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BROADENGATE SYSTEMS INC
Form 10QSB
December 18, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 1-12293

BROADENGATE SYSTEMS, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

87-0394313

(State or Other Jurisdiction
of Incorporation or Organization)

(I.R.S. Employer Identification No.)

3/F, Block 2, Cyber City, South Hi-tech Industrial Park,
Shenzhen, Guangdong Province

(Address of Principal Executive Offices) (Zip Code)

011-86-755-2671-6656

(Issuer's Telephone Number, including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed
Since Last Report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

As of December 9, 2002, 14,393,000 shares of our common stock, \$.001 par value were outstanding. As of such date, the aggregate market value of the common stock held by non-affiliates, based on the closing bid price on the NASD Bulletin Board, was approximately \$1,439,300.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BROADENGATE SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2001 AND 2002 (Unaudited)

| | 2001 | 2002 | 2002 |
|---------------|-------------|-------------|------------|
| | Rmb | Rmb | US\$ |
| REVENUE | 2,981,249 | 5,990,750 | \$ 721,777 |
| COST OF SALES | (2,075,994) | (4,315,685) | (519,962) |
| | | | |

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| | | | |
|-------------------------------------|-------------|-------------|-------------|
| GROSS PROFIT | 905,255 | 1,675,065 | 201,815 |
| SELLING AND ADMINISTRATIVE EXPENSES | (2,080,698) | (1,948,544) | (234,764) |
| LOSS FROM OPERATIONS | (1,175,443) | (273,479) | (32,949) |
| OTHER INCOME (EXPENSE) | | | |
| INTEREST EXPENSE | (291,629) | (319,962) | (38,550) |
| OTHER INCOME, NET | (2,871) | 448,176 | 53,997 |
| TOTAL OTHER INCOME (EXPENSE), NET | (294,500) | 128,214 | 15,447 |
| LOSS BEFORE TAXES | (1,469,943) | (145,265) | (17,502) |
| INCOME TAXES | - | - | - |
| LOSS BEFORE MINORITY INTEREST | (1,469,943) | (145,265) | (17,502) |
| MINORITY INTEREST IN LOSS | 110,151 | - | - |
| NET LOSS | (1,359,792) | (145,265) | \$ (17,502) |
| LOSS PER SHARE | (0.11) | (0.01) | \$ (0.001) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 12,920,000 | 14,393,000 | 14,393,000 |

The accompanying notes are an integral part of the consolidated financial statements.

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BROADENGATE SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2002
(Unaudited)

| | 2001 | 2002 | 2002 |
|-------------------------------------|-------------|-------------|--------------|
| | Rmb | Rmb | US\$ |
| REVENUE | 8,326,722 | 12,161,167 | \$ 1,465,201 |
| COST OF SALES | (6,067,244) | (9,247,687) | (1,114,179) |
| GROSS PROFIT | 2,259,478 | 2,913,480 | 351,022 |
| SELLING AND ADMINISTRATIVE EXPENSES | (6,479,758) | (8,319,546) | (1,002,355) |
| LOSS FROM OPERATIONS | (4,220,280) | (5,406,066) | (651,333) |
| OTHER INCOME (EXPENSE) | | | |
| INTEREST EXPENSE | (812,149) | (867,878) | (104,564) |
| DIVIDEND INCOME | - | 493,753 | 59,488 |

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| | | | |
|-------------------------------------|-------------|-------------|--------------|
| OTHER INCOME, NET | 1,107,657 | 478,566 | 57,659 |
| | ----- | ----- | ----- |
| TOTAL OTHER INCOME, NET | 295,508 | 104,441 | 12,583 |
| | ----- | ----- | ----- |
| LOSS BEFORE TAXES | (3,924,772) | (5,301,625) | (638,750) |
| | ----- | ----- | ----- |
| INCOME TAXES | - | - | - |
| | ----- | ----- | ----- |
| LOSS BEFORE MINORITY INTEREST | (3,924,772) | (5,301,625) | (638,750) |
| MINORITY INTEREST IN LOSS | 64,432 | - | - |
| | ----- | ----- | ----- |
| NET LOSS | (3,860,340) | (5,301,625) | \$ (638,750) |
| | ===== | ===== | ===== |
| LOSS PER SHARE | (0.30) | (0.37) | \$ (0.04) |
| | ===== | ===== | ===== |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | |
| | 12,920,000 | 14,393,000 | 14,393,000 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of the consolidated financial statements.

