



Excel

TECHNOLOGY

Excel Technology International Holdings Limited
(Incorporated in Bermuda with limited liability)

Annual Report 2003

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

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

This report, for which the directors (the "Directors") of Excel Technology International Holdings Limited (the "Company") collectively and individually accept 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.



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

ZEE CHAN Mei Chu, Peggy
FUNG Din Chung, Rickie
LEUNG Lucy, Michele
WEN Pei Sung

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

FUNG Din Chung, Rickie

QUALIFIED ACCOUNTANT

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

FUNG Din Chung, Rickie
LEUNG Lucy, Michele

BERMUDA RESIDENT REPRESENTATIVES

COLLIS John Charles Ross
WHALEY Anthony Devon (*Deputy*)

AUDIT COMMITTEE

CHEONG Ying Chew, Henry
CHANG Ka Mun
WONG Mee Chun

SPONSOR

N/A

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISER

Baker & McKenzie

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F., 663 King's Road
North Point
Hong Kong

WEBSITE ADDRESS

www.excel.com.hk

FINANCIAL HIGHLIGHTS

for the year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000	Change Fav/(Adv)
Turnover	184,713	193,398	(5%)
Loss from operations	(27,285)	(66,916)	59%
Loss attributable to shareholders	(26,529)	(68,821)	62%
Loss per share — Basic	<u>(2.69 cents)</u>	<u>(6.99 cents)</u>	62%
Shareholders' funds	<u>122,776</u>	<u>149,305</u>	(18%)



CHAIRMAN'S STATEMENT

Although the IT sector in 2003 remained difficult, the Group achieved a turnover of HK\$184,713,000, a slight decrease of 5% when compared to 2002 but loss attributable to shareholders significantly narrowed to HK\$26,529,00 (2002: HK\$68,821,000). Revenue from Excel's own software products and software related services increased while turnover on systems integration decreased slightly.

This is the result of the Group's effort to mobilize its resources to focus on products and services with higher margin and sustained economic benefits, in particular, Excel's own enterprise software sales and ASP business.

Since its listing in June 2000, Excel has transformed from a Hong Kong enterprise software company to a regional Financial Technology Provider. The Group widened its business scope to include managed services such as ASP, outsourcing, and systems integration. Revenue from outside of Hong Kong grew to account for more than 56% of the Group's turnover with majority coming from mainland China — one of the fastest growing markets, making Excel a true regional player and much stronger positioning vis-à-vis its competitors.

ENTERPRISE SOFTWARE PRODUCTS

Sales of Excel's own enterprise software products in 2003 increased by 27% to HK\$63,077,000, comprising 34% of total turnover (2002: about 26%). The results varied in different geographies. China and Singapore recorded encouraging results with significant increases.

Hong Kong continued to be a difficult market but the Group started to develop managed IT and software outsourcing services for its clients, leveraging on our software development expertise and infrastructure software products. In 2003, the Reserves and Treasury Portfolio System (named as "REAPS") for a monetary authority went live. This marked a key milestone in Excel's ability to successfully develop and implement bespoke financial application and further making it to become a product. The Group is now marketing this REAPS product to other similar regulatory authorities and banks in the region.

The increase in enterprise software products was mainly attributable to increased demands in mainland China and Southeast Asia. Over the last three years, the Group invested heavily in localizing its enterprise software products for these markets. The biggest technical challenge in mainland China is the scale of operation and transaction volume. Chinese banking and securities clients operate a nationwide network and have a vast customers base. The requirement for a scalable and robust technology infrastructure becomes imperative. Excel has successfully built a centralized Integrated Securities Trading System ("ITS") for the China market that can handle centralized and distributed on-line high transaction volume. This ITS system is now under parallel operation for the Shenzhen Guosen Securities. On a similar scale, Excel had successfully implemented the Retail Loans Processing & Management System ("LOANS") for China Minsheng Bank with several local and multinational financial clients to follow. In this arena, Excel stays much ahead of its competitors in localizing software for the mainland China market.

Using the base from the Singapore office, Excel expanded to taking on regional projects with banks headquartered in Singapore and Malaysia with its Unit Trust Management System ("UTS") and Wealth Management System ("WMS"). It is expected that the Group's sales in Southeast Asia will substantially increase further in 2004.



