.55 cents)	0.09 cents	(1.18 cents)	0.74 cents

Quarterly Results (Con't)

Notes:

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 March 2002. The accounts have been prepared under the historical cost convention as modified for the revaluation of certain short term investments.

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.

3. Taxation

No provision for Hong Kong profits tax has been made for the nine months ended 31 December 2002 as the Group did not generate any assessable profit arising in Hong Kong during the Period. The taxation in the accounts represents the adjustment on over-provision of taxation in last year. For the nine months ended 31 December 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 accounts as the Group has no assessable profits arising in PRC for the nine months ended 31 December 2002 and the corresponding period in 2001.

4. Dividends

The Directors do not recommend the payment of interim dividend for the three months and nine months ended 31 December 2002 (three months and nine months ended 31 December 2001: HK0.30 cent per share).

5. (Loss)/Earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic loss (2001: earnings) per share for the Period is based on the loss attributable to shareholders of approximately HK\$10,983,000 (nine months ended 31 December 2001: profit approximately HK\$7,116,000) and the weighted average of 907,832,073 ordinary shares (nine months ended 31 December 2001: 902,136,800 shares after adjusting for the bonus issue in 2002) in issue during the respective periods.

(b) Diluted (loss)/earnings per share

The calculation of diluted loss (2001: earnings) per share for the Period is based on the loss attributable to shareholders of approximately HK\$10,983,000 (nine months ended 31 December 2001: profit approximately HK\$7,116,000) and the weighted average of 930,647,499 ordinary shares (nine months ended 31 December 2001: 962,978,333 share after adjusting for the bonus issue in 2002) after adjusting for the effects of all dilutive potential ordinary shares.

Quarterly Results (Con't)

6. Movement of reserves

	Share premium HK\$'000	Retained earnings HK\$'000	Merger reserve HK\$'000	Total HK\$'000
At 1 April 2001	26,509	11,590	10,749	48,848
Bonus issue	(4,490)	–	–	(4,490)
Share options exercised	838	–	–	838
Profit for the period	–	7,116	–	7,116
Interim dividend	–	(2,724)	–	(2,724)
	<u>22,857</u>	<u>15,982</u>	<u>10,749</u>	<u>49,588</u>
At 31 December 2001	22,857	15,982	10,749	49,588
At 1 April 2002	22,857	13,700	10,749	47,306
Share repurchase	(41)	–	–	(41)
Loss for the Period	–	(10,983)	–	(10,983)
	<u>22,816</u>	<u>2,717</u>	<u>10,749</u>	<u>36,282</u>
At 31 December 2002	22,816	2,717	10,749	36,282

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 December 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	54.76%
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 December 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:

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

Note: As at 31 December 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 54.76% interest, in the Company.

As at 31 December 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 acquired on exercise of options during the Period	Price per share to be paid on exercise of options	Market value per share at date of grant of options	Market value per share on exercise of options
Lau Hon Kwong, Vincent	6,109,440	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–
George Roger Manho	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–
Cheng Kwok Hung	4,000,000	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–
Liu Hoi Wah	19,112,640	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–
Lee Peng Fei, Allen	1,760,000	12 February 2001	21 August 2001 to 11 February 2011	Nil	HK\$0.095	HK\$0.375	–

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

The Company adopted a pre-IPO share option scheme (the “Pre-IPO Scheme”) and post-IPO share option scheme (the “Post-IPO Scheme”) on 12 February 2001. The summary of the principal terms of the Pre-IPO Scheme and the Post-IPO Scheme is set out in Appendix V to the Prospectus under the section headed “Share Option Scheme”.

(a) Pre-IPO Scheme

As at 31 December 2002, options comprising an aggregate of 70,140,000 underlying shares to subscribe for shares in the Company at an exercise price of HK\$0.095 for each share (granted on 12 February 2002 under the Pre-IPO Scheme) were outstanding. Details of outstanding 34,982,080 pre-IPO share options granted to the Directors are set out in the previous section headed “Directors’ interests in shares” in this report. The remaining options were all granted to employees. No options have been exercised or lapsed during the Period.

(b) Post-IPO Scheme

As at 31 December 2002, options granted under the Post-IPO Scheme comprising an aggregate of 16,340,000 underlying shares to subscribe for shares in the Company at a range of exercise price between HK\$0.195 to HK\$0.455 for each share were outstanding. The post-IPO share options were all granted to employees of the Company. The Post-IPO Scheme was terminated on 8 August 2002 and replaced by the 2002 Share Option Scheme.

Details of the outstanding post-IPO share options during the Period are as follows:

Dated granted	Outstanding as at 1 April 2002	Exercised during the Period	Lapsed during the Period	Outstanding as at 31 December 2002
10 April 2001	7,856,000	–	1,952,000	5,904,000
11 October 2001	9,652,000	–	1,216,000	8,436,000
28 December 2001	2,000,000	–	–	2,000,000
	<u>19,508,000</u>	<u>–</u>	<u>3,168,000</u>	<u>16,340,000</u>

Share Option Scheme (Con't)

(c) 2002 Share Option Scheme

On 8 August 2002, the Company adopted the 2002 Share Option Scheme under which the Board may at its discretion offer to any Eligible Person (as defined in the circular of the Company dated 19 June 2002) options to subscribe for shares in the Company in accordance with the terms of the 2002 Share Option Scheme and Chapter 23 of the GEM Listing Rules. The principal purposes of the 2002 Share Option Scheme are to recognise the significant contributions of the Eligible Persons to the growth of the Group. The Pre-IPO Scheme and Post-IPO Scheme were simultaneously terminated but the options which have been granted during the life of the said options schemes shall continue to be exercisable in accordance with their respective terms of issue and in all other respects the provisions of the said option schemes shall remain in full force and effect.

On 9 August 2002, a total number of 9,900,000 share options were granted under the 2002 Share Option Scheme with an exercise price of HK\$0.175 per share. Out of this options granted, 6,400,000 options were granted with exercisable period from 9 February 2003 to 8 August 2012 and the rest were granted with exercisable period from 9 August 2003 to 8 August 2012.

Purchase, Sale and Redemption of Shares

On 25 September 2002, the Company repurchased on 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 cancelled shortly after repurchase 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 Period.

Competing Interests

As at 31 December 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.

Board Practices and Procedures

During the Period, the Company complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures.

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 31 December 2002.

By order of the Board
Lau Hon Kwong, Vincent
Chairman

Hong Kong, 7 February 2003