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BROADENGATE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

NINE MONTHS ENDED SEPTEMBER 30, 2002

(Unaudited)

| | Common stock | | Additional paid-in capital | Subscription receivable | Retained Earning (Accumulated Deficit) | Reser funds |
|--|--------------|---------|----------------------------------|----------------------------|---|----------------|
| | No. of share | Rmb | Rmb | Rmb | Rmb | Rmb |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at January 1, 2002 | 14,393,000 | 119,462 | 57,969,605 | (767,411) | (70,116,410) | 347,1 |
| Net loss | - | - | - | - | (5,301,625) | |
| Proceeds from subscription receivable | - | - | - | 767,411 | - | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at Sep. 30, 2002 | 14,393,000 | 119,462 | 57,969,605 | - | (75,418,035) | 347,1 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of the consolidated financial statements.

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BROADENGATE SYSTEMS, INC. AND SUBSIDIARIES

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CONDENSED CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2002 AND DECEMBER 31, 2001 (Unaudited)

| | 2001 Rmb | 2002 Rmb | 2002 US\$ |
|--|---------------------|---------------------|--------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | 7,995,053 | 797,097 | \$ 96,036 |
| Accounts receivable | 3,192,662 | 4,988,672 | 601,045 |
| Deposits and other | 555,987 | 380,407 | 45,832 |
| Advances to employees | 389,008 | 406,761 | 49,007 |
| Costs & estimated earnings in excess Of billings on uncompleted contracts | - | 51,526 | 6,208 |
| | ----- | ----- | ----- |
| TOTAL CURRENT ASSETS | 12,132,710 | 6,624,463 | 798,128 |
| | ----- | ----- | ----- |
| NONCURRENT ASSETS | | | |
| Long-term investment | 2,800,000 | 2,800,000 | 337,349 |
| Fixed assets | 2,432,328 | 1,832,816 | 220,821 |
| Advances to employees | 326,000 | 356,185 | 42,914 |
| Intangibles | 1,508,106 | 1,102,944 | 132,885 |
| | ----- | ----- | ----- |
| TOTAL NONCURRENT ASSETS | 7,066,434 | 6,091,945 | 733,969 |
| | ----- | ----- | ----- |
| TOTAL ASSETS | 19,199,144 | 12,716,408 | \$1,532,097 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Short-term borrowings-bank | 24,000,000 | 18,000,000 | \$2,168,675 |
| Accounts payable | - | 18,706 | 2,254 |
| Accrued expenses | | | |
| Salaries, wages and other compensation | 337,048 | 1,990,116 | 239,773 |
| Employee fringe benefits | 1,539,271 | 1,686,766 | 203,225 |
| Taxes | 17,458 | 226,654 | 27,308 |
| Other | 1,183,523 | 1,483,380 | 178,720 |
| Customer deposits | 15,000 | 71,868 | 8,659 |
| Due to directors | 4,163,531 | 3,757,230 | 452,678 |
| Due to related parties | 390,919 | 572,897 | 69,024 |
| Due to employees | - | 92,200 | 11,108 |
| Billings in excess of costs & estimated earnings on uncompleted contracts | - | 1,798,411 | 216,676 |
| | ----- | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 31,646,750 | 29,698,228 | 3,578,100 |
| | ----- | ----- | ----- |
| MINORITY INTEREST | - | - | - |
| | ----- | ----- | ----- |
| SHAREHOLDERS' EQUITY (DEFICIT) | | | |
| Common stock, par value US\$0.001; issued and outstanding-14,393,000 shares as of December 31, 2001 and March 31, 2002 | 119,462 | 119,462 | 14,393 |
| Additional paid-in capital | 57,969,605 | 57,969,605 | 6,984,290 |
| Subscription receivable | (767,411) | - | - |
| Reserve funds | 347,148 | 347,148 | 41,825 |
| Accumulated deficit | (70,116,410) | (75,418,035) | (9,086,511) |
| | ----- | ----- | ----- |
| TOTAL SHAREHOLDERS' DEFICIT | (12,447,606) | (16,981,820) | (2,046,003) |

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| | | | |
|--|------------|------------|-------------|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 19,199,144 | 12,716,408 | \$1,532,097 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of the consolidated financial statements.

