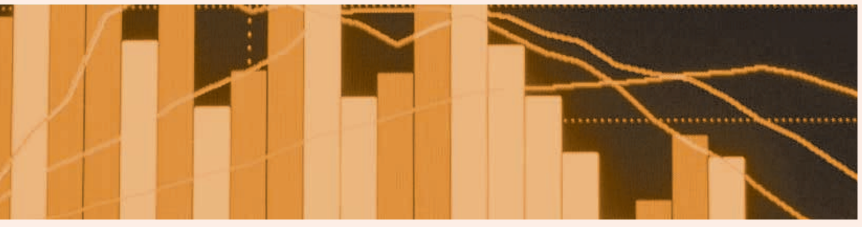
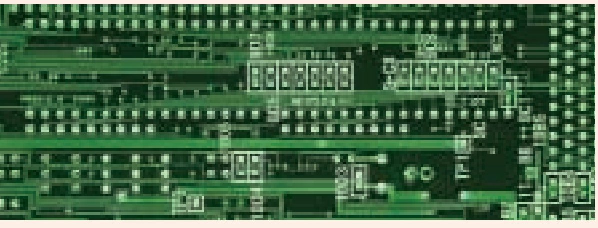
Excel
TECHNOLOGY

Excel Technology International Holdings Limited

(Incorporated in Bermuda with limited liability)



Annual Report 2002



Shenzhen Beijing Hong Kong Shanghai Singapore

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK 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.

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This report, for which the directors (the "Directors") of Excel Technology International Holdings Limited (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 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.

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
ZEE CHAN Mei Chu, Peggy
FUNG Din Chung, Rickie
LEUNG Lucy, Michele
NG Wai King, Steve
IP Kim Kuen

NON-EXECUTIVE DIRECTORS
IP Tak Chuen, Edmond
QUEK Cher Teck

INDEPENDENT NON-EXECUTIVE DIRECTORS
CHEONG Ying Chew, Henry
CHANG Ka Mun
WONG Mee Chun

COMPLIANCE OFFICER
IP Kim Kuen

QUALIFIED ACCOUNTANT
TANG Lai Wah, *BA (Hons), EMBA, FCCA, AHKSA*

COMPANY SECRETARY
TANG Lai Wah, *BA (Hons), EMBA, FCCA, AHKSA*

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IP Kim Kuen

BERMUDA RESIDENT REPRESENTATIVES
COLLIS John Charles Ross
WHALEY Anthony Devon *(Deputy)*

AUDIT COMMITTEE
CHEONG Ying Chew, Henry
CHANG Ka Mun
WONG Mee Chun

SPONSOR *(expired on 31 December 2002)*
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS
KPMG

LEGAL ADVISER
Baker & McKenzie

PRINCIPAL BANKERS
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The Bank of East Asia, Limited

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FINANCIAL HIGHLIGHTS

SUMMARY OF PROFIT AND LOSS
(Expressed in Hong Kong dollars)

	2002 **$'000**	2001 $'000
Turnover	**193,398**	173,111
Loss from operations	**(53,437)**	(15,454)
Loss from ordinary activities before taxation	**(68,919)**	(85,516)
Taxation	**(565)**	(284)
Loss attributable to shareholders	**(68,821)**	(84,776)
Dividends	**—**	—
Basic and diluted loss per share	**(6.99 cents)**	(8.42 cents)

CHAIRMAN'S STATEMENT

EXCEL IN TRANSFORMATION

At the time of listing, the management team set out a vision to transform Excel from a Hong Kong enterprise software company to a regional ***Financial Technology Provider***. We aspired to provide financial institutions with a platform of technology to support their business on a regional basis with common systems and localized features and support services.

In spite of the tough economic environment, this vision had supported us to march through the long recession because we know that the payback will be handsome. We are now able to reach a much larger client base of multinational and regional clients that have multiple operations in the region. Many of them are multinational companies who are entering the China market as a result of WTO as well as Chinese companies who are looking to improve their systems to counter foreign competition.

Today we are a regional company with offices in Hong Kong, Beijing, Shanghai, Shenzhen, and Singapore. We are providing our clients with a comprehensive suite of Excel enterprise software products, centrally developed in our software centers in Hong Kong and Shenzhen, and implemented by our local teams. The investments in geographic expansion and product localization have largely been completed. All the offices now have local management in place with strong sales and implementation capability.

2002 - RIDING THROUGH THE STORMY SEA

Year 2002 was the most challenging year for the Group and the IT industry in general. It was like braving rainstorms through the endless sea.

The first half of 2002 was the weakest period we had ever experienced in terms of demand for Excel enterprise software products. The Groups' turnover dropped slightly when compared to the same period of 2001. Despite the tough environment, the Group's turnover in the second half of 2002 managed to revert and gained 12% on a year-on-year basis. This was attributable to the continuous geographic expansion strategy in China and Asia by the Group and a moderate recovery in the Hong Kong and Singapore markets. In particular, computer hardware sales recorded encouraging results in 2002.

As stated in my last Chairman's statement that the Group would continue to expand its market share and achieve positive revenue growth, the Group achieved a positive revenue growth of 12% to HK$193,398,000 (2001: HK$173,111,000) and expanded its market share in both China and Singapore in 2002. Sales originated from the mainland China grew by 285% to HK$94,803,000 (2001: HK$24,629,000), which constituted 49% of the Group's total turnover (2001: 14%). Although Singapore's contribution to the turnover was relatively small, we made a milestone by selling Excel enterprise software products to a major local bank. However, the ASP operations via i21 Limited ("i21") and HR21 Limited ("HR21") have yet to produce positive return to the Group and the operating results will have to be improved.

CHAIRMAN'S STATEMENT

China Briefing

The current market landscape in the mainland China is still dominated by computer hardware sales. Excel China gained entry to this highly competitive market by selling computer hardware to clients with a view to establishing a network of domestic banking, securities and insurance ("BSI") clients and building up the brand image of Excel. It differentiates itself from the bulk of the systems integrators in China by developing and selling the Excel enterprise software products for the BSI clients.

Excel China has successfully built a client profile comprising of both major state-owned banks of The People's Republic of China ("PRC") and multinational corporations.

Towards the last quarter, Excel China expanded into the Logistics and ERP sectors with the acquisition of 安利科技(上海)有限公司 (Excel Technology (Shanghai) Co., Ltd.) ("Excel Shanghai"). We believe that this is a sector with a high growth potential in the mainland China and Excel's core competence in financial systems will complement its logistic and ERP system offerings with connections to banks and insurance companies. Immediately after the acquisition, Excel Shanghai won a major project for the implementation of the logistics system of a mega size distribution center in Shanghai.

In 2002, Excel China further increased its investment in the joint ventures in Beijing and Shenzhen, and expanded the office of the Shenzhen Software Development Center. It also made a strategic investment (a 40% stake) in Excel Force Ltd. ("Excel Force"). Excel Force indirectly holds a 100% subsidiary, 浩天信息科技(深圳)有限公司 ("Haotian"). Haotian is providing electronic customs declaration services and its target customers are the thousands of manufacturing and assembly companies with operations in the south China area.

The Group will continue to commit its resources to the mainland China market, both financial and human resources. The major challenge in this market is to be able to cover the wide geography and localize the suite of Excel enterprise software products. As a mandate for 2003, we will make Excel China into one of the preferred solution providers to the financial community of domestic and foreign firms.

Hong Kong Briefing

Demand for Excel enterprise software products and related services by the banking and stock broker clients was particularly weak in the first half of the year. Indeed, it was the most difficult period in Excel Hong Kong's operating history. The effect spilled over to the second half of the year. However, demand came back towards the year-end and Excel Hong Kong has now built up a strong backlog and healthy pipeline for 2003.

Banking clients are shifting to develop non-interest related businesses. We saw a good demand for Excel's InterTrade and the Unit Trust System ("UTS") not just in Hong Kong, but in the Asia region, with some of them being demand for regional implementation. Excel Hong Kong had widened its client base by adding major PRC state-owned banks and multinational corporations. The systems integration business is operating in a very competitive market. Excel Hong Kong tackled this by offering more value-added services that complement the Excel enterprise software systems.

CHAIRMAN'S STATEMENT

In 2002, Excel Hong Kong continued to increase its support efforts in our geographical expansion. The Hong Kong software development teams localized some of the enterprise software products for the mainland China and Singapore markets. At the same time, we reduced the cost base, trimmed non-core and non-profitable operations, invested in the development of a set of common architectural infrastructure for application development and initiated skills transfer to strengthen the role of the Shenzhen Software Center as the domain knowledge hub for Excel BSI software products in China.

On the ASP side, the iStock21 service continued to provide small to medium sized stockbrokers with an affordable avenue for online stock trading. The operating overhead of iStock21 was kept at a level commensurate with the business volume. Any come back of the stock market in Hong Kong will bring an upside to the business.

The systems hosting business shows promising sign of growth with the addition of new customers who are already customers of Excel's enterprise software. This does not only provide solid and quality one-stop service to customers but helps transform our relationship with the clients to a long-term basis.

HR21 developed and launched a budget version human resources management software called "HR-Lite". The target customers for "HR-Lite" are small and medium enterprises ("SME"). Channel partners are being used for distributing and marketing this product.

Another major development of HR21 in 2002 was the signing of a contract with each of the two major banks in Hong Kong to provide their banking customers with a payroll software. This payroll software - called "EZ-Pay" - will replace the banks' existing software for processing payroll and calculation of MPF contributions. After the launch of "EZ-Pay" in February 2003, HR21 has been added with a customer base of a few thousand of SME clients with whom it can cross-sell other products and services.

Singapore Briefing

Excel Singapore celebrated 2002 with the sale of the UTS to a major local bank, which is ranked among the top fund distributors in the nation. The project is expected to provide more opportunities for further collaboration between Excel Singapore and the bank.

Excel Singapore will continue to focus on the sale of the latest Wealth Management System ("WMS") as well as on solutions where it has a strong competitive advantage in both the technical and business domains.

A local managing director with substantial experience in investment and wealth management was appointed to spearhead the Group's development strategy in South East Asia.

CHAIRMAN'S STATEMENT

Technology and Product Briefing

Since 2000, Excel Shenzhen Software Center ("the Software Center") has grown significantly supporting clients of both Hong Kong and mainland China. The Software Center is now capable of supporting new software product development as well as maintaining existing software products.

Last year a set of technology infrastructure and development procedures were made available to the local development teams of the Software Center to strengthen the development practice and provide more quality assurance control. Today the Software Center has increased its software development capacity and capability and is ready to take up more software development work for the whole Group in the Asia Pacific region.

Significant progress was made in the localization of several key products - LOANS and LOS for the mainland China market, a centralized Chinese version of the InterTrade for the Chinese centralized securities trading, and the UTS for Singapore. As for new products, the WMS saw its debut with a Chinese state-owned bank, and the Settlement Module of InterTrade successfully completed two implementations. The Modular Banking System ("MBS") is under the final stage of product testing for its Hong Kong client.

2003 PROSPECT

There is a saying that we share often among the Excellers: "Tough time does not last, but tough people last".

I am confident in saying that Excel will come out of this economic downturn as a stronger and tougher player in the market and has a more promising future in the region, especially in mainland China. The senior management team is committing to even more of their efforts in further expanding the China market which is considered the most crucial success factor of our future.

Excel had grown stronger to weather any possible further downturn due to the uncertainties of the possible war and yet be able to ride on the upswing of China's prosperity. We are confident of excelling to a new horizon - a new Excel that provides the best of breed financial technology platform to multinational financial institutions.

With the improved business conditions and backlog we see within the Group, 2003 is the year that we will see much improved financial results compared to the past two years.

Let me thank all the Excel clients, my colleagues, fellow directors and the shareholders for supporting our work in Year 2002. I look forward to working with all of you again for a prosperous 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the year ended 31 December 2002, the Group achieved a growth of 12% in its turnover. Total turnover for 2002 was HK$193,398,000 (2001: HK$173,111,000). Loss from operations amounted to HK$53,437,000 (2001: HK$15,454,000). The Group reduced its loss attributable to shareholders to HK$68,821,000 (2001: HK$84,776,000).

The growth in turnover was mainly attributable to the Group's strategic expansion into the China market which resulted in a healthy growth in the sale of enterprise software products and computer hardware products. In 2002, businesses originated from China substantially increased to HK$94,803,000 (2001: HK$24,629,000). Turnover originated from China constituted 49% of the total turnover (2001: 14%). The revenue generated from hardware and software resale accounted for 63% of the turnover and it has increased by 56% compared to last year.

Maintenance service income in 2002 increased by 53% to HK$9,362,000 (2001: HK$6,135,000). Revenue derived from the ASP services, mainly iStock21, iHR21 and systems hosting, increased by 406% to HK$5,700,000 (2001: HK$1,127,000).

The loss from operation to HK$53,437,000 was mainly attributable the following factors:—

- reduction in gross profit margin due to the decrease in the sale of Excel enterprise software products and computer hardware in Hong Kong;
- increase in the operating expenses due to additional investment in product localization, development of new infrastructure technology and geographical expansion in the mainland China and Singapore; and
- decrease in the interest income.

OPERATIONS

Conscious efforts were put in the restructure of non-profitable business units and staff costs. Albeit Hong Kong staff cost decreased by 13%, the overall staff cost decreased slightly by 1% due to growth in China and a transitional period in transferring skills from Hong Kong to China. Staff cost constituted 66% of the Group's total operating expenses (2001: 71%).

Total operating expenses of the Group in 2002 increased by 7% to HK$127,137,000 (2001: HK$119,287,000). While the expenses in Hong Kong and Singapore had been reduced, China recorded a substantial increase to meet business growth. The management expects the level of operating expenses to stabilize in 2003.

The Group had made provisions of impairment losses on fixed assets, development costs, goodwill and value of the shares of a listed company for a total amount of HK$13,479,000 (2001: HK$58,585,000). These provisions are expected to be one-off and non-recurring.

As a result, the Group recorded a loss attributable to shareholders of HK$68,821,000 (2001: HK$84,776,000). The loss was narrowed by 19% as compared with that of 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group held cash and cash equivalents of HK$24,514,000 (2001: HK$65,937,000). The decrease was largely due to repayment of the Group's convertible notes of HK$56,088,000 and the increase in trade and bills receivables to HK$49,896,000 and HK$19,520,000 respectively, as several large transactions were concluded in December 2002 (2001: HK$12,483,000 and HK$Nil respectively).

Decrease in the current investments is mainly due to the Group's disposal of its investments in a money market fund of HK$63,601,000. The realized proceeds had been applied for working capital use and various capital budget items including the acquisitions of Excel Shanghai and Excel Force Limited ("Excel Force").

As at 31 December 2002, the computer hardware inventory level was at HK$23,090,000 (2001: HK$39,245,000).

As of 31 December 2002, the Group had an outstanding capital commitment to a private equity investment fund for US$500,000. Total capital commitment related to this fund amounted to US$1,000,000 and US$500,000 of which has been injected to this fund as of 31 December 2002. The investment is carried at cost as at 31 December 2002.

Camelot Information Systems Inc. (a 21.5% associate) recorded another good year of turnover and profit increase. It is expanding into the manufacturing and pharmaceuticals sectors and is engaged in e-Government projects in the mainland China.

As of 31 December 2002, the gearing ratio of the Group was 3.9% (2001: 0.4%) on the basis of bank borrowing dividend by shareholders' funds.

Management and control of the Group's financing and treasury activities were centralized at the corporate level.

CAPITAL STRUCTURE

As at 31 December 2002, the Group's outstanding issued shares were 985,050,000, which was the same as last year.

NEW PRODUCTS/SERVICES

During the year, the Group continued to develop the WMS and MBS. WMS was sold to and went live with a major state-owned bank in China and is expected to be a major product for Hong Kong and Singapore in 2003. MBS is expected to go live and with new prospects in 2003.

Localization of InterTrade China (the centralized securities trading system) and Loans China (the loans origination and processing) is largely completed and implementations were scheduled to be carried out in client sites in early and mid 2003.

The Group signed contracts with two major local banks to launch the new EZ-Pay service, which is a payroll service running on Excel's ASP platform, for the banks' corporate clients. Thousands of new clients will be acquired for the EZ-Pay service which has just been launched in February 2003. At the same time, the iHR21 service in Hong Kong has been renamed as EZ-Pay Online. All these new and existing EZ-Pay clients will form a good customer base for cross-sell and will constitute a base of recurring revenue for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS/ACQUISITIONS AND PERFORMANCES

The Group entered into an agreement in June 2002 with Xinyi Technology Group Limited to acquire 40% interest in Excel Force Limited. Excel Force Limited indirectly holds a 100% subsidiary, 浩天信息科技(深圳)有限公司. Incorporated in China as a wholly owned foreign enterprise ("WOFE"), Haotian is engaged in developing and providing a web-based application software for the electronic submission of customs declaration in the PRC on an ASP basis.

In November 2002, the Group entered into an agreement to acquire 100% interest in 安利科技(上海)有限公司 from its Singapore holding company. The Company and its business scope will be expanded from logistics and ERP developer to distributing and supporting the Group's banking and financial enterprise software products.

SEGMENTAL PERFORMANCES

Hong Kong's turnover (included sale of enterprise software products, provision for customization, consulting & systems integration services, complementary computer hardware and software resale and maintenance services and ASP services) was HK$95,749,000.

The China operations (included the two equity joint ventures in Shenzhen and Beijing) recorded a total turnover of HK$94,803,000.

Singapore recorded a turnover of HK$2,846,000.

EMPLOYEES

As of 31 December 2002, the number of employees in Hong Kong was reduced to 201 (2001: 257), whereas the size of the PRC employees grew to 183 (2001: 103). Singapore's staff size registered a slight increase. Overall, the Group recorded a net increase in the staff strength but with the decrease in Hong Kong as the strength has been largely shifted to China.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group received renminbi income from sales in China. The renminbi income was fully applied to working capital needs of the China operations.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS IN 2003

Most of our regional expansion and product localisation were in place.

Although the Group had sustained an operating loss in 2002, our China operation experienced high growth. We remain optimistic of the China performance in 2003 and expect further growth in the sale of Excel enterprise software products. With a new presence in Shanghai, the Group will increase business activities in this strategic city where most of the domestic and foreign banks have substantial operations.

For China, the Group used sales of computer hardware as an entry point to a predominantly hardware centric IT culture for brand building and client acquisition. Even though it is a very competitive market, with our suite of products, our domain knowledge in banking and finance, and our close working relationship with the hardware vendor, we still maintain a competitive edge and this is evidenced by the growth that we had experienced in 2002. The Group is conscious of the inherent risks and mindful of not being over-aggressive and with a solid client network in place, we expect a shift of revenue mix in China towards more sales in enterprise software products in 2003.

Singapore is contemplating a few regional based projects with multinational banks. WMS is now a popular products in the Asian region.

The Group started 2003 with a healthy backlog and sales pipeline. Demand in Excel enterprise software products has increased. We are confident in acquiring new major banking clients for regional implementation of our enterprise software systems.

In 2003, our management effort is to drive sales and to achieve operation results with emphasis in the China market.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Ms. ZEE CHAN Mei Chu, Peggy, aged 48, the Founder, Chairman and Chief Executive Officer, is responsible for setting and implementing the corporate strategic directions of the Excel Group. She has over 19 years of experience in business re-engineering, strategy studies, technology planning and systems development, serving major multi-national corporations and government agencies. Starting her career as a manager in Arthur Young & Company in Washington D.C, United States, Ms. Chan returned to Hong Kong in 1988 to establish the local office of an Australian software house, and later the Excel Group. She received the Hong Kong 1990 Young Entrepreneur Award. Ms. Chan is a founding member of the Cyber Youth Services, a non-profit organization dedicated to provide community services to young people through innovative usage of information technology. She is one of the founding members of ISIA (Information and Software Industry Association), a trade organization dedicated to promoting the software industry in Hong Kong. Ms. Chan serves on the Internet Banking Committee and 21st Banking Initiatives Committee of several major U.S. banks and a monetary authority.

Ms. LEUNG Lucy, Michele, aged 50, is the Chief Operating Officer of the Group and is also in charge of the Singapore operation. She has over 20 years of experience in the development, conversion and migration of various computer systems in the credit card, retail banking, and insurance industries. Prior to joining the Group in 1989, Ms. Leung worked for Mervyn's, United Grocers, Tymshare Transaction Services, Visa and the Bank of Montreal in the United States and Canada.

Mr. FUNG Din Chung, Rickie, aged 47, is the Executive Vice President responsible for developing the Group's networking and systems integration business. Prior to joining the Group in 1996, Mr. Fung worked for IBM Hong Kong for 17 years, holding various positions in different business areas, including technical support, training, marketing, and management. Mr. Fung was the manager in the Imaging Solution Centre, a unit dedicated to the application of workflow and imaging technology in business usage. Mr. Fung is a frequent speaker on various information technology subjects. Mr. Fung was appointed as the Chief Executive Officer of i21 Limited in 2000.

Dr. NG Wai King, Steve, aged 44, is the Executive Vice President and Chief Technology Officer of the Group. He leads the Group's software technology and implementation methodology, and the development of the Group's software infrastructure and building blocks. Beside his strong technical capabilities, Dr. Ng also has extensive knowledge in banking, stock brokerage, portfolio management and treasury business. Prior to joining the Group in 1996, Dr. Ng was the technology head for Citibank's Hong Kong Private Banking Group, in which, he managed the client/server development projects of the region for both local and global implementation.

Mr. IP Kim Kuen, aged 40, is the Executive Vice President and Chief Investment Officer of the Group. He is responsible for strategic acquisition and investment of the Group. Mr. Ip has over 14 years of experience in financial management and investments. Prior to joining the Group in 2000, he worked for Jardine Fleming, ChinaVest Limited, a leading US venture capital firm, Kleinwort Benson's China Direct Investment Fund and various public companies in Hong Kong. Mr. Ip also worked for Spectrum Mutual Fund and Richarson Greenshields in Canada.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. IP Tak Chuen, Edmond, aged 50, is a non-executive Director of the Group. He has been an executive director of Cheung Kong (Holdings) Limited since 1993. Mr. Ip is also Deputy Chairman of Cheung Kong Infrastructure Holdings Limited, an executive director of CK Life Sciences Int'l., (Holdings) Inc., and a non-executive director of TOM.COM LIMITED. He was appointed as a non-executive Director of the Group on 21 February 2000.

Mr. QUEK Cher Teck, aged 48, is a non-executive Director of the Group. He is presently the Managing Director of UOB Venture Management Pte Ltd., the venture capital management arm of the UOB Group, and Head of the UOB Group's Direct Investment team charged with the responsibility of making direct investments on behalf of UOB. Mr. Quek was the head of international branches division and the chief representative in Taiwan of the UOB Group. He was appointed as a non-executive Director of the Group on 12 August 2002.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. CHEONG Ying Chew, Henry, aged 55, is an independent non-executive Director of the Group. He holds a Bachelor of Science degree in Mathematics and a Master of Science degree in Operational Research and Management. He is a director of certain other listed companies in Hong Kong. Mr. Cheong is a member of the Process Review Panel for the Securities and Futures Commission, a member of the GEM Listing Committee, Main Board Listing Committee and Derivatives Market Consultative Panel of the Hong Kong Exchanges and Clearing Limited and also a member of the Corporate Advisory Council of the Hong Kong Securities Institute. He was appointed as an independent non-executive Director of the Group on 30 May 2000.

Mr. CHANG Ka Mun, aged 43, is an independent non-executive Director of the Group. He is a director of Li & Fung Development (China) Limited. He is also a member of the National Committee of Chinese People's Political Consultative Conference and a member of Transport Advisory Committee of Hong Kong Special Administrative Region. He was a member of the Preparatory Committee of Hong Kong Special Administrative Region as well as the Basic Law Consultative Committee of the National People's Congress of the PRC. He was appointed as an independent non-executive Director of the Group on 30 May 2000.

Ms. WONG Mee Chun, **JP**, aged 50, is an independent non-executive Director of the Group. She graduated from the London School of Economics and Political Science, University of London and qualified as a member of the Institute of Chartered Accountant in England and Wales with Coopers & Lybrand, London. She is also a member of the Hong Kong Society of Accountants. Ms. Wong has over 20 years of experience in the finance and accounting field. Ms Wong is a Justice of Peace, a member of the Hospital Governing Committee of the Kwai Chung Hospital, Operations Review Committee of the ICAC and the Solicitors' Disciplinary Tribunal. She was appointed as an independent non-executive Director of the Group on 9 August 2002.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. WEN Pei Sung, Dennis, aged 55, is the Director of Greater China of the Group. He is responsible for developing the China market for the Group. Mr. Wen has over 32 years of IT marketing and services experience. Mr. Wen previously worked for Oracle Greater China Region as Oracle Greater China Consulting Head and IBM Greater China Group in various senior management positions. Mr. Wen has completed the Management Development Program at ASIA Institute of Management. Mr. Wen joined the Group in April 2000.

Mr. CHEONG Ho Sang, Alfred, aged 46, is the Director of Banking Products of the Group responsible for the development and implementation of the new banking software application products of the Group. Mr. Cheong has over 22 years of working experience in IT especially in the banking industry where he has in-depth knowledge of corporate, investment and private banking products, accounting & MIS functions, and process management. Mr. Cheong previously worked for UBS AG and Citibank in various senior management positions. At Citibank, Mr. Cheong was in-charge of investment banking technology department for the Asia Pacific region. Prior to joining the Group in 2000, Mr. Cheong was the technology head for Private Banking in Hong Kong and Singapore of UBS AG. Mr. Cheong is also a Certified Management Accountant (CMA) in Canada.

Ms. TANG Lai Wah, Venus, aged 45, is the group financial controller and company secretary of the Group. Ms. Tang has over 20 years accounting and financial management experience in telecommunication, property development and media industries. She has held managerial positions in several sizeable listed companies in Hong Kong. Prior to joining the Group in December, 2002, Ms. Tang was the Group Financial Controller with Star Telecom Group and South China Media Group . Ms. Tang is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. She holds an Executive MBA degree and a Bachelor degree in Accountancy with honors from the City University of Hong Kong.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Key Business Initiatives	Actual business progress up to the end of December 2002
Expanding the customer base of the ASP Business by launching new enterprise software	The Group had signed contracts with two major local banks to launch a new service called EZ-Pay for the corporate customers of the banks. EZ-Pay is an application software which assists the customers in processing payroll and MPF calculation. The potential customer size is estimated to be several thousand.
Continue to market MBS and Insurance21 (renamed "@Surance") aggressively	Marketing efforts of both software products were made in Hong Kong, Singapore and the mainland China. A potential client in Shenzhen is assessing the @Surance product.
Continuing to expand the operations of the Group through organic growth and acquisitions	The staff force in Excel Software (Shenzhen), Excelsolution (Shenzhen) and Excelsoft (Beijing) had been increased. The two Shenzhen offices were relocated to the same office in October 2002. The Group increased investment in the registered capital of Excelsoft as the working capital need was increased as a result of business growth. New investment and acquisition included Excel Force (40% owned) and Excel Shanghai (100% owned).
Sales and Marketing	
Strengthening sales and marketing efforts in the regional offices and in Hong Kong	The Directors took on the responsibility to drive sales and marketing efforts in Hong Kong. They were supported by the sales and product managers. New banking clients were being acquired.
Continuing to recruit additional local distributors and/or resellers in the PRC and other Asian countries	Excel China continued to rely on the joint venture partners and the Shanghai subsidiary as the primary sales channels. Excel Singapore continued to be the main hub for selling and marketing Excel enterprise software products.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Geographical Expansion

Establishing additional offices in PRC

In the third quarter of 2002, the Group acquired 100% Excel Shanghai with a view to establishing a foothold in this important China city for serving multinational banks. Excel Shanghai is also engaged in logistics and ERP related systems implementation businesses.

Establishing additional offices in other Southeast Asia countries

In view of the sluggish economy in the Asian region, the Group had stalled the plan to expand into other Southeast Asian countries.

Use of Proceeds

The net proceeds from the public listing was about HK$180 million. During the period from 30 June 2000 (date of listing) to 31 December 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus:

	As stated in the prospectus (HK$M)	**Actual** (HK$M)
For the development of the ASP business	40	32
For the research & development of new enterprise software	20	20
For the geographical expansion of the Group into the PRC and Southeast Asia	20	17
For setting up the e-Center	10	1
For marketing and promotional activities	10	5
For acquisitions and investments in companies and business which fit into the Group's business strategy	50	38
Total	150	113

The balance of the proceeds will be used for general working capital.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Excel Technology International Holdings Limited (the "Company") will be held at 46/F., The Center, 99 Queen's Road Central, Hong Kong on 24 April 2003 (Thursday) at 3:30p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements of the Company and the Reports of the Directors and Auditors for the year ended 31 December 2002;

2. To re-elect retiring Directors;

3. To authorise the Board of Directors to fix their remuneration;

4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration; and

5. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined in this Resolution) of all the powers of the Company to allot, issue or deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined in this Resolution); or (ii) any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company in force from time to time; or (iv) the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities which are convertible into shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of passing this Resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (as amended) or any other applicable law to be held; and

(iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution;

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrant, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares in the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of shares as at that date (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong)."

6. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined in this Resolution) of all powers of the Company to purchase its own shares, subject to paragraph (b) below, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be purchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(c) for the purpose of this Resolution, "Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:—

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (as amended) or any other applicable law to be held; and

(iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution."

7. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT** the general mandate granted to the Directors of the Company pursuant to the Resolution 5 above and for the time being in force to exercise the powers of the Company to allot, issue or deal with unissued shares of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power, be and is hereby extended by the aggregate nominal amount of shares in the share capital of the Company repurchased by the Company since the granting of such general mandate pursuant to the exercise by the Directors of the Company of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution."

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

Hong Kong, 17 March 2003

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
46th Floor, The Center
99 Queen's Road Central
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

3. In relation to proposed Resolution 5 above, approval is being sought from the members for the grant to the Directors of a general mandate to authorise the allotment and issue of shares pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The directors have no immediate plans to issue any new securities of the Company pursuant to the said general mandate other than shares which may fall to be issued upon the exercise of any options granted under the share option scheme of the Company or any scrip dividend scheme.

4. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

REPORT OF THE DIRECTORS

The directors submit herewith their annual report together with the audited financial statements for the financial year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 13 on the financial statements.

The Group's turnover and contribution to the operating result for the year is principally attributable to its development, sale and implementation of enterprise software (including ASP business) and complementary computer hardware and software resale in Hong Kong and the People's Republic of China. An analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 11 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	**Purchases**
The largest customer	11.2%	
Five largest customers in aggregate	37.1%	
The largest supplier		28.2%
Five largest suppliers in aggregate		60.6%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2002 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 32 to 77.

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2002 (2001: HK$Nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$Nil (2001: HK$500).

REPORT OF THE DIRECTORS

FIXED ASSETS

Movements in fixed assets of the Company and the Group are set out in note 12 on the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 30 on the financial statements.

DIRECTORS

The directors during the financial year were:

Executive directors

Zee Chan Mei Chu, Peggy
Fung Din Chung, Rickie
Leung Lucy, Michele
Ng Wai King, Steve
Ip Kim Kuen

Non-executive directors

Ip Tak Chuen, Edmond
Quek Cher Teck (appointed on 12 August 2002)
Lau Law Siu Hung, Monique (resigned on 12 December 2002)

Independent non-executive directors

Cheong Ying Chew, Henry
Chang Ka Mun
Wong Mee Chun (appointed on 9 August 2002)
Petro A Frank (resigned on 13 August 2002)

In accordance with the Company's bye-laws, Wong Mee Chun JP, Quek Cher Teck, Cheong Ying Chew, Henry and Chang Ka Mun retire from the board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

The directors of the Company who held office at 31 December 2002 had the following interests in the issued share capital of the Company and its subsidiaries and other associated corporations (within the meaning of the Securities (Disclosures of Interest) Ordinance) at that date as recorded in the register of directors' share interests:

	Shares of HK$0.10 each			
Beneficial interests	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**
Zee Chan Mei Chu, Peggy	1,528,000	—	569,984,544*	—
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 which 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 which is wholly-owned by Leung Lucy, Michele.

SHARE OPTION SCHEMES

The Company operates share option schemes under which the directors may, at their discretion, invite executive directors and employees of the Company or its wholly owned subsidiaries, to take up options to subscribe for shares in the Company at a price which is the higher of the closing price of the Company's shares and the average closing price of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option; and the nominal value of the shares.

The purpose for the adoption of the share option schemes is for the benefit of the employees and executive directors of the Group. The directors believe that the share option schemes will assist in the recruitment and retention of high calibre executives and employees.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the share option schemes may not exceed 30% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options pursuant to the share option schemes. An option may be exercised within an option period, and shall not be less than three years and not more than ten years from the date upon which the option is granted and accepted.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

Pursuant to the share option scheme for employees which was adopted on 16 June 2000 and amended at the annual general meeting of 18 April 2001 ("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 share option scheme. On 1 September 2000, the Company granted to employees of the Group options to subscribe for shares in the Company under the Old Scheme. The subscription price of the option shares is HK$0.90 per share with the option period from 1 September 2000 to 31 August 2005 (both dates inclusive). The options may be exercised at any time within the option period provided that the options have been vested.

Pursuant to a resolution passed on 11 October 2001, the Company further granted to employees of the Group options to subscribe for shares in the Company under the Old Scheme, from time to time that may be exercised in whole or in part during a period of five years from date of grant of such options. The subscription price of the option shares is HK$0.70 which is not less than the higher of the closing price of the Company's shares on 11 October 2001 and the average closing price of the Company's shares for the five business days immediately preceding the date of grant of such options.

At the special general meeting of the Company held on 23 April 2002, a new share option scheme (the "New Scheme") was adopted and approved in substitution of the Old Scheme in which 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.

As at 31 December 2002, the number of share options which lapsed under the share option schemes during the financial year are as follows:

Date of grant	**Subscription price per share**	**Number of shares lapsed during the financial year**
1 September 2000	HK$0.90	5,102,500
11 October 2001	HK$0.70	4,088,000

No options were cancelled during the year ended 31 December 2002.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

At 31 December 2002, the directors of the Company had the following personal interests in options to subscribe for shares of the Company (market value per share was HK$0.10 at the balance sheet date) granted at nominal consideration under the share option schemes of the Company. Each option gives the holder the right to subscribe for one share.

Director/ Employees	No. of options outstanding at the beginning of the year	No. of options outstanding at the end of the year	Date granted	Period during which options exercisable *(Note)*	No. of shares acquired on exercise of options during the year	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
Fung Din Chung, Rickie	8,000,000	8,000,000	1 September 2000	1 September 2000 to 31 August 2005 *	—	HK$0.90	HK$0.90	—
Leung Lucy, Michele	8,000,000	8,000,000	1 September 2000	1 September 2000 to 31 August 2005 *	—	HK$0.90	HK$0.90	—
Ng Wai King, Steve	8,000,000	8,000,000	1 September 2000	1 September 2000 to 31 August 2005 *	—	HK$0.90	HK$0.90	—
Ip Kim Kuen	8,000,000	8,000,000	1 September 2000	1 September 2000 to 31 August 2005 *	—	HK$0.90	HK$0.90	—
Employees	17,774,500	12,672,000	1 September 2000	1 September 2000 to 31 August 2005 *	—	HK$0.90	HK$0.90	—
Employees	28,264,000	24,176,000	11 October 2001	11 October 2001 to 10 October 2006 #	—	HK$0.70	HK$0.70	—

* The option period is from 1 September 2000 to 31 August 2005 (both dates inclusive) (vesting period with 1st tranche of 20% from 1 March 2001, 2nd tranche of 20% from 1 September 2001, 3rd tranche of 15% from 1 March 2002, 4th tranche of 15% from 1 September 2002, 5th tranche of 15% from 1 March 2003 and the remaining tranche of 15% from 1 September 2003).

The option period is from 11 October 2001 to 10 October 2006 (both dates inclusive) (vesting period with 1st tranche of 20% from 11 April 2002, 2nd tranche of 20% from 11 October 2002, 3rd tranche of 15% from 11 April 2003, 4th tranche of 15% from 11 October 2003, 5th tranche of 15% from 11 April 2004 and the remaining tranche of 15% from 11 October 2004).

The total number of securities available for issue under the share option schemes as at 31 December 2002 was 98,505,000 shares (including options for 68,848,000 shares that have been granted but not yet lapsed or exercised) which represents 10% of the issued share capital of the Company at 31 December 2002. In respect of the maximum entitlement of each participant under the scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares issued.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

Apart from the foregoing, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangement to enable the directors of the Company 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.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 31 December 2002 amounting to 10% or more of the shares in issue:

Name	Shares held	Percentage of total issued shares
Zee Chan Mei Chu, Peggy	571,512,544	58.02%#
Passion Investment (BVI) Limited	569,984,544	57.86%#
Cheung Kong (Holdings) Limited	143,233,151	14.54%*
Li Ka-Shing Unity Trustee Corporation Limited (as trustee of The Li Ka-Shing Unity Discretionary Trust)	143,233,151	14.54%*
Li Ka-Shing Unity Trustee Company Limited (as trustee of The Li Ka-Shing Unity Trust)	143,233,151	14.54%*
Li Ka-Shing Unity Holdings Limited	143,233,151	14.54%*
Li Ka Shing	143,233,151	14.54%*

\# These shares have been disclosed as the corporate interest of the director in the paragraph "Directors' interests in shares".

* Li Ka-Shing Unity Holdings Limited, of which Li Ka Shing 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 as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2002.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

On 1 September 2002, Zee King Tak, Winston and a PRC subsidiary of the Group (the "PRC subsidiary") entered into a tenancy agreement pursuant to which the PRC subsidiary leased premises from Zee King Tak, Winston for the period from 1 September 2002 to 31 August 2003. Rentals payable by the PRC subsidiary amounted to HK$15,200 during the year ended 31 December 2002.

A director of the Group, Zee Chan Mei Chu, Peggy, was interested in the above contract as the spouse of Zee King Tak, Winston.

A subsidiary of the Group ("the subsidiary") and Net Fun Limited entered into an agreement on 1 June 2000 (renewed on 1 June 2002) pursuant to which the subsidiary provides general administrative services to Net Fun Limited. Management fee income receivable by the Group from Net Fun Limited amounted to HK$464,000 during the year ended 31 December 2002 (2001: HK$424,000).

On 1 June 2002 the subsidiary and Net Fun Limited entered into an designing services agreement pursuant to which Net Fun Limited agreed to provide designing services. Designing fee payable by the Group to Net Fun Limited amounted to HK$120,000 during the year ended 31 December 2002.

A director of the Group, Zee Chan Mei Chu, Peggy, was interested in the above contracts as a director and shareholder of Net Fun Limited.

Apart from the foregoing, no contract of significance to which the Company, its holding company or any of its subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Each of Zee Chan Mei Chu, Peggy, Fung Din Chung, Rickie, Leung Lucy, Michele and Ng Wai King, Steve has entered into a service contract with the Company for a term of three years commencing on 1 March 2000, which will continue thereafter until terminated by not less than six months' notice in writing by either party to the other.

Ip Kim Kuen has entered into a service contract with the Company for a term of three years commencing on 20 March 2000, which will continue thereafter until terminated by not less than six months' notice in writing by either party to the other.

Except for the above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

REPORT OF THE DIRECTORS

COMPETING INTERESTS

Ip Tak Chuen, Edmond, a non-executive director of the Company, and Cheong Ying Chew, Henry, an independent non-executive director of the Company, are a non-executive director and an independent non-executive director of TOM.COM LIMITED respectively. TOM.COM LIMITED is in operation of an internet portal delivering internet infotainment content and services, development of software and computer network systems, provision of related services and event production.

Ip Tak Chuen, Edmond is also a director of iBusinessCorporation.com Holdings Limited, which is a company facilitating e-commerce business on the internet.

Save as disclosed above, as at 31 December 2002, the Directors were not aware of any business or interest of each director, chief executive, 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 person has or may have with the Group.

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

During the year ended 31 December 2002, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws and the law in Bermuda.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), an employee 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 was involved in providing advice to the Company, was interested in a total of 10,000 shares of HK$0.10 each in the issued share capital of the Company as at 31 December 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, was deemed to be interested in 143,233,151 shares in the Company held by a CKH subsidiary.

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

REPORT OF THE DIRECTORS

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2002 are set out in note 23 on the financial statements.

CONVERTIBLE NOTES

Details of the principal terms of the convertible notes during the year are set out in note 27 on the financial statements.

RESERVES

Details of movements in reserves during the year are set out in note 31 on the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 78 of the annual report.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the year ended 31 December 2002.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Group has established an audit committee with written terms of reference which deal clearly with its authority and duties. Its principal duties are the review and supervision of the Group's financial reporting and internal control procedures and any other duties as required under Rule 5.25 of the GEM Listing Rules. The audit committee has three members comprising the three independent non-executive directors, Cheong Ying Chew, Henry, Chang Ka Mun and Wong Mee Chun JP. The audit committee met on a quarterly basis during the year ended 31 December 2002.

REPORT OF THE DIRECTORS

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Zee Chan Mei Chu, Peggy
Chairman

Hong Kong, 17 March 2003

REPORT OF THE AUDITORS

Auditors' report to the shareholders of
Excel Technology International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 32 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 17 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Note	2002 $'000	2001 $'000
Turnover	2	**193,398**	173,111
Cost of computer hardware and software		**(111,251)**	(72,058)
		82,147	101,053
Other revenue	3(a)	**1,477**	9,606
Other net loss	3(b)	**(1,427)**	(354)
Staff costs	4(c)	**(83,674)**	(84,794)
Depreciation	12	**(9,609)**	(6,580)
Other operating expenses		**(33,854)**	(27,913)
Loss from operations before amortisation		**(44,940)**	(8,982)
Amortisation of goodwill	15	**(2,029)**	(2,173)
Amortisation of development costs	16	**(6,468)**	(4,299)
Loss from operations		**(53,437)**	(15,454)
Finance costs	4(a)	**(3,239)**	(5,949)
Impairment loss on fixed assets	12	**(900)**	(3,123)
Impairment loss on development costs	16	**(2,579)**	—
Impairment loss on goodwill	15	**(10,000)**	(30,000)
Impairment loss on investments		**—**	(25,462)
Loss on convertible notes		**—**	(3,525)
Share of profits less losses of associates		**1,236**	(2,003)
Loss from ordinary activities before taxation	4	**(68,919)**	(85,516)
Taxation	5(a)	**(565)**	(284)
Loss after taxation		**(69,484)**	(85,800)
Minority interests		**663**	1,024
Loss attributable to shareholders	31	**(68,821)**	(84,776)
Loss per share			
Basic	10	**(6.99 cents)**	(8.42 cents)
Diluted	10	**(6.99 cents)**	(8.42 cents)
Loss for the year is attributable as follows:			
The Company and its subsidiaries		**(69,604)**	(82,620)
The associates		**783**	(2,156)
		(68,821)	(84,776)

The notes on pages 39 to 77 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2002
(Expressed in Hong Kong dollars)

	Note	2002 $'000	2001 $'000
Non-current assets			
Fixed assets	*12*	**22,708**	30,280
Interest in associates	*14*	**24,450**	21,987
Goodwill	*15*	**7,494**	17,513
Development costs	*16*	**5,094**	11,038
Other financial assets	*17*	**3,903**	6,195
		63,649	87,013
Current assets			
Current investments	*18*	**3,057**	66,525
Inventories	*19*	**23,090**	39,245
Work in progress	*20*	**17,184**	33,648
Trade receivables	*21*	**49,896**	12,483
Bills receivables	*21*	**19,520**	—
Deposits, prepayments and other receivables	*21*	**7,961**	8,274
Taxation recoverable	*5(b)*	**345**	130
Pledged deposits	*22*	**8,000**	8,100
Cash and cash equivalents	*22*	**24,514**	65,937
		153,567	234,342
Current liabilities			
Bank loans	*23*	**5,828**	940
Trade payables	*24*	**25,203**	3,865
Bills payables	*24*	**1,873**	—
Other payables and accrued expenses	*24*	**16,031**	12,865
Deferred income	*25*	**15,785**	28,233
Convertible notes	*27*	**—**	56,088
		64,720	101,991
Net current assets		**88,847**	132,351
Total assets less current liabilities		**152,496**	219,364
Minority interests		**3,191**	1,238
NET ASSETS		**149,305**	218,126

CONSOLIDATED BALANCE SHEET *(continued)*

at 31 December 2002
(Expressed in Hong Kong dollars)

	Note	**2002**	2001
		$'000	$'000
CAPITAL AND RESERVES			
Share capital	*30*	**98,505**	98,505
Reserves	*31(a)*	**50,800**	119,621
		149,305	218,126

Approved and authorised for issue by the board of directors on 17 March 2003

Zee Chan Mei Chu, Peggy)
)
) *Directors*
)
Ip Kim Kuen)

The notes on pages 39 to 77 form part of these financial statements.

BALANCE SHEET

at 31 December 2002
(Expressed in Hong Kong dollars)

	Note	2002 $'000	2001 $'000
Non-current assets			
Investments in subsidiaries	13	**—**	—
Current assets			
Amounts due from subsidiaries	13	**167,321**	338,268
Prepayments and other receivables	21	**130**	150
Cash and cash equivalents	22	**129**	2,013
		167,580	340,431
Current liabilities			
Trade and other payables	24	**714**	870
Amounts due to subsidiaries	13	**64,740**	55,543
Convertible notes	27	**—**	56,088
		65,454	112,501
NET ASSETS		**102,126**	227,930
CAPITAL AND RESERVES			
Share capital	30	**98,505**	98,505
Reserves	31(b)	**3,621**	129,425
		102,126	227,930

Approved and authorised for issue by the board of directors on 17 March 2003

Zee Chan Mei Chu, Peggy)
)
) *Directors*
)
Ip Kim Kuen)

The notes on pages 39 to 77 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Note	**2002** **$'000**	2001 $'000
Shareholders' equity at 1 January		**218,126**	310,222
Loss for the year	*31*	**(68,821)**	(84,776)
Movements in share capital			
— Shares issued upon acquisition of a subsidiary		–	6,726
— Shares issued upon acquisition of an associate		–	312
— Shares repurchased		–	(8,533)
— Share premium arising from acquisition of a subsidiary		–	40,359
— Share premium arising from acquisition of an associate		–	1,622
— Share premium changes upon the purchase of own shares		–	(47,806)
Net decrease in shareholders' equity arising from capital transactions with shareholders		–	(7,320)
Shareholders' equity at 31 December		**149,305**	218,126

The notes on pages 39 to 77 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Note	**2002**		2001	
		$'000	**$'000**	$'000	$'000
Operating activities					
Loss from ordinary activities before taxation			**(68,919)**		(85,516)
Adjustment for:					
— Interest income from bank deposits		**(338)**		(1,145)	
— Interest income from cash equivalents		**(154)**		(7,077)	
— Finance costs		**3,239**		5,949	
— Impairment loss on fixed assets		**900**		3,123	
— Impairment loss on development costs		**2,579**		—	
— Impairment loss on goodwill		**10,000**		30,000	
— Impairment loss on investments		**—**		25,462	
— Realised loss on other financial assets		**1,159**		—	
— Loss on partial disposal of interest in subsidiaries		**584**		—	
— Share of profits less losses of associates		**(1,236)**		2,003	
— Loss on convertible notes		**—**		3,525	
— Depreciation		**9,609**		6,580	
— Amortisation of development costs		**6,468**		4,299	
— Amortisation of goodwill		**2,029**		2,173	
— Profit on disposal of fixed assets		**(497)**		(24)	
			34,342		74,868
Operating loss before changes in working capital			**(34,577)**		(10,648)
Decrease/(increase) in current investments		**63,468**		(66,525)	
Decrease/(increase) in inventories		**16,155**		(39,245)	
Decrease/(increase) in work in progress		**16,464**		(6,379)	
(Increase)/decrease in trade receivables, bills receivables, deposits, prepayments and other receivables		**(56,333)**		20,208	
Increase/(decrease) in trade payables		**21,338**		(6,669)	
Increase/(decrease) in bills payables, other payables and accrued expenses		**1,778**		(20,042)	
Decrease in deferred income		**(12,448)**		(32,734)	
			50,422		(151,386)
Cash inflow/(outflow) from operating activities			**15,845**		(162,034)
Tax paid:					
— Hong Kong Profits Tax paid		**(198)**		(851)	
— PRC tax paid		**(129)**		(60)	
			(327)		(911)
Net cash generated/(outflow) from operating activities			**15,518**		(162,945)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Note	2002 $'000	2002 $'000	2001 $'000	2001 $'000
Investing activities					
Decrease/(increase) in pledged deposits		**100**		(8,100)	
Proceeds from disposal of investments		**1,133**		—	
Payment for purchase of an associate		**(1,180)**		(19,735)	
Repayment from associate		**—**		1,383	
Payment for purchase of fixed assets		**(2,963)**		(5,368)	
Proceeds from disposal of fixed assets		**803**		95	
Proceeds from disposal of convertible notes		**—**		9,600	
Development costs capitalised		**(3,103)**		(10,615)	
Interest received		**492**		8,222	
Net cash inflow from purchase of a subsidiary	*32(b)*	**184**		13,924	
Net cash outflow from investing activities			**(4,534)**		(10,594)
Financing					
Interest paid		**(3,239)**		(16)	
Repayment of bank loans		**—**		(13)	
New bank loan		**4,888**		940	
Nominal value of shares repurchased		**—**		(8,533)	
Premium paid on repurchase of shares		**—**		(47,806)	
Contributions from minority interests		**2,032**		2,262	
Repayment of convertible notes		**(56,088)**		—	
Net cash used in financing			**(52,407)**		(53,166)
Net decrease in cash and cash equivalents			**(41,423)**		(226,705)
Cash and cash equivalents at 1 January			**65,937**		292,642
Cash and cash equivalents at 31 December			**24,514**		65,937
Analysis of the balances of cash and cash equivalents					
Deposits with banks and other financial institutions			**8,543**		20,950
Cash at bank and in hand			**15,971**		44,987
			24,514		65,937

The notes on pages 39 to 77 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure requirements of the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of presentation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

(d) Subsidiaries

A subsidiary is an enterprise controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries *(continued)*

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see accounting policy 1(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(f).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(k)), unless the associate is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less accumulated amortisation and any impairment losses (see note 1(k)).

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit or loss on disposal.

(g) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Income from sale of enterprise software products and custom development

The Group enters into contracts with customers whereby a number of elements are bundled together in one contract - for example, resale of complementary hardware and software products, sale of software licences and the development of customised software including completion of services provided for post-delivery service support. The contract price is fixed prior to the commencement of the contract and the Group refers to these as "fixed price contracts".

In instances where the contract price can be allocated on a reasonable basis into elements of resale of complementary hardware and software products, sale of software licences and development of customised software, revenue is recognised in accordance with accounting policies as described in Section 1(g)(ii), (iii) and (iv) below.

Where the contract price cannot be allocated into individual elements of the sale of enterprise software products and custom development, revenue is recognised by reference to the stage of completion of the sale of enterprise software products and custom development, including post-delivery service support, at the balance sheet date.

Work in progress is recorded in the balance sheet at the amount of contract costs incurred plus attributable profit less progress billings.

Amounts received before the related work is performed are included as deferred income in the balance sheet.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Revenue recognition *(continued)*

(ii) Income from complementary hardware and software resale

Revenue is recognised when goods are delivered at the customers' premises, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is stated after deduction of any trade discounts.

(iii) Sale of software licences

Revenue from the sale of software licences to end-users is recognised upon delivery of the software products to the customer when there are no significant post-delivery obligations.

(iv) Development of customised software

Revenue from the development of customised software is recognised in the profit and loss account by reference to the stage of completion of the customisation work, including post delivery service support, at the balance sheet date.

(v) Income from consulting and systems integration services

Consulting and systems integration services generally call for the Group to provide technical support to customers.

Revenue from consulting and systems integration services is recognised in the profit and loss account upon the provision of services.

(vi) Income from maintenance services

Revenue from maintenance service contracts, which is received or receivable from customers once the maintenance service contracts are signed, is amortised and credited as revenue to the profit and loss account on a straight-line basis over the terms of the maintenance service contracts.

Where maintenance revenue is not separately invoiced, it is unbundled from licence fees and deferred and credited as revenue to the profit and loss account on a straight-line basis over the terms of the maintenance service contracts.

Other service revenue, primarily training and consulting, is recognised at the time when the service is performed.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Revenue recognition *(continued)*

(vii) Income from Application Service Provider ("ASP") business

Revenue from ASP business is recognised at the time when the service is performed.

(viii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(ix) Dividends

Dividend income from listed and unlisted investments other than associates is recognised when the shareholder's right to receive the payment is established.

(h) Other investments in securities

Investment securities which are held on a continuing basis for an identified long term purpose are classified as "investment securities" and are stated in the balance sheet at cost less provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Fixed assets and depreciation

(i) Fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 1(k)). Depreciation is calculated to write off the cost of such assets on a straight-line basis at the following rates per annum:

Land	Over the unexpired term of the lease
Leasehold improvements	25%
Buildings	2.5%
Computer and office equipment	20% to 33$^1/_3$%
ASP software (see note 1(i)(ii))	20%
Furniture and fixtures	25%
Motor vehicles	30%

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account.

Gains or losses arising from the disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset.

(ii) ASP software represents all direct costs incurred by the Group in the development of the software. Such costs are capitalised if the software production is technically feasible and commercially viable and the Group has sufficient resources and the intention to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised software costs are stated at cost less accumulated amortisation and impairment losses (see note 1(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation is calculated to write off the software on a straight-line basis over its estimated useful life.

(j) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Research and development costs *(continued)*

Expenditure on development activities is capitalised if the product or process is technically feasible and commercially viable and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation is calculated to write off the development costs on a straight-line basis over the estimated useful lives of the developed software.

(k) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;
— investments in subsidiaries and associates;
— development costs; and
— positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Deferred taxation

Deferred taxation is provided under the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(q) Translation of foreign currencies

The functional currency of the Group's operations is the Hong Kong dollar.

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Differences arising on foreign currency translation are dealt with in the profit and loss account.

The results of overseas subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

(iii) When the Group grants employees options to acquire shares of the company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2 TURNOVER

The principal activities of the Group are the development, sale and implementation of enterprise software.

Turnover represents income from complementary computer hardware and software sales and IT services (including the ASP business) rendered to customers during the year, net of returns and discounts allowed, after eliminating intra-group transactions. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	Group turnover	
	2002	2001
	$'000	$'000
Principal activities		
Sale of enterprise software products and custom development	**40,282**	68,521
Complementary hardware and software resale	**122,237**	78,263
Consulting and systems integration services	**15,817**	19,065
Maintenance services	**9,362**	6,135
Revenue from ASP business	**5,700**	1,127
	193,398	173,111

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 OTHER REVENUE AND OTHER NET LOSS

	2002 $'000	2001 $'000
(a) Other revenue		
Interest income from bank deposits	**338**	1,145
Interest income from deposits placed with other financial institutions	**154**	7,077
Interest income from convertible notes	**—**	189
Management fee income and services charges from a related company	**464**	424
Sundry income	**521**	771
	1,477	9,606
(b) Other net loss		
Loss on partial disposal of interest in subsidiaries	**(584)**	—
Realised gain/(loss) on current investments	**583**	(270)
Realised loss on other financial assets	**(1,159)**	—
Unrealised loss on trading securities	**(764)**	(108)
Gain on disposal of fixed assets	**497**	24
	(1,427)	(354)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging:

	2002 $'000	2001 $'000
(a) Finance costs:		
Interest on bank loans, overdrafts, and other borrowings repayable within five years	**301**	16
Finance costs on convertible notes	**2,938**	5,933
	3,239	5,949
(b) Research and development expenses to the extent that staff costs and direct overheads can be allocated by management on a reasonable basis to research and development activities, research and development expenses are as follows:		
— staff costs	**21,205**	31,728
— direct overheads	**3,659**	4,386
	24,864	36,114
Less: Costs capitalised *(note 16)*	**(3,103)**	(10,615)
	21,761	25,499
Other costs such as depreciation of fixed assets and indirect overheads have not been included in the above analysis.		
(c) Staff costs:		
Contributions to defined contribution plan	**3,004**	3,373
Salaries, wages and other benefits	**83,091**	89,244
Less: Costs capitalised	**(2,421)**	(7,823)
	83,674	84,794
(d) Other items:		
Auditors' remuneration	**740**	882
Rentals payable under operating leases in respect of land and buildings	**13,968**	9,207

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 TAXATION

(a) *Taxation in the consolidated profit and loss account represents:*

	The Group	
	2002	2001
	$'000	$'000
Under provision in respect of prior years	**—**	71
Overseas taxation	**112**	60
	112	131
Share of an associate's taxation	**453**	153
	565	284

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 Group and the Company as the Group and the Company incurred taxation losses during the years ended 31 December 2002 and 2001.

(b) *Taxation in the consolidated balance sheet represents:*

	The Group	
	2002	2001
	$'000	$'000
Provisional Profits Tax paid	**(198)**	(130)
Balance of Profits Tax relating to prior years	**(147)**	—
Taxation recoverable	**(345)**	(130)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002	2001
	$'000	$'000
Fees	**300**	200
Salaries and other emoluments	**5,453**	6,720
Retirement scheme contributions	**60**	60
	5,813	6,980

During the year ended 31 December 2002, directors' fees of $300,000 were paid or payable to non-executive and independent non-executive directors (2001: $200,000).

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "directors' interests in shares" in the Report of the Directors.

In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

The remuneration of the executive directors is within the following bands:

	Number	
	2002	2001
Not more than $1,000,000	**—**	—
$1,000,001 - $1,500,000	**5**	4
$1,500,001 - $2,000,000	**—**	1
	5	5

The executive directors received emoluments of approximately $1,033,000, $1,033,000, $1,033,000, $1,053,330 and $1,300,000 for the year ended 31 December 2002 and approximately $1,200,000, $1,200,000, $1,200,000, $1,320,000 and $1,800,000 for the year ended 31 December 2001.

Each of Zee Chan Mei Chu, Peggy, Fung Din Chung, Rickie, Leung Lucy, Michele and Ng Wai King, Steve has entered into a service contract with the Company for a term of three years commencing on 1 March 2000.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 DIRECTORS' REMUNERATION *(continued)*

Ip Kim Kuen has entered into a service contract with the Company for a term of three years commencing on 20 March 2000.

Based on the terms of these service contracts, each of the directors are entitled to a monthly salary, housing and other allowances.

During the years ended 31 December 2001 and 2002, there were no amounts paid as an inducement to join or upon joining the Group and no director waived any emoluments.

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2001: three) are directors whose emoluments are disclosed in note 6 on the financial statements. The emoluments of the remaining two (2001: two) individuals are as follows:

	2002	2001
	$'000	$'000
Salary and other emoluments	**2,758**	3,300
Retirement scheme contributions	**24**	12
	2,782	3,312

The two individuals with highest emoluments received emoluments of approximately $1,508,000 and $1,250,000 for the year ended 31 December 2002 and approximately $1,800,000 and $1,500,000 for the year ended 31 December 2001.

No amounts were paid or payable to senior management as an inducement to join the Group or as compensation for loss of office during the years ended 31 December 2001 and 2002.

8 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $125,804,000 (2001: loss of $52,677,000) which has been dealt with in the financial statements of the Company *(note 31(b))*.

9 DIVIDENDS

No dividends has been paid or declared by the Company since its incorporation.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 LOSS PER SHARE

Basic and diluted loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $68,821,000 (2001: loss of $84,776,000) and the weighted average of 985,050,000 shares (2001: 1,007,435,135).

Diluted loss per share for the years ended 31 December 2002 and 2001 is the same as the basic loss per share because there was no dilutive effect in existence during the respective years.

11 SEGMENT REPORTING

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of the provision of development of computer software, systems integration and maintenance and related services rendered to customers is chosen as the reporting format because this is considered by management to be more relevant to the Group in making operating and financial decisions.

(a) Geographical segments by the location of customers and by the location of assets

The Group's businesses can be subdivided into Hong Kong, the mainland China, and other markets.

The Group's geographical segments are classified according to the location of the provision of development of computer software, systems integration and maintenance and related services rendered to customers.

(b) Business segments

The Group comprises the following main business segments:

(i) Enterprise software development and distribution

The development, sale and implementation of enterprise software and sale of computer hardware and software.

(ii) IT consulting and e-business solution

The consulting and systems integration services performed to provide technical support to customers.

(iii) ASP services

The services performed in respect of the ASP business.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 SEGMENT REPORTING *(continued)*

(c) Geographical segments

	Year ended 31 December									
	Hong Kong		**Mainland China**		**Other**		**Inter-segment elimination**		**Consolidated**	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000	**2002 $'000**	2001 $'000	**2002 $'000**	2001 $'000	**2002 $'000**	2001 $'000
Segment revenue										
By location of assets										
Turnover	**97,417**	169,317	**94,803**	3,408	**1,178**	386	**–**	—	**193,398**	173,111
Segment result	**(43,088)**	(6,549)	**(6,888)**	(6,153)	**(3,461)**	(2,752)	**–**	—	**(53,437)**	(15,454)
Finance costs	**(2,938)**	(5,935)	**(301)**	(14)	**–**	—	**–**	—	**(3,239)**	(5,949)
Impairment loss on fixed assets	**(900)**	(3,123)	**–**	—	**–**	—	**–**	—	**(900)**	(3,123)
Impairment loss on development costs	**(2,579)**	—	**–**	—	**–**	—	**–**	—	**(2,579)**	—
Impairment loss on goodwill	**(10,000)**	(30,000)	**–**	—	**–**	—	**–**	—	**(10,000)**	(30,000)
Impairment loss on investments	**–**	(25,462)	**–**	—	**–**	—	**–**	—	**–**	(25,462)
Loss on convertible notes	**–**	(3,525)	**–**	—	**–**	—	**–**	—	**–**	(3,525)
Share of profits less losses of associates	**(568)**	(2,474)	**1,804**	471	**–**	—	**–**	—	**1,236**	(2,003)
Loss before taxation	**(60,073)**	(77,068)	**(5,385)**	(5,696)	**(3,461)**	(2,752)	**–**	—	**(68,919)**	(85,516)
Taxation	**–**	(70)	**(565)**	(213)	**–**	(1)	**–**	—	**(565)**	(284)
Loss after taxation	**(60,073)**	(77,138)	**(5,950)**	(5,909)	**(3,461)**	(2,753)	**–**	—	**(69,484)**	(85,800)
Minority interests	**–**	(171)	**663**	1,195	**–**	—	**–**	—	**663**	1,024
Loss attributable to shareholders	**(60,073)**	(77,309)	**(5,287)**	(4,714)	**(3,461)**	(2,753)	**–**	—	**(68,821)**	(84,776)
Depreciation and amortisation	**(17,029)**	(12,836)	**(895)**	(90)	**(182)**	(126)	**–**	—	**(18,106)**	(13,052)
Capital expenditure incurred during the year	**431**	3,116	**2,239**	1,959	**293**	293	**–**	—	**2,963**	5,368
Segment assets #	**190,267**	291,727	**41,533**	5,478	**356**	2,163	**(39,390)**	—	**192,766**	299,368
Interest in associates	**7,750**	8,318	**16,700**	13,669	**–**	—	**–**	—	**24,450**	21,987
Total assets	**198,017**	300,045	**58,233**	19,147	**356**	2,163	**(39,390)**	—	**217,216**	321,355
Segment liabilities #	**(45,039)**	(96,943)	**(54,068)**	(4,828)	**(5,003)**	(3,452)	**39,390**	3,232	**(64,720)**	(101,991)
Total liabilities	**(45,039)**	(96,943)	**(54,068)**	(4,828)	**(5,003)**	(3,452)	**39,390**	3,232	**(64,720)**	(101,991)
Minority interests									**(3,191)**	(1,238)
Additional information concerning geographical segments:										
Revenue from external customers by the location of customers	**95,749**	148,096	**94,803**	24,629	**2,846**	386	**–**	—	**193,398**	173,111

\# Segment assets and liabilities are before elimination of inter-segment balances.

Inter-segment elimination of $39,390,000 represents inter-segment current accounts at 31 December 2002 (2001: $3,232,000).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 SEGMENT REPORTING *(continued)*

(d) Business segments

	Enterprise Software Development and Distribution		IT Consulting and e-Business Solution		ASP Services		Unallocated Assets		Total	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**171,881**	152,919	**15,817**	19,065	**5,700**	1,127	**–**	—	**193,398**	173,111
Segment assets	**125,162**	170,357	**31,519**	36,524	**6,271**	7,392	**# 54,264**	# 107,082	**217,216**	321,355
Capital expenditure incurred during the year	**2,248**	5,368	**356**	—	**359**	—	**–**	—	**2,963**	5,368

Unallocated assets of $54,264,000 (2001: $107,082,000) mainly comprise of other financial assets, current investments and cash and cash equivalents.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 FIXED ASSETS

The Group

	Land and buildings $'000	Leasehold improvements $'000	Computer and office equipment $'000	ASP software $'000	Furniture and fixtures $'000	Motor vehicles $'000	Total $'000
Cost:							
At 1 January 2002	7,856	4,126	28,719	7,187	6,673	416	54,977
Additions							
— through acquisition of a subsidiary	—	—	329	—	—	—	329
— others	—	1,014	1,592	—	56	301	2,963
Disposals	—	(526)	(4,764)	—	(118)	—	(5,408)
At 31 December 2002	**7,856**	**4,614**	**25,876**	**7,187**	**6,611**	**717**	**52,861**
Aggregate depreciation:							
At 1 January 2002	917	1,565	15,559	1,124	5,189	343	24,697
Through acquisition of a subsidiary	—	—	49	—	—	—	49
Charge for the year	103	1,186	6,459	1,312	483	66	9,609
Impairment loss	900	—	—	—	—	—	900
Written back on disposals	—	(329)	(4,732)	—	(41)	—	(5,102)
At 31 December 2002	**1,920**	**2,422**	**17,335**	**2,436**	**5,631**	**409**	**30,153**
Net book value:							
At 31 December 2002	**5,936**	**2,192**	**8,541**	**4,751**	**980**	**308**	**22,708**
At 31 December 2001	6,939	2,561	13,160	6,063	1,484	73	30,280

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 FIXED ASSETS *(continued)*

The analysis of the net book value of land and buildings is as follows:

	The Group	
	2002	2001
	$'000	$'000
In Hong Kong under long leases	**5,936**	6,939

At 31 December 2002, the directors of the Company considered that there is an impairment in the value of certain land and buildings having considered their recoverable amounts which were based on net selling price. An impairment loss of $900,000 (2001: $3,123,000) was recorded at 31 December 2002.

13 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002	2001
	$'000	$'000
Investments in subsidiaries (cost of US$1)	**—**	—
Amounts due from subsidiaries	**337,782**	387,896
Less: Provision	**(170,461)**	(49,628)
	167,321	338,268
Amounts due to subsidiaries	**(64,740)**	(55,543)
	102,581	282,725

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(d) and have been consolidated into the financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity: Group's effective holding	Percentage of equity: Held by the Company	Percentage of equity: Held by subsidiary	Principal activities
Excel (BVI) Limited	British Virgin Islands	5,000 shares of US$1 each	100%	100%	—	Investment holding
Excel Technology International (Hong Kong) Limited	Hong Kong	1,000 shares of HK$1 each	100%	—	100%	Development of computer software, systems integration and maintenance
Guangzhou Excel Technology Company Limited	The People's Republic of China#	HK$1,000,000	100%	—	100%	Operation of IT software centre
Excelink Technology Pte Ltd.	Singapore	714,286 shares of S$1 each	100%	—	100%	Provision for sale and marketing services on Excel's enterprise software
Excel Systems Limited	Hong Kong	1,000,000 shares of HK$1 each	100%	—	100%	Development of computer software, systems integration and maintenance
Excel Technology International (BVI) Limited	British Virgin Islands	1 share of US$1 each	100%	—	100%	Investment holding

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) *(continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity: Group's effective holding	Held by the Company	Held by subsidiary	Principal activities
New Crest Technology Corp.	British Virgin Islands	1 share of US$1 each	100%	—	100%	Investment holding
Wise Success Ltd.	British Virgin Islands	5,000 share of US$1 each	100%	—	100%	Investment holding
Grandful Star Ltd.	British Virgin Islands	1 share of US$1 each	100%	—	100%	Investment holding
Infostar Ltd.	British Virgin Islands	1 share of US$1 each	100%	—	100%	Investment holding
Excel China Investment (BVI) Limited	British Virgin Islands	5,000 shares of US$1 each	100%	—	100%	Investment holding
ExcelSolution Technology Limited	The People's Republic of China*	Rmb6,000,000	66%	—	66%	Provision of sale and marketing services and Excel's enterprise software
ExcelSoft Technology Solutions Limited	The People's Republic of China*	US$1,230,000	65%	—	65%	Sale of hardware and software
Excel System Limited	British Virgin Islands	1 share of US$1 each	100%	—	100%	Sale of hardware and software
i21 Limited	Hong Kong	14,000 shares of HK$1 each	80.1%	—	80.1%	ASP services provider

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) *(continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity: Group's effective holding	Held by the Company	Held by subsidiary	Principal activities
HR21 Holdings Limited	British Virgin Islands	50,000 shares of US$1 each	93.0%	—	93.0%	Investment holding
HR21 Limited	Hong Kong	2 shares of HK$1 each	93.0%	—	93.0%	Computer software development, systems integration and maintenance
HR21 Singapore Holdings Pte Limited	Singapore	2 shares of S$1 each	93.0%	—	93.0%	Investment holding
HR21 Singapore Pte Ltd.	Singapore	2 shares of S$1 each	93.0%	—	93.0%	Computer software development and marketing
志鴻軟件(深圳)有限公司	The People's Republic of China #	HK$3,000,000	100%	—	100%	Development of computer software, systems integration and maintenance
Excelink Development Corporation	British Virgin Islands	10,000 shares of US$1 each	100%	—	100%	Investment holding
安利科技(上海)有限公司	The People's Republic of China #	US$200,000	100%	—	100%	Development of computer software, provision of customisation and maintenance

Wholly foreign-owned enterprise
* Sino-foreign equity joint venture enterprise

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and recoverable/repayable within one year.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 INTEREST IN ASSOCIATES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Unlisted shares, at cost	**—**	—	**—**	—
Share of net assets	**15,834**	13,669	**—**	—
Goodwill	**8,616**	8,318	**—**	—
	24,450	21,987	**—**	—

Goodwill relating to associates is amortised on a straight-line basis over five to fifteen years.

Details of the principal associates at 31 December 2002 are as follows:

			Percentage of equity			
Name of company	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Group's effective holding**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Camelot Information Systems Inc.	British Virgin Islands	22,500 shares of US$1 each	21.5%	—	21.5%	Provision for IT consultancy and support services
Excel Force Ltd.	British Virgin Islands	10,000 shares of US$1 each	40%	—	40%	Investment holding
i-Application Limited	Hong Kong	1,430,280 shares of HK$1 each	40%	—	40%	Investment holding
浩天信息科技(深圳)有限公司	The People's Republic of China	HK$600,000	40%	—	40%	Computer software development, systems integration, and provision of customisation

On 17 June 2002, the Group acquired a 40% interest in Excel Force Ltd. for a cash consideration of $1,680,000 paid over three instalments, of which $1,180,000 was paid at 31 December 2002.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 GOODWILL

	The Group	
	2002	2001
	$'000	$'000
Cost:		
At 1 January	**49,686**	—
Addition on acquisition of a subsidiary	**2,010**	49,686
At 31 December	**51,696**	49,686
Accumulated amortisation:		
At 1 January	**32,173**	—
Charge for the year	**2,029**	2,173
Impairment loss	**10,000**	30,000
At 31 December	**44,202**	32,173
Carrying value:		
At 31 December	**7,494**	17,513

Goodwill relating to subsidiaries is amortised on a straight-line basis over five to ten years.

At 31 December 2002, the directors of the Company considered that there is an impairment in the value of the goodwill which arose on the acquisition of i21, having considered the market demands and financial viability of the application service provider business in the foreseeable future. Based on this assessment, the carrying amount of the goodwill was written down by $10,000,000 (2001: $30,000,000). The estimate of the recoverable amount was based on the estimated future discounted cashflows at a discount rate of 9% (2001: 9%) applied to the business of i21.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 DEVELOPMENT COSTS

	The Group	
	2002	2001
	$'000	$'000
Cost:		
At 1 January	**16,693**	6,078
Additions	**3,103**	10,615
At 31 December	**19,796**	16,693
Accumulated amortisation:		
At 1 January	**5,655**	1,356
Charge for the year	**6,468**	4,299
Impairment loss	**2,579**	—
At 31 December	**14,702**	5,655
Net book value:		
At 31 December	**5,094**	11,038

Development costs of $19,796,000 capitalised as at 31 December 2002 (2001: $16,693,000) are amortised to the consolidated profit and loss account on a straight-line basis over the estimated useful lives of the developed software of 3 years. The directors of the Company considered that there is an impairment in the value of the development costs, having considered the market demands of the software products in the foreseeable future. Based on this assessment, the carrying amount of the development costs was written down by $2,579,000 (2001: $Nil). The estimates of the recoverable amounts were based on the estimated future discounted cashflows at a discount rate of 9% applied to the software products.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 OTHER FINANCIAL ASSETS

	The Group	
	2002	2001
	$'000	$'000
Investment securities		
Equity securities listed in Hong Kong	**—**	2,292
Unlisted private equity fund	**3,903**	3,903
	3,903	6,195
Market value of listed securities	**—**	3,581

The investment in the private equity fund is stated at cost. The private equity fund principally invests in unquoted companies in high growth technology industries.

18 CURRENT INVESTMENTS

	The Group	
	2002	2001
	$'000	$'000
Trading securities listed in Hong Kong (at market value)	**3,057**	2,924
Global liquidity fund	**—**	63,601
	3,057	66,525

19 INVENTORIES

	The Group	
	2002	2001
	$'000	$'000
Computer hardware acquired for resale	**23,090**	39,245

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 WORK IN PROGRESS

Work in progress represents the amount of contract costs incurred plus attributable profit less progress billings. All the amounts are expected to be recovered within one year.

21 TRADE RECEIVABLES, BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Trade receivables	**49,896**	12,483	**—**	—
Bills receivables	**19,520**	—	**—**	—
Utilities and rental deposits	**2,787**	3,762	**—**	—
Prepayments and other receivables	**5,174**	4,512	**130**	150
	7,961	8,274	**130**	150
	77,377	20,757	**130**	150

All of the trade and other receivables are expected to be recovered within one year.

Trade receivables (net of specific allowances for bad and doubtful debts) and bills receivables have the following ageing analysis:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Current	**54,113**	7,860	**—**	—
1 to 3 months overdue	**12,049**	3,205	**—**	—
More than 3 months overdue but less than 12 months overdue	**3,254**	1,418	**—**	—
	69,416	12,483	**—**	—

Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22 PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Pledged deposits	**8,000**	8,100	**—**	—
Deposits with banks and other financial institutions	**8,543**	20,950	**—**	—
Cash at bank and in hand	**15,971**	44,987	**129**	2,013
Cash and cash equivalents	**24,514**	65,937	**129**	2,013

Pledged deposits of $8,000,000 (2001: $8,100,000) were placed with banks as security for banking facilities made available to the Group (note 23).

23 BANK LOANS

The banking facilities of certain subsidiaries of the Group are secured by certain deposits with banks at 31 December 2002 (note 22). Such banking facilities amounting to $7,520,000 (2001: $7,520,000), were utilised to the extent of $4,700,000 at 31 December 2002 (2001: $940,000).

The other bank loans of $1,128,000 at 31 December 2002 (2001: $Nil) are unsecured loans.

All bank loans are repayable within one year or on demand.

24 TRADE PAYABLES, BILLS PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Trade payables	**25,203**	3,865	**—**	—
Bills payables	**1,873**	—	**—**	—
Other payables and accrued expenses	**16,031**	12,865	**714**	870
	43,107	16,730	**714**	870

All of the trade and other payables are expected to be settled within one year.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 TRADE PAYABLES, BILLS PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES *(continued)*

Included in trade and other payables are trade payables and bills payables with the following ageing analysis:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Due within 1 month or on demand	**27,076**	3,865	**—**	—

25 DEFERRED INCOME

	The Group	
	2002	2001
	$'000	$'000
At 1 January	**28,233**	10,167
Released to profit and loss account	**(28,233)**	(10,167)
Income deferred during the year	**15,785**	28,233
At 31 December	**15,785**	28,233

Deferred income represents amounts received from customers before the related services have been rendered. All the amounts included in deferred income are expected to be credited to the profit and loss account within one year.

26 DEFERRED TAXATION

At 31 December 2002, the Group had net deferred tax assets which have not been recognised in the financial statements as their realisation is not assured beyond reasonable doubt.

The major components of the deferred tax (assets)/liabilities of the Group are set out below:

	2002		2001	
	Provided	**Potential (assets)/ liabilities unprovided**	Provided	Potential (assets)/ liabilities Unprovided
	$'000	**$'000**	$'000	$'000
Depreciation allowances in excess of related depreciation	**—**	**1,353**	—	1,279
Future benefit of tax losses	**—**	**(11,286)**	—	(3,689)
	—	**(9,933)**	—	(2,410)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 CONVERTIBLE NOTES

	The Group and the Company		
	Principal amount	**Finance costs**	**Carrying value**
	$'000	$'000	$'000
At 1 January 2002	47,220	8,868	56,088
Finance costs to 31 May 2002 (maturity date)	—	2,938	2,938
At 31 May 2002	47,220	11,806	59,026
Less: Repayment at maturity date	(47,220)	(11,806)	(59,026)
At 31 December 2002	—	—	—

The convertible note was redeemed by the Company on 31 May 2002 at the redemption amount equivalent to 125% of the principal amount.

28 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 EQUITY COMPENSATION BENEFITS

The Group adopted a new share option scheme (the "New Scheme") pursuant to the shareholders' resolution in a special general meeting on 23 April 2002, following the amendments on the GEM Listing Rules which came into effect on 1 October 2001. Pursuant to the New Scheme, no further options will be granted under the old share option scheme ("Old Scheme") after 23 April 2002 but the provisions of the Old Scheme that were adopted on 16 June 2000 remain in force and all options granted prior thereto will continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

Under the terms of the New Scheme, the directors may at their discretion invite executive directors and employees of the Group to take up options to subscribe for shares of the Company. The New Scheme shall be valid and effective for a period of ten years, ending on 22 April 2012, after which no further options will be granted. The exercise price of options is determinable by the board but may not be less than the highest of (i) the closing price of the Company's shares on the date of the grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of the shares. The exercise period of the options granted is determinable by the board, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant. A nominal consideration of $1 is payable on acceptance of the grant of options.

The total number of shares available for issue under the New Scheme as at 31 December 2002 was 98,505,000 shares which represented 10% of the issued share capital of the Company at 31 December 2002. The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding under the New Scheme) may not exceed 30% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options pursuant to the New Scheme. In respect of the maximum entitlement of each participant under the New Scheme, the number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue. Any further grant of options in excess of this limit is subject to shareholders' approval in a general meeting.

(a) Movements in share options

	2002 Number	2001 Number
At 1 January	**78,038,500**	59,411,000
Granted	**—**	28,264,000
Lapsed	**(9,190,500)**	(9,636,500)
At 31 December	**68,848,000**	78,038,500
Options vested at 31 December	**40,940,800**	9,954,900

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 EQUITY COMPENSATION BENEFITS *(continued)*

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise Price	2002 Number	2001 Number
1 September 2000	1 September 2000 to 31 August 2005	$0.9	**44,672,000**	49,774,500
11 October 2001	11 October 2001 to 10 October 2006	$0.7	**24,176,000**	28,264,000
			68,848,000	78,038,500

(c) Details of share options granted during the year, all of which were granted for nil consideration

Exercise period	Exercise Price	2002 Number	2001 Number
11 October 2001 to 10 October 2006	$0.9	**–**	28,264,000

(d) Details of share options exercised during the year

No options were exercised during the year ended 31 December 2002 (2001: Nil).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 SHARE CAPITAL

	The Company			
	2002		2001	
	Number of shares	**$'000**	Number of shares	$'000
Authorised:				
Shares of $0.10 each	**5,000,000,000**	**500,000**	5,000,000,000	500,000
Issued and fully paid:				
At 1 January	**985,050,000**	**98,505**	1,000,000,000	100,000
Shares issued upon acquisition of a subsidiary	**–**	**–**	67,264,000	6,726
Shares issued upon acquisition of an associate	**–**	**–**	3,120,000	312
Shares repurchased	**–**	**–**	(85,334,000)	(8,533)
At 31 December	**985,050,000**	**98,505**	985,050,000	98,505

31 RESERVES

(a) The Group

	Share premium $'000	**Retained profits/ (accumulated losses)** $'000	**Total** $'000
At 1 January 2001	185,475	24,747	210,222
Share premium arising from			
— (1) Acquisition of a subsidiary	40,359	—	40,359
— (2) Acquisition of an associate	1,622	—	1,622
Purchase of own shares	(47,806)	—	(47,806)
Loss for the year	—	(84,776)	(84,776)
At 31 December 2001	179,650	(60,029)	119,621
At 1 January 2002	179,650	(60,029)	119,621
Loss for the year	—	(68,821)	(68,821)
At 31 December 2002	**179,650**	**(128,850)**	**50,800**

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 RESERVES *(continued)*

(b) The Company

	Share Premium $'000	Retained profits/ (accumulated losses) $'000	Total $'000
At 1 January 2001	185,475	2,452	187,927
Share premium arising from			
— (1) Acquisition of a subsidiary	40,359	—	40,359
— (2) Acquisition of an associate	1,622	—	1,622
Purchase of own shares	(47,806)	—	(47,806)
Loss for the year	—	(52,677)	(52,677)
At 31 December 2001	179,650	(50,225)	129,425
At 1 January 2002	179,650	(50,225)	129,425
Loss for the year	—	(125,804)	(125,804)
At 31 December 2002	**179,650**	**(176,029)**	**3,621**

At 31 December 2002, there are no reserves available for distribution to shareholders of the Company (2001: $Nil).

The application of the share premium account is governed by section 42A under the Companies Act 1981 of Bermuda.

Included in the figure for accumulated losses of the Group is an amount of $1,373,000 (2001: $2,156,000), being the net loss attributable to the associates.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Purchase of a subsidiary

	2002 $'000
Net assets acquired:	
Fixed assets	280
Trade receivables, deposits, prepayments and other receivables	287
Cash and cash equivalents	184
Other payables and accrued expenses	(2,761)
	(2,010)
Goodwill arising on consolidation	2,010
	—
Satisfied in cash of $1	—

The subsidiary acquired during the year contributed $184,000 to the Group's net operating cash flows.

(b) Analysis of net inflow of cash and cash equivalents in respect of the purchase of a subsidiary

	2002 $'000
Cash consideration	—
Cash at bank and in hand acquired	184
Net inflow of cash and cash equivalents in respect of the purchase of a subsidiary	184

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 COMMITMENTS AND CONTINGENCIES

(a) Commitments under operating leases

At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	The Group	
	2002	2001
	$'000	$'000
Within 1 year	**6,665**	11,746
After 1 year but within 5 years	**42,433**	35,243
After 5 years	**2,868**	—
	51,966	46,989

(b) Capital commitments

At 31 December 2002, the Group had an outstanding commitment to inject a further investment amount of US$500,000 ($3,900,000) into a private equity fund.

(c) At 31 December 2002, the Company had issued guarantees of US$1,128,000 ($8,798,400) (2001: $Nil) to suppliers in respect of credit facilities granted to subsidiaries of the Company. Such facilities were utilised to the extent of US$296,000 ($2,307,000) at 31 December 2002 (2001: $Nil).

34 MATERIAL RELATED PARTY TRANSACTIONS

The following transactions represent material and significant related party transactions during the relevant period between the Group and related parties identified by management.

	Note	**2002**	2001
		$'000	$'000
Complementary hardware and software resale	*(i)*	**8,324**	—
Purchases of hardware	*(ii)*	**(968)**	—
Rental receivable on land and buildings	*(iii)*	**—**	2,622
Management fee and service charges receivable	*(iv)*	**464**	424
Designing fee payable	*(v)*	**(120)**	—

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

Notes:

(i) This represents the sale of complementary hardware and software to Evergold Technology Limited ("Evergold") for the year ended 31 December 2002. Evergold is a minority shareholder of one of the subsidiaries of the Group.

(ii) This represents purchase of hardware from Evergold.

(iii) This represents office rental receivable from i21 and Net Fun Limited for the year ended 31 December 2001. Rentals have been calculated based on the percentage of floor space occupied by i21 and Net Fun Limited. With effect from 24 July 2001, i21 became a subsidiary of the Group.

(iv) This represents management fees and service charges receivable from Net Fun Limited. The amount is based on estimated staff costs overheads and related expenses incurred by the Group.

(v) This represents designing fees payable to Net Fun Limited for designing services provided during the year ended 31 December 2002 based on the agreement signed on 1 June 2002.

Staff quarters have been provided to two directors during the years ended 31 December 2001 and 31 December 2002. The related benefits in kind have been included in the emoluments of directors and senior management detailed in note 6 on the financial statements.

35 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement.

Certain comparative figures have been reclassified to conform with current year's presentation.

36 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2002 to be Passion Investment (BVI) Limited, which is incorporated in the British Virgin Islands.

FIVE-YEAR SUMMARY

(Expressed in Hong Kong dollars)

COMPARATIVE TABLES OF RESULTS, ASSETS AND LIABILITIES

The following table summaries the results, assets and liabilities of the Group for each of the last five financial years:

	2002	2001	2000	1999	1998
	$'000	$'000	$'000	$'000	$'000
			(Note)	*(Note)*	*(Note)*
Turnover	**193,398**	173,111	155,425	98,071	74,984
(Loss)/profit from ordinary activities before taxation	**(68,919)**	(85,516)	23,260	(11,799)	2,083
Taxation	**(565)**	(284)	(540)	227	(764)
(Loss)/profit after taxation	**(69,484)**	(85,800)	22,720	(11,572)	1,319
Minority interests	**663**	1,024	—	—	—
(Loss)/profit attributable to shareholders	**(68,821)**	(84,776)	22,720	(11,572)	1,319
Total assets	**217,216**	321,355	395,272	74,062	60,745
Total liabilities	**(67,911)**	(103,229)	(85,050)	(72,064)	(42,175)
Net assets	**149,305**	218,126	310,222	1,998	18,570

Note: In the preparation of the accountants' report included in the Prospectus (the "Accountants' Report"), as is the usual practice in respect of accountants' reports included in prospectuses, the financial results of the Group represented the combined results of the Group during the three years ended 31 December 1999 as if the Group structure set out on page 73 of the Prospectus had been in existence during the relevant period covered by the Accountants' Report. As a result, the Group accounted for its investment in Net Fun Limited ("Net Fun") as investment securities to the extent of dividend income in respect of the relevant period in the Accountants' Report. This basis of preparation was disclosed in the Accountants' Report.

In accordance with Hong Kong Statements of Standard Accounting Practice applicable to statutory financial statements, the financial results of the Group for the years ended 31 December 1998, 31 December 1999 and 31 December 2000 included the financial results of Net Fun from its acquisition in 1998 up to the Group's disposal of Net Fun on 29 January 2000. Since the date of disposal, the Group accounted for its remaining investment in Net Fun as investment securities to the extent of dividend income attributable to each financial period.