



Excel Technology International Holdings Limited

(Incorporated in Bermuda with limited liability)



**Third
Quarterly
Report
2002**



Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Excel Technology International Holdings Limited (the “Company”) collectively and individually accept 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 (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: — (1) the information contained in this report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Highlights

- For the nine months ended 30th September, 2002, turnover amounted to HK\$117,285,000, representing a drop of 9% when compared with the same period of last year.
- The turnover for the third quarter of 2002 is HK\$41,497,000 which is 11% lower than that of the second quarter of 2002.
- Loss from operations for the nine months ended 30th September, 2002 was HK\$32,601,000.
- For the third quarter of 2002, the loss from operations was HK\$18,854,000.
- Loss attributable to shareholders for the nine months ended 30th September, 2002 amounted to HK\$34,809,000.
- Excel Hong Kong won contracts to provide InterTrade system to Wing Lung Bank and several other local banks in Hong Kong.
- Excel Force Limited successfully obtained a certification from the Shenzhen Customs Department for its electronic customs declaration software.
- HR21 successfully launched the HR21 ASP service to the customers of Bank Utama in Malaysia.
- Excelink, the Group's Singapore subsidiary, won a contract to provide Unit Trust System to a major local bank in Singapore.

THIRD QUARTERLY RESULTS ENDED 30TH SEPTEMBER, 2002

The Directors of the Company are pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 30th September, 2002 , together with the comparative figures for the corresponding periods in 2001, as follows:

		For the three months ended 30th September		For the nine months ended 30th September	
		2002	2001	2002	2001
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	<u>41,497</u>	<u>48,704</u>	<u>117,285</u>	<u>129,294</u>
(Loss)/profit from operations		(18,854)	(399)	(32,601)	11,278
Finance costs	3	(53)	(1,181)	(3,148)	(3,544)
Diminution in value of investments		(1,003)	(25,462)	(1,003)	(25,462)
Share of profits less losses of associates		<u>859</u>	<u>(505)</u>	<u>2,315</u>	<u>(1,855)</u>
Loss before taxation		(19,051)	(27,547)	(34,437)	(19,583)
Taxation	4	<u>(164)</u>	<u>(61)</u>	<u>(518)</u>	<u>(216)</u>
Loss before minority interests		(19,215)	(27,608)	(34,955)	(19,799)
Minority interests		<u>167</u>	<u>(351)</u>	<u>146</u>	<u>(261)</u>
Loss attributable to shareholders		<u>(19,048)</u>	<u>(27,959)</u>	<u>(34,809)</u>	<u>(20,060)</u>
Loss per share					
Basic and diluted	5	<u>(1.93) cents</u>	<u>(2.66) cents</u>	<u>(3.53) cents</u>	<u>(1.97) cents</u>

Notes:

1. Basis of presentation

The financial information presented has been prepared in accordance with accounting policies which conform with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and the accounting principles generally accepted in Hong Kong and also the disclosure requirements of the GEM Listing Rules of the Exchange as applicable to quarterly reports.

All significant intra-group transactions and balances have been eliminated on consolidation.

2. Turnover

Turnover represents the sale of enterprise software products, provision of customization, consulting & systems integration services, complementary computer hardware and software resale and maintenance services and ASP software subscriptions.

3. Finance costs

	For the three months ended 30th September		For the nine months ended 30th September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans, overdraft & other borrowings repayable within five years	53	0	210	3
Finance costs on convertible note	0	1,181	2,938	3,541
	<u>53</u>	<u>1,181</u>	<u>3,148</u>	<u>3,544</u>

4. Taxation

	For the three months ended 30th September		For the nine months ended 30th September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Company and its Subsidiaries				
— Hong Kong				
Profits Tax	—	—	—	155
— Overseas Tax	—	—	—	—
Share of taxation of an associate	164	61	518	61
	164	61	518	216

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong Profits Tax has been made in the financial statements of the subsidiaries operating in Hong Kong as these subsidiaries incurred taxable losses during the period ended 30th September 2002.

5. Loss per share

The calculation of basic loss per share for the nine months ended 30th September, 2002 is based on the loss attributable to shareholders of approximately HK\$34,809,000 (2001: HK\$20,060,000) and the weighted average number of 985,050,000 shares (2001: 1,017,389,363 shares) in issue during the period.

The calculation of basic loss per share for the three months ended 30th September, 2002 is based on the loss attributable to shareholders of approximately HK\$19,048,000 (2001: HK\$27,959,000) and the weighted average number of 985,050,000 shares (2001: 1,051,601,043 shares) in issue during the period.

Diluted loss per share for the periods ended 30th September, 2002 and 2001 are the same as the basic loss per share because there was no dilutive effect in existence during the respective periods.