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BROADENGATE SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2002
(Unaudited)

| | 2001 Rmb | 2002 Rmb | 2002 US\$ |
|---|-------------|-------------|--------------|
| | ----- | ----- | ----- |
| Cash Flows from Operating Activities | | | |
| Net loss | (3,860,340) | (5,301,625) | \$ (638,750) |
| | ----- | ----- | ----- |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation | 490,063 | 650,512 | 78,375 |
| Loss on disposal of fixed assets | - | 49,350 | 5,946 |
| Amortization of product development costs | 441,960 | - | - |
| Amortization of Intangible assets | - | 405,162 | 48,815 |
| Provision for losses on receivables | | | |
| - Customers | - | 2,534,672 | 305,382 |
| Minority interest | (64,432) | - | - |
| (Increase) decrease in | | | |
| Accounts receivable | (3,463,160) | (4,519,082) | (544,468) |
| Deposits and other | 261,147 | 5,580 | 672 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 207,944 | (51,526) | (6,208) |
| Others | 265,068 | - | - |
| Increase (decrease) in | | | |
| Accounts payable and accrued expenses | (465,284) | 2,328,322 | 280,521 |
| Customer deposits | 2,092,989 | 56,868 | 6,852 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 554,562 | 1,798,411 | 216,676 |
| | ----- | ----- | ----- |
| Total Adjustments | 320,857 | 3,258,269 | 392,563 |
| | ----- | ----- | ----- |
| Net Cash Used in Operating Activities | (3,539,483) | (2,043,356) | (246,187) |
| | ----- | ----- | ----- |
| Cash Flows from Investing Activities | | | |
| Capital expenditures | (6,104) | (28,250) | (3,404) |
| Cash received from disposal of fixed assets | - | 97,900 | 11,795 |
| Capitalized expenditures for product development costs | (393,121) | - | - |
| Advance to employees | - | (47,938) | (5,775) |

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| | | | |
|---|-------------|-------------|-----------|
| Net Cash (Used in) provided by | | | |
| Investing Activity | (399,225) | 21,712 | 2,616 |
| Cash Flows from Financing Activities | | | |
| Net change of short-term borrowing - bank | - | (6,000,000) | (722,892) |
| Net borrowings from related parties | 481,550 | 181,978 | 21,925 |
| Net borrowings from (Repayments to) Directors | 1,718,020 | (217,901) | (26,253) |
| Net borrowings from employees | - | 92,200 | 11,108 |
| Proceeds from subscription receivable | - | 767,411 | 92,459 |
| Net Cash Provided by (Used in) financing Activities | 2,199,570 | (5,176,312) | (623,653) |
| Net Decrease in Cash | (1,739,138) | (7,197,956) | (867,224) |
| Cash, Beginning of Period | 3,221,718 | 7,995,053 | 963,260 |
| Cash, End of Period | 1,482,580 | 797,097 | \$ 96,036 |

The accompanying notes are an integral part of the consolidated financial statements.

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BROADENGATE SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The Company believes that the interim financial statements contain all adjustments necessary for a fair presentation of the results for such interim periods. All of these adjustments are normal recurring adjustments. The results of operations for interim periods do not necessarily predict the operating results for the full year. The consolidated balance sheet as of December 31, 2001 has been derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles as permitted by interim reporting requirements. The information included in this report should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, the audited financial statements and related notes included in the Company's 2001 Form 10-KSB.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2001.

NOTE 2 - ACQUISITIONS

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On March 31, 2000, Natural Way Technologies, Inc. (Natural Way) entered into an Exchange agreement (the Exchange) with World Concept Development Limited (World), an independent third party. In accordance with the Exchange, Natural Way acquired 100% of the issued and outstanding shares of World in exchange for 9,300,000 post reverse split shares of Natural Way. Prior to closing, Natural Way effected a one for five reverse stock split and changed the name of the Company to ESFTBANK.COM, INC. In 2001, the Company changed its name to Broadengate Systems, Inc.

The Exchange has been accounted for using the purchase method of accounting as a reverse acquisition, whereby the company issuing its shares to effect the business combination is determined to be the acquirer in the business combination. This occurs when the shareholders of the issuer have less than a majority of voting control of the combined entity. The company whose shareholders retain the majority voting interest in the combined entity is presumed the acquirer. In the current Exchange, the existing shareholders of Natural Way will retain a 27% voting interest in the combined entity on completion of the Exchange. Accordingly, World is deemed to be the acquirer and the assets of Natural Way were required to be fair valued at acquisition. As Natural Way had no assets, as of the date of the Exchange, no fair value adjustment was required. The historical financial information prior to the Exchange are those of World.

World, a development stage enterprise, was incorporated on October 27, 1999, in the British Virgin Islands. World incorporated its wholly owned subsidiary ESFTBANK Networks (Shenzhen) Co. Ltd. (Shenzhen) on December 30, 1999, in the Peoples' Republic of China (PRC). World and Shenzhen were incorporated to effect a merger, exchange of capital stock, asset acquisition or other business combination with a domestic or foreign, private or publicly held business.

On February 21, 2000, World via Shenzhen, acquired 9.52% of the outstanding capital of SiTech, a company related through common ownership and management from Dr. Hongbing Lan, a director and stockholder of both World and SiTech for approximately \$62,650. On the same date, Shenzhen acquired an additional 42.86% of SiTech from SiTech Hainan Holding Co., Ltd. (Holdings), a company related through common ownership and management, for approximately \$280,000. Since both entities involved in the acquisition were under common control, the transaction was accounted for at historical cost in a manner similar to that in pooling-of-interests accounting. The cash consideration paid in these transactions was classified as a deemed dividend in the amount of Rmb 2,840,000. The consolidated financial statements include the results of operations for World and its subsidiaries from their inception.

On February 21, 2000, Shenzhen also acquired 80% of the newly issued and outstanding stock of Beijing, a PRC company, from Holdings for an initial capital investment of approximately \$116,000. The remaining 20% of Beijing is owned by Mr. Lan Hong Yu, the brother of Dr. Hongbing Lan.

During August of 2000, Shenzhen acquired a 2.67% interest for Rmb 2,800,000 in Xiangyou, a newly formed entity, whose primary stockholder and initiator is the Hunan Post Office (governmental agency). The new entity's development projects are to include: a postage computing system, telecommunication technology development, a postage machinery manufacturing line and other various technology related systems. The acquisition will be accounted for at the lower of cost or net realizable value.

On October 14, 2001, Shenzhen acquired 70% of the outstanding capital of Dalian, an unrelated PRC company, in exchange for 307,000 shares of the Company valued at \$.55 per share or approximately \$168,675. Dalian is a software company in Northeastern China focusing on project management software and system integration. This acquisition was accounted for as a purchase in accordance with

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the SFAS No. 141, "Business Combinations."

NOTE 3 - SHORT-TERM BORROWINGS-BANK

On May 29, 2000 the Company entered into a one-year credit facility with Shenzhen Commercial Bank for RMB 16 million at 5.3125%. The credit facility is secured by shares in the Company owned by Dr. Lan, director and shareholder of the Company.

On August 25, 2001, the one-year credit facility was extended to August 25, 2002 at 5.3125%. On September 28, 2002, it was extended to September 28, 2003 at 4.8675%

On May 13, 2002, the Company entered into another six-month credit facility with the same bank mentioned above for RMB 1.6 million at 5.544%. The credit facility is secured by Dr. Lan individually. During the third quarter of 2002, it was repaid by RMB 0.6 million.

On September 5, 2002 another new credit facility was obtained from this bank, which principal was RMB 0.8 million, with a term of six months and at the rate of 4.62%.

NOTE 4 - FOREIGN CURRENCY CONVERSION

The Company's financial information is presented in U.S. dollars. Reminbi, the functional currency of the Company, has been converted into U.S. dollars at the exchange rate of 8.3 to 1.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

BroadenGate Systems, Inc. is a software outsourcing service provider operating in the People's Republic of China. The Company develops comprehensive outsourcing solutions for systems development and implementation projects and provides consulting services in the telecom, network security, e-Business, ERP, CRM EGIS sectors.

We believe that we are well positioned for growth in the developing information technology ("IT") industry in the PRC and internationally. With the PRC joining the WTO and the Beijing's 2008 Olympics Management believes that the IT outsourcing demand should increase during the next several years.

Since its inception in 1996, the company has grown with the Chinese domestic IT industry. BroadenGate is now leveraging its domestic expertise to enter the global outsourcing market, and to co-op with leading multinational software vendors in the Chinese market, such as Oracle and IBM. Building on the synergy between the Chinese and global markets, BroadenGate hopes to continue to increase its market share at home and win higher-margined contracts abroad.

Recent Developments

The Company continues to increase its business base by forming close partnerships with some of the leading telecom companies in the PRC, including Huawei Technology, which is among the largest manufacturers of telecommunications equipment in Asia. Our revenues are based on the following three project management centers (PMC).

1. Telecommunication & Internet Center: We have over 180 engineers currently working in this PMC, and have in the aggregate, approximately 30 million in RMB

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is either under contract, being negotiated, or in process with Huawei. We are also negotiating with AsiaInfo, a company which is among the largest telecom services and systems integration vendors in China. We have reached an agreement of cooperation with the China Policy Security Bureau, to use our solutions in Internet access, network management and security, which should produce significant marketing potential in China. 2. Development & International Center: We have successfully finished a COBOL software development contract in Dalian with SCM a subsidiary of Mitsubishi Corporation. Now, we are negotiating with NEC China and Simens China for more contracts from Japan. 3. Project Management Software & System Integration Center: both our project management products, OnTeam, TZ-Project, have competitive advantages in many fields in China, such as civil engineering and software industry.

During the third quarter of this year, one of the Company's subsidiaries that is situated in Beijing entered into a series of outsourcing or producing contracts with several well known corporations, such as WorldCom, Fangzhengaode, Xingli duo, Zhongtaishuju and Saier.

Besides outsourcing services, we also develop software with ownership of intellectual rights, such as BroadenGate Network Auditing System. We anticipate it will increase our revenues and lower our operating risk.

We will continue focus on the Chinese and Japanese markets principally the telecom industry. However, if the Company is to be a dominant player in the industry, it is critical to establish a physical presence in the US.

RESULTS OF OPERATIONS

Three months ended September 30, 2002 compared to three months ended September 30, 2001

Revenues. Revenues increased by \$362,590 or 101% to \$721,777 for the three months ended September 30, 2002 from \$359,187 for the period ended September 30, 2001. This increase in revenue resulted primarily from software outsourcing.

Cost of Sales. Cost of sales increased by \$269,842 or 108% to \$519,962 for the three months ended September 30, 2002 from \$250,120 for the period ended September 30, 2001. Cost of sales as a percent of revenue was 72% for the three months ended September 30, 2002 compared to 70% for the period ended September 30, 2001. This increase in cost of sales resulted from increased revenues and a change in the mix of products sold. The increase in cost of sales as a percentage of revenue is attributable to an increased percentage of sales from human resource outsourcing which has a lower profit margin than software development.

Selling and Administrative Expenses. Selling and administrative expenses ("SGA") decreased by \$15,923 or 7% to \$234,764 for the three months ended September 30, 2002 from \$250,687 for the period ended September 30, 2001. This decrease resulted from stricter control over expenditures.

Other income, Net. Other income (expenses), net consists of interest income and expense, bank charges, recovery of prior expense foreign exchange gains or losses, other miscellaneous income, and investment income. Other income, net totaled \$15,447 for the three months ended September 30, 2002, compared to other expenses, net totaling \$35,482 for the period ended September 30, 2001. This increase in other income, net resulted principally from a subsidy of loan interest from the local government.

Income Taxes. No income tax was provided for either the three months ended September 30, 2002 and 2001 because of operating loss in both periods.

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Minority Interest. Minority interest represents the 20% interest in eSoftBank (Beijing) Software Systems Co. Ltd., the 47.6% of SiTech Hainan Ltd. and 30% of Tongzhou (Dalian) Computer Co., Ltd., not owned by the Company. The minority interest has not been included in 2002 as the accumulated losses attributable to the minority interest exceeded the cost of the investment.

As a result of the foregoing, the net loss decreased by \$146,328 or 89% to \$17,502 for the three months ended September 30, 2002 from \$163,830 for the period ended September 30, 2001.

Nine months ended September 30, 2002 compared to nine months ended September 30, 2001

Revenues. Revenues increased by \$461,981 or 46 % to \$1,465,201 for the nine months ended September 30, 2002 from \$1,003,220 for the period ended September 30, 2001. This increase in revenues resulted from increases in software outsourcing.

Cost of Sales. Cost of sales increased by \$383,185 or 52% to \$1,114,179 for the nine months ended September 30, 2002 from \$730,994 for the period ended September 30, 2001. Cost of sales as a percent of revenues was 76% for the nine months ended September 30, 2002 compared to 73% for the period ended September 30, 2001. This increase in cost of sales resulted from increased revenues and a change in the mix of products sold. The decrease in cost of sales as a percentage of revenue was attributable to stricter control over costs.

Selling and Administrative Expenses. Selling and administrative expenses ("SGA") increased by \$221,661 or 28% to \$1,002,355 for the nine months ended September 30, 2002 from \$780,694 for the period ended September 30, 2001. This increase in selling and administrative expenses generally resulted from increased marketing expenses, training expenses for additional staff during the second quarter and the write-off of a receivable totaling \$285,735.

Other income, Net. Other income (expenses), net consists of interest income and expense, bank charges, recovery of prior expenses, foreign exchange gains or losses, other miscellaneous income, and investment income. Other income, net totaled \$12,583 for the nine months ended September 30, 2002, compared to other income, net totaled \$35,603 for the same period ended September 30, 2001. The other income, net in 2001 generally represented the reversal of an overaccrual of salary, while the amount in 2002 primarily represented the subsidy on loan interest from the local government. The total amount of investment income was \$59,488 for the nine months of 2002, compared to zero for the corresponding period in 2001. The increase resulted from the cash dividend distributed by Xiangyou. Bank interest increased by \$6,715 to \$104,564 for the nine months ended September 30, 2002 from \$97,849 for the period ended September 30, 2001, mainly because of increased credit facilities obtained in May and September, 2002.

Minority Interest. Minority interest represents the 20% interest in eSoftBank (Beijing) Software Systems Co. Ltd., the 47.6% of SiTech Hainan Ltd. and 30% of Tongzhou (Dalian) Computer Co., Ltd., not owned by the Company. The minority interest has not been included in 2002 as the accumulated losses attributable to the minority interest exceeded the cost of the investment.

As a result of the foregoing, the net loss increased by \$173,649 or 37% to \$638,750 for the nine months ended September 30, 2002 from \$465,101 for the period ended September 30, 2001.

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Liquidity and Capital Resources

As of September 30, 2002, we had cash of \$96,036 and a deficit in working capital of \$2,779,972, compared with cash of \$963,260 and negative working capital of \$2,351,089 as of September 30, 2001.

Net cash used in operating activities totaled \$246,187 for the nine months ended September 30, 2002, compared with net cash used in operations of \$426,444 for the period ended September 30, 2001. The change in cash flows from operating activities resulted from an increased net operating loss, and increased provisions for bad debts which was partially offset by other changes in the current accounts.

Net cash provided by investing activities totaled \$2,616 for the nine months ended September 30, 2002, compared with cash used in investing activities of \$48,099 for the period ended September 30, 2001. This change mainly resulted primarily from there being no capitalized expenditures during the current period.

Net cash used in financing activities totaled \$623,653 for the nine months ended September 30, 2002, compared with cash provided by financing activities of \$265,008 for the period ended September 30, 2001. The net change is attributable to a decrease in borrowings which was partially offset by sales of shares.

As of September 30, 2002, we have no plans for any future major capital expenditures.

Based on the current level of cash, the deficit in working capital and current level of expenditures in our business, it will be necessary to seek additional sources of funding over the next twelve months. In addition to negotiating with its banks for more project finance to fund operations for the current year, management is enhancing its efforts on recovering outstanding bills. However, without outside financing or the sale of stock the Company has insufficient resources to continue its business operation for the next twelve months. No assurance can be given that the Company will be able to obtain any financing or sell any of its shares.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 2. Changes in Securities and Use of Proceeds.

None

Item 3. We have nothing to report under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Within the 90 days period prior to the filing of this report, an evaluation was carried out under the supervision of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective and timely, providing them with material information required to be disclosed in the reports filed or submitted under the Securities Exchange Act.

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Changes in Internal Controls

Subsequent to the date of their evaluation, there were no significant changes in the Company's internal controls in other factors that could significantly affect the disclosure controls.

Item 5.
None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

None

(b) Reports on Form 8-K

None

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Broadengate Systems, Inc.

By: /s/ Dr. Hongbing Lan

Dr. Hongbing Lan
Chief Executive Officer

By: /s/ Hongyu Lan

Lan Hongyu
Principal Accounting Officer

Dated: December 17, 2002

CERTIFICATION

I, Hongbing Lan, certify that :

1. I have reviewed this quarterly report on Form 10-Q of Broadengate Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, result of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have :
 - a. Designed such disclosure controls and procedures to ensure that material information related to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regards to significant deficiencies and material weaknesses.

Dated : December 17, 2002

By: /s/ Hongbing Lan

Hongbing Lan
Chief Executive Officer

I, Hongyu Lan, certify that :

1. I have reviewed this quarterly report on Form 10-Q of Broadengate Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any

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untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, result of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have :
 - a. Designed such disclosure controls and procedures to ensure that material information related to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - d. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - e. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regards to significant deficiencies and material weaknesses.

Dated : December 17, 2002

By: /s/ Hongyu Lan

Hongyu Lan
Principal Accounting Officer