CHAIRMAN'S STATEMENT

SYSTEMS INTEGRATION

Systems Integration decreased by 11% to HK\$108,546,000, comprising 59% of total turnover (2002: about 63%). This business continued to be strategically important for the mainland China market as an entry to new client base for brand building purpose. The Group achieved an above average profit margin as the resale was usually bundled with value-added services. Systems integrators in both mainland China and Hong Kong are undergoing consolidation. The market has fewer capable players and Excel is reviewing its service offerings to focus on value added IT services and collaboration opportunities.

OPERATIONS

Despite a decrease in turnover, loss from operation was reduced through a change in the mix of product and service offerings and a reduction of operating expenses. The Shenzhen software center has contributed to bring down the software development cost as well as growing to become a major outsourcing center for external clients. Due to increased business volume in mainland China, loss from the operation was significantly reduced. The Southeast Asia operation also recorded growth in revenue, the increase came mainly from an increase in enterprise software sales and thus loss from the Singapore operation was reduced.

Towards the end of 2003, the Group relocated its headquarter office in Hong Kong to a new location. From 2004 onward, rental expenses will be drastically reduced. The staff force in Hong Kong was downsized to the desired strength. Coupled with the cost-cutting measures in other offices, the Group's total operating expenses were reduced by 14%.

Following a series of strategic and operation measures, the Group had significantly improved its operating results. Loss attributable to shareholders was reduced by 62% to HK\$26,529,000.

FUTURE PROSPECTS

After a few years of operation and with an established software delivery capability in mainland China, the Group is reviewing its strategic position with a view to launching new services. One immediate opportunity under active pursuit is the establishment of a software outsourcing service and ASP business.

Excel is leveraging on its Shenzhen software center to build an outsourcing service to include support for overseas and local customers. To this end, we are canvassing support from government bodies and seeking alliance both within associated companies in the Group and other Chinese software companies to put into place the software development process, quality control, intellectual property protection, and funding support. We have merged the management of the Group's two operations in Shenzhen as a first step to this objective. A few large multinational customers already engaged Excel for offshore software support from the Shenzhen software center and the business in this area will see further expansion.



CHAIRMAN'S STATEMENT

The Group is preparing to launch ASP business projects in mainland China, leveraging the support of government and provincial entities to access a large base of clients. We target to launch at least one service in 2004. The ASP business aims to provide an application platform whereupon Chinese enterprises and government entities can transact financial services with improved data integrity and accuracy. Another opportunity will be to provide a platform for matching technology related projects with funding. Both projects, if implemented successfully, are for nationwide deployment. The advantage of the mainland China market is one of scale. Deployment of software service through ASP mode is the most appropriate for a market like China.

Since banks in mainland China are allowed to sell insurance products, the Group had launched its first Bank Insurance product ("BANCAS") timely for China Minsheng Bank. This product is based on the infrastructure of Excel's WMS. This is a good example of how Excel can utilize its intellectual property and domain knowledge in crossed fields to create new products for changing demand.

The logistics software focused Shanghai subsidiary is studying new opportunities in Shanghai. The advent of large logistics center projects in mainland China has created the need for total solutions in logistics IT service. Excel Shanghai will beef up its consultancy and delivery capabilities to cater for the demand.

In 2004, we do not expect Hong Kong to experience a major rebound in IT spending. Hong Kong enterprises in general remained conservative in their budget and also look north to expand their operation. However as they expand to mainland China and as the market has undergone a period of consolidation, the choices of sizeable and capable regional IT service providers become fewer. Enterprises are more selective in choosing IT service providers, especially those who have international project management experience and mainland China operation. Instead of just looking at price competitiveness, the total cost of IT acquisition will enlarge to include the various risks associated with a short-lived service provider. Instead of competition, we shall see more cooperation and collaboration among the service providers.

Camelot, the Group's associated company in Beijing, is also expanding into the software outsourcing arena for multinational corporations. It plans to build an operation size of close to 1,000 programmers by the end of 2004. Camelot will also expand its ERP implementation business and is hitherto the largest SAP implementation service provider in China. We expect Camelot to undergo a period of fast growth in its business in 2004.

We see 2004 to be a year to consolidate our China operations and merge them to become a self sustained business vehicle. We expect to grow in China not just through the direct subsidiaries and associate companies that the Group already owned, but to actively seek for further mergers and acquisitions to attain the desired size.