RESERVES

Movements in reserves for the periods ended 30th September, 2002 and 2001 were as follows:—

	Share Premium <i>HK\$'000</i>	Retained Profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	185,475	24,747	210,222
Share premium arising on issue of shares	41,980	—	41,980
Share premium utilized on repurchase of shares	(39,720)	—	(39,720)
Loss for the period	—	(20,060)	(20,060)
At 30th September, 2001	<u>187,735</u>	<u>4,687</u>	<u>192,422</u>
At 1st January, 2002	179,650	(60,029)	119,621
Loss for the period	—	(34,809)	(34,809)
At 30th September, 2002	<u>179,650</u>	<u>(94,838)</u>	<u>84,812</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2002 (2001: Nil).

CHAIRMAN'S STATEMENT

I would like to report that the Group achieved a turnover of \$117,285,000 for the nine-month period ended 30th September, 2002, representing 9% lower than the corresponding period in 2001. Turnover for the third quarter of 2002 was affected by the sluggish economy in Hong Kong and longer than expected delay in contract signing by clients, which resulted in an amount of \$41,497,000 (2001: \$48,704,000).

The loss attributable to shareholders for the nine-month period amounted to \$34,809,000 (2001: \$20,060,000), with the loss for the third quarter of 2002 at \$19,048,000 (2001: \$27,959,000).

We expect the fourth quarter to improve with new contracts and a strong pipeline into the next year.

Sales originated from the Chinese Mainland had risen to 35% of the Group's total turnover in the nine-month period ended 30th September, 2002.

The breakdown of the Group's total turnover in the nine-month period is as follows: 31% was software sales and custom development, 49% was complementary hardware and software resale, 11% was consulting and systems integration services, 6% was maintenance services and the remaining being revenue from the ASP business.

The last 18 months witnessed the worst downturn of the IT sector. Despite the poor global economy and Hong Kong depressed environment, the Group made major achievements on geographical expansion into Chinese Mainland, Singapore and Malaysia. The Group made a successful transition from a Hong Kong enterprise software company to a regional financial technology provider. The revenue outside Hong Kong is expected to increase significantly.

The Group now has over 200 staff in Chinese Mainland with offices in Beijing, Shanghai and Shenzhen. The Shanghai office was established through a recent acquisition. We now not only serve multinational financial institutions in Chinese Mainland, but also sold software to major state-owned banks and large local enterprises.

An associate company of the Group, Excel Force Limited, has successfully received a certification from the Shenzhen Customs Department, which permits the official launch and marketing of i-DEC, an ASP service that facilitates electronic submission of customs declaration. The Group provided additional funding to Excelsoft, a majority owned joint venture in Beijing, scaling up the operation to meet increasing business demands. We co-located Excelsolution and the Shenzhen Excel Software Center into a new technology building in Shenzhen to increase the synergy in localization and implementation of our software products in Southern Mainland China.

In Singapore, the Group successfully sold the Excel UTS (Unit Trust System) to one of the largest local banks. The Group's ASP subsidiary HR21 launched ASP service via the second largest bank in Malaysia in September 2002.

BUSINESS OUTLOOK

The Group is now strongly positioned to take advantage of an economic turnaround in the region. Its software development capabilities and the established sales network in Chinese Mainland enable the Group to capture the high growth domestic IT market. Major banks in Singapore and Malaysia are buying or have shown keen interest in the Group's financial software products and the ASP services. Our first-rated software development center, Hong Kong/Shenzhen, provides support to the regional expansion at a cost-effective manner. All these actions are expected to yield long-term benefits to the Company's shareholders.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th September, 2002, the interests of the Directors and chief executive in the share capital of the Company and its associated corporations (as defined under the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance were as follows:

I. Shares in the Company:

Name of Director	Number of ordinary shares held			
	Personal	Family	Corporate	Other
Zee Chan Mei Chu, Peggy	1,228,000	—	571,101,044 *	—
Fung Din Chung, Rickie	24,559,498	—	—	—
Leung Lucy, Michele	—	—	24,559,498 #	—
Ng Wai King, Steve	21,050,998	—	—	—
Ip Kim Kuen	1,403,400	—	—	—
Wong Mee Chun	40,000	382,000	—	—

* These shares were held by Passion Investment (BVI) Limited, a company incorporated in the British Virgin Islands and is wholly-owned by Zee Chan Mei Chu, Peggy.

These shares were held by Mossell Green Limited, a company incorporated in the British Virgin Islands and is wholly-owned by Leung Lucy, Michele.

II. Options to subscribe for shares in the Company:

Pursuant to the share option scheme for employees which was adopted on 16th June, 2000 and amended on 18th April, 2001 (the “Old Scheme”), the Directors may at their discretion grant options to full-time employees and executive directors of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Old Scheme. The maximum number of ordinary shares in respect of which options may be granted under the Old Scheme shall not exceed 30% of the issued share capital of the Company from time to time. At the special general meeting of the Company held on 23rd April, 2002, a new share option scheme (“New Scheme”) was adopted and approved in substitution for the Old Scheme. Upon adoption of the New Scheme, no further options will be granted under the Old Scheme but in all other respects, the provisions of the Old Scheme shall remain in force and all options granted prior thereto shall continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

The following directors were granted share options under the Old Scheme for nominal consideration to subscribe for shares in the Company, details of which are as follows:

Name of Directors	Number of options granted on 1st September, 2000 at exercise price of HK\$0.90 per share	Balance of options as at 30th September, 2002
Fung Din Chung, Rickie	8,000,000	8,000,000
Leung Lucy, Michele	8,000,000	8,000,000
Ng Wai King, Steve	8,000,000	8,000,000
Ip Kim Kuen	8,000,000	8,000,000

The options at the exercise price of HK\$0.90 per share with the option period from 1st September, 2000 to 31st August, 2005 (both dates inclusive) are subject to the following vesting period:—

- (i) 20% of the options commencing on 1st March, 2001;
- (ii) 20% of the options commencing on 1st September, 2001;
- (iii) 15% of the options commencing on 1st March, 2002;
- (iv) 15% of the options commencing on 1st September, 2002;
- (v) 15% of the options commencing on 1st March, 2003; and
- (vi) the remaining 15% of the options commencing on 1st September, 2003.

Save as disclosed above and other than certain nominee shares in subsidiaries held by a director in trust for the Group, as at 30th September, 2002, none of the directors or chief executive or their respective spouses or children under 18 years of age had any right to subscribe for the shares of the Company or its associated corporations.

SUBSTANTIAL SHAREHOLDERS

At 30th September, 2002, the Company has been notified of the following interests in the Company's issued shares amounting to 10% or more of the shares in issue:-

Name of shareholders	No. of shares held	Percentage of total issued shares
Ms. Zee Chan Mei Chu, Peggy (<i>Note 1</i>)	572,329,044	58.10%
Passion Investment (BVI) Limited (<i>Note 1</i>)	571,101,044	57.98%
Cheung Kong (Holdings) Limited (<i>Note 2</i>)	143,233,151	14.54%
Li Ka-Shing Unity Trustee Corporation Limited (<i>Note 2</i>) (as trustee of The Li Ka-Shing Unity Discretionary Trust)	143,233,151	14.54%
Li Ka-Shing Unity Trustee Company Limited (<i>Note 2</i>) (as trustee of The Li Ka-Shing Unity Trust)	143,233,151	14.54%
Li Ka-Shing Unity Holdings Limited (<i>Note 2</i>)	143,233,151	14.54%
Mr. Li Ka Shing (<i>Note 2</i>)	143,233,151	14.54%

Notes:

1. These shares have been disclosed as the corporate interest of the director in the paragraph "Directors' and chief executive's interests in securities".
2. Li Ka-Shing Unity Holdings Limited, of which Mr. Li Ka Shing owns the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited. Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust, together with certain companies which Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited which as trustee of The Li Ka-Shing Unity Discretionary Trust, holds a majority of units in The Li Ka-Shing Unity Trust.

Other than disclosed above, the Company has not been notified of any other interest representing 10% or more of the Company's issued share capital as at 30th September, 2002.

SPONSOR'S INTERESTS

As notified by the Company's retained sponsor, The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), two employees of the corporate finance and advisory department of HSBC (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) who were involved in providing advice to the Company were interested in a total of 18,000 shares of HK\$0.10 each in the issued share capital of the Company as at 30th September, 2002. As at the same date, a non-executive director of HSBC, by virtue of his deemed interests in the share capital of Cheung Kong (Holdings) Limited ("CKH") pursuant to the SDI Ordinance, is deemed to be interested in 143,233,151 shares in the Company held by a CKH's subsidiary.

Pursuant to the sponsor agreement dated 19th June, 2000 ("Sponsor Agreement") entered into between the Company and HSBC Investment Bank Asia Limited ("HIBA") and the novation agreement dated 29th January, 2001 entered into between the Company, HIBA and HSBC, HSBC will receive a fee for acting as the Company's retained sponsor for the period from 30th June, 2000 to 31st December, 2002.

Save as the above, neither HSBC nor any of its directors or employees of corporate finance and advisory department or associates (as referred to in rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company including options or rights to subscribe for such securities as at 30th September, 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the nine months period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Zee Chan Mei Chu, Peggy
Chairman

Hong Kong, 11th November, 2002