I would like to thank all my fellow directors and staff for their contribution to the 2003 results. Through their efforts, the Group has accumulated valuable experience in mainland China and built a wide network of local support. 2004 should be another year for exciting growth and new opportunities and we are confident of the new year ahead.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the year ended 31 December 2003, the Group's turnover decreased by 5% to HK\$184,713,000 (2002: HK\$193,398,000) but loss attributable to shareholders improved by 62% to HK\$26,529,000 (2002: HK\$68,821,000). This result is achieved through a conscious geographic expansion, change of business mix and streamline of operation.

Growth in the sales of enterprise software products in China and Singapore manifested encouraging sign of market acceptance of Excel software products. The overall sales of enterprise software products increased by 27% to HK\$63,077,000 (2002: HK\$49,644,000). It comprised of 34% of the total turnover (2002: 26%), which represented a change in the mix of product and service offerings during the year of 2003.

Systems Integration decreased by 11% to HK\$108,546,000 (2002: HK\$122,237,000). Revenue on professional services decreased by 50% to HK\$7,974,000 (2002: HK\$15,817,000). The ASP business's cost of operation was contained and stabilized with predictable recurring income. Revenue derived from the ASP operation dropped slightly by 10% to HK\$5,116,000 (2002: HK\$5,700,000).

OPERATIONS

Overall staff cost was further reduced by 18%. Comparing with 2002, staff cost constituted 71% of the total operating expenses (2002: 74%). The relocation of the Hong Kong headquarter office in December 2003 was a decisive step to further cut operating expenses substantially. The effect of saving in rental expenses will be reflected in 2004 and onward. As a result of a series of cost-cutting efforts, the Group's total operating expenses was reduced by 14% to HK\$97,244,000 (2002: HK\$113,453,000).

The loss from operations narrowed to HK\$27,285,000 (2002: HK\$66,916,000). The loss attributable to shareholders in 2003 was therefore significantly reduced by 62% to HK\$26,529,000 (2002: HK\$68,821,000).

LIQUIDITY

As at 31 December 2003, the Group held cash and cash equivalents of HK\$24,390,000, which was similar to that of last year (2002: HK\$24,514,000). The computer hardware inventory level was reduced to HK\$6,615,000 (2002: HK\$23,090,000).

The Group fully paid up its capital commitment of US\$1,000,000 to the private equity investment fund. There is no more outstanding capital commitment from the Group. As at 31 December 2003, the investment was carried at cost.

Camelot Information Systems Inc. (a 21.5% associate) recorded an increase in its net profit by 37% to HK\$13,287,000 (2002: HK\$9,703,000). The Group took up its share of the profit attributable to shareholders for an amount of HK\$2,579,000 (2002: HK\$1,047,000) after charging for the goodwill amortization relating to the investment in Camelot.

During the year, the Group sold down 20.5% shareholding in Excel Force Ltd. at cost to the other shareholder. At present, the Group holds only 19.5% in Excel Force Ltd. and has classified the holding as a strategic investment. The sell down was the result of an amicable agreement between the shareholders, as the coming business direction of Excel Force Ltd. will differ from its original objectives.

As of 31 December 2003, the gearing ratio of the Group was 3.2% (2002: 3.9%) on the basis of bank borrowing divided by shareholders' fund.



MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 31 December 2003, the Group's outstanding issued shares were 985,050,000, which was the same as last year.

NEW PRODUCTS / SERVICES

The development of Modular Banking System ("MBS") was completed with a successful implementation with its first client installation. The Group renamed MBS as Reserves and Treasury Portfolio System ("REAPS") to signify the launch of a marketing campaign to promote the product to other financial institutions in China and Southeast Asia. Based on the technology infrastructure of Wealth Management System ("WMS"), the Group developed and implemented the first Bank Insurance product ("BANCAS") for China Minsheng Bank. This new product enables banks to distribute insurance products through its branch network. The Group also further developed WMS which helped to further secure contracts both in China and Malaysia.

SIGNIFICANT INVESTMENTS/ACQUISITIONS AND PERFORMANCES

During the year, the Group had not performed any significant investment or acquisition.

SEGMENTAL PERFORMANCES

Hong Kong's turnover (included sale of enterprise software products, systems integration, professional services and ASP services) was HK\$81,098,000.

The China operations (included Shenzhen software center, Excel Shanghai and the two equity joint ventures in Shenzhen and Beijing respectively) recorded a total turnover of HK\$100,639,000.

Singapore recorded a turnover of HK\$2,976,000.

EMPLOYEES

The total number of employees as at 31 December 2003 was reduced from 408 (beginning of 2003) to 348. In 2004, we need to beef up the staff force in Singapore as two regional implementation projects for Excel software products will kick off. As the development work of certain software products finished, the released staff resources were redeployed to other development or implementation teams.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group received renminbi from sales in China. The renminbi receipts, as usual, had been applied to internal use within China.



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS IN 2004

Year 2004 started off a strong backlog and with two major software contracts while final terms were being negotiated, the work already started with letter of intent. It is expected that with economic recovery, the Group's sales will exceed that of 2003.

The Group set a mandate to build the software outsourcing business by utilizing its established resources in the Shenzhen Software Center. As a step to speed up the development in other parts of China, the Group will collaborate and partner with other players in this area through alliance. The Group already started providing outsourcing services to multinational companies. We expect further headcount increase in China to meet the business needs for outsourcing and managed services.

Besides building a niche market in the financial sectors for application software, the Group is actively pursuing opportunities in launching ASP business in China. The sheer number of customers and geographical distribution of clients' operations in China justified the use of ASP mode of delivering software service. Leveraging on the successful experience in Hong Kong, the Group is confident that at least one ASP business can be launched in China in 2004.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. ZEE CHAN Mei Chu, Peggy, aged 49, the Founder, Chairman and Chief Executive Officer, is responsible for setting and implementing the corporate strategic directions of the Excel Group. She has over 20 years of experience in business re-engineering, strategy studies, technology planning and systems development, serving major multinational 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 CyberYouth 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 51, is the Chief Operating Officer of the Group and is also in charge of the Singapore operation. She has over 21 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 48, 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.

Mr. WEN Pei Sung, Dennis, aged 56, is the Executive Director and Director of Greater China of the Group. He is responsible for developing the China market for the Group. Mr. Wen has over 33 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 and be appointed as an Executive Director of the Group on 12 May 2003.



PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. IP Tak Chuen, Edmond, aged 51, 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 Group Limited (formerly known as TOM.COM LIMITED). He was appointed as a non-executive Director of the Group on 21 February 2000.

Mr. QUEK Cher Teck, aged 49, 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 DIRECTORS

Mr. CHEONG Ying Chew, Henry, aged 56, 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 44, 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 51, 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 Accountants 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 finance, accounting and general management. Ms. Wong is a Justice of Peace, a member of the Hospital Governing Committee of the Kwai Chung Hospital, ICAC Complaints Committee, Administrative Appeals Board 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

DIRECTORS

Dr. NG Wai King, Steve, aged 45, is the 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. CHEONG Ho Sang, Alfred, aged 47, 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 23 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 46, 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 Groups and Group Financial Controller with South China Media. 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.



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 5/F., 663 King’s Road, North Point, Hong Kong on 26 April 2004 (Monday) at 2:30p.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 2003;
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, 22 March 2004

Registered Office:

Clarendon House
 2 Church Street
 Hamilton HM 11
 Bermuda

Head Office and Principal Place of Business in Hong Kong:

5/F., 663 King's Road
 North Point
 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 present their annual report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 36 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 26.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 26 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Zee Chan Mei Chu, Peggy

Fung Din Chung, Rickie

Leung Lucy, Michele

Wen Pei Sung

(appointed on 12 May 2003)

Ip Kim Kuen

(resigned on 31 January 2004)

Ng Wai King, Steve

(resigned on 12 May 2003)

Non-executive directors

Ip Tak Chuen, Edmond

Quek Cher Teck

REPORT OF THE DIRECTORS

DIRECTORS *(continued)*

Independent non-executive directors

Cheong Ying Chew, Henry
Chang Ka Mun
Wong Mee Chun

In accordance with the Company's bye-laws, Wen Pei Sung, Fung Din Chung, Rickie and Ip Tak Chuen, Edmond 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

At 31 December 2003, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

Long positions

(a) **Ordinary shares of HK\$0.10 each of the Company**

Name of director	Number of ordinary shares held		
	Beneficial owner	Held by family	Held by controlled corporation
Zee Chan Mei Chu, Peggy	1,538,000	—	563,679,197 <i>(note 1)</i>
Fung Din Chung, Rickie	24,559,498	—	—
Leung Lucy, Michele	—	—	24,559,498 <i>(note 2)</i>
Wen Pei Sung	2,328,847	—	—
Ip Kim Kuen	2,403,400	—	—
Wong Mee Chun	40,000	382,000	—

Notes:

- (1) 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.
- (2) These shares were held by Mossell Green Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Leung Lucy, Michele.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES *(continued)*

Long positions *(continued)*

(b) Share options

Details of the share options granted to and held by the directors under the Company's share option scheme adopted on 16 June 2000 and amended on 18 April 2001 (the "Old Scheme") are as follows:

Name of director	Date of grant	Exercise price HK\$	Number of options held	Number of underlying shares
Fung Din Chung, Rickie	1 September 2000 <i>(note 1)</i>	0.90	8,000,000	8,000,000
Leung Lucy, Michele	1 September 2000 <i>(note 1)</i>	0.90	8,000,000	8,000,000
Wen Pei Sung	11 October 2001 <i>(note 2)</i>	0.70	2,000,000	2,000,000
Ip Kim Kuen	1 September 2000 <i>(note 1)</i>	0.90	8,000,000	8,000,000

Notes:

- (1) 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).
- (2) 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).

Save as disclosed above and other than certain nominee shares in subsidiaries held by a director in trust for the Company or its subsidiaries, at 31 December 2003, none of the directors or chief executive or any of their spouses or children under the age of 18 had any right to subscribe for the shares of the Company, or had exercised any such right.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2003.

REPORT OF THE DIRECTORS

SHARE OPTIONS

During the year, the movements in the number of share options which have been granted to certain directors and employees under the Old Scheme are as follows:

				Number of options			
			Exercise	Outstanding	Lapsed		Outstanding
	Date of grant		price	at	during	Reclassification	at
			HK\$	1.1.2003	the year		31.12.2003
Directors							
Fung Din Chung, Rickie	1 September 2000	(note 1)	0.90	8,000,000	—	—	8,000,000
Leung Lucy, Michele	1 September 2000	(note 1)	0.90	8,000,000	—	—	8,000,000
Wen Pei Sung	11 October 2001	(note 2)	0.70	—	—	2,000,000	2,000,000
Ip Kim Kuen	1 September 2000	(note 1)	0.90	8,000,000	—	—	8,000,000
Ng Wai King, Steve	1 September 2000	(note 1)	0.90	8,000,000	—	(8,000,000)	—
				32,000,000	—	(6,000,000)	26,000,000
Employees	1 September 2000	(note 1)	0.90	12,672,000	(2,204,500)	8,000,000	18,467,500
Employees	11 October 2001	(note 2)	0.70	24,176,000	(7,794,000)	(2,000,000)	14,382,000
				36,848,000	(9,998,500)	6,000,000	32,849,500
				68,848,000	(9,998,500)	—	58,849,500

Notes:

- (1) 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).
- (2) The option period is from 11 October 2001 to 10 October 2006 (both dates inclusive) (vesting period with the 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).

On 23 April 2002, the Company adopted a new share option scheme (the “New Scheme”) which was approved in substitution of the Old Scheme. Options granted under the Old Scheme prior to its substitution which have not been fully exercised remain valid until such time that such options are fully exercised or have lapsed. Particulars of the Old Scheme and the New Scheme are set out in note 33 to the financial statements.

No share options were granted under the New Scheme since its adoption.



REPORT OF THE DIRECTORS

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year ended 31 December 2003, the Group had the following transactions with connected persons as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

Pursuant to the agreements dated 29 August 2003 and 1 September 2002 entered into between the Group and Zee King Tak, Winston, Zee King Tak, Winston agreed to lease certain premises to the Group. Zee King Tak, Winston is the spouse of Zee Chan Mei Chu, Peggy. The rentals payable by the Group for the year amounted to HK\$45,600.

Pursuant to the agreements dated 1 June 2002 and 1 June 2003 entered into between the Group and Net Fun Limited, the Group agreed to provide general administrative services to Net Fun Limited. The management fee and service income receivable by the Group during the year amounted to HK\$564,000.

During the year, Net Fun Limited provided design services to the Group. The design fee payable by the Group for the year amounted HK\$192,000.

Zee Chan Mei Chu, Peggy is a director of and has beneficial interests in Net Fun Limited.

Save as disclosed above, no contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service contract with each of Zee Chan Mei Chu, Peggy, Fung Din Chung, Rickie, Leung Lucy, Michele and Ng Wai King, Steve for a term of three years commencing on 1 March 2000. The service contracts were renewed for a further period from 1 March 2003 to 31 December 2003. The service contracts will continue thereafter until terminated by not less than six months' notice in writing by either party to the other. During the year, Ng Wai King, Steve resigned as an executive director of the Company with effect from 12 May 2003 but remains as an employee of the Group.

The Company has entered into a service contract with Ip Kim Kuen for a term of three years commencing on 20 March 2000. The service contract was renewed for a further period from 1 March 2003 to 31 December 2003. The service contract will continue thereafter until terminated by not less than six months' notice in writing by either party to the other. Ip Kim Kuen tendered his resignation as an executive director with effect from 31 January 2004.

The Company has entered into a service contract with Wen Pei Sung for a term of three years commencing on 27 April 2000. The service contract was renewed for a further period from 1 March 2003 to 31 December 2003. The service contract will continue thereafter until terminated by not less than six months' notice in writing by either party to the other.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS *(continued)*

Save as disclosed 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 statutory compensation).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was approximately 35.9% of the Group's total turnover and the Group's largest customer accounted for approximately 11.5% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 60.8% of the Group's total purchases and the Group's largest supplier accounted for approximately 28.3% of the Group's total purchases.

None of 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 issued share capital) had any interest in any of the five largest customers and suppliers of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Long position in the ordinary shares of HK\$0.10 each of the Company

Name of shareholders	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Zee Chan Mei Chu, Peggy <i>(note 1)</i>	565,217,197	57.38%
Passion Investment (BVI) Limited <i>(note 1)</i>	563,679,197	57.22%
Cheung Kong (Holdings) Limited <i>(note 2)</i>	143,233,151	14.54%
Li Ka-Shing Unity Trustee Company Limited <i>(note 2)</i> (as trustee of The Li Ka-Shing Unity Trust)	143,233,151	14.54%
Li Ka-Shing Unity Trustcorp Limited <i>(note 2)</i> (as trustee of another discretionary trust)	143,233,151	14.54%
Li Ka-Shing Unity Trustee Corporation Limited <i>(note 2)</i> (as trustee of The Li Ka-Shing Unity Discretionary Trust)	143,233,151	14.54%
Li Ka-shing <i>(note 2)</i>	143,233,151	14.54%
Alps Mountain Agent Limited	71,969,151	7.31%
iBusiness Corporation Limited	67,264,000	6.83%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS *(continued)*

Notes:

- (1) These shares have been disclosed as director interest held by controlled corporation in the paragraph headed "Directors' and chief executive's interests and short positions in securities".
- (2) Mr. Li Ka-shing is the settlor of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2"). Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust ("UT1") but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT1 and DT2 are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children and Mr. Li Tzar Kai, Richard. Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of UT1 together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH").

The entire issued share capital of each of TUT1, TDT1 and TDT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Unity Holdco as aforesaid.

Mr. Li Ka-shing may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO.

Save as disclosed above, the Company has not been notified of any other interests and short positions in the issued share capital of the Company at 31 December 2003.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

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.

The Company has set up an audit committee in accordance with Rule 5.23 of the GEM Listing Rules. The audit committee comprises three members — Cheong Ying Chew, Henry, Chang Ka Mun and Wong Mee Chun, all of whom are independent non-executive directors. Its principal duties are to review and supervise the financial reporting process and internal control procedures and any other duties as required under Rule 5.25 of the GEM Listing Rules. The audit committee met on a quarterly basis during the year ended 31 December 2003.

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 Group Limited (formerly known as TOM.COM LIMITED) respectively. TOM Group Limited operates 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, at 31 December 2003, none of the directors, the management shareholders or their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause significant competition with the business of the Group.

DONATIONS

During the year, the Group made donations amounting to HK\$28,000.

AUDITORS

During the year, Messrs. KPMG resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Zee Chan Mei Chu, Peggy

Chairman

Hong Kong, 22 March 2004



REPORT OF THE AUDITORS

德勤 • 關黃陳方會計師行

Certified Public Accountants
26/F, Wong On Centre
111 Connaught Road central
Hong Kong

香港中環干諾道中 111 號
永安中心 26 樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF
EXCEL TECHNOLOGY INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 26 to 61 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.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of The Companies Act of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 the Group as at 31 December 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 22 March 2004

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	4	184,713	193,398
Other operating income	6	11,054	2,557
Cost of sales		(109,456)	(117,833)
Staff costs		(68,761)	(83,674)
Depreciation and amortisation		(14,469)	(18,106)
Other operating expenses		(28,483)	(29,779)
Impairment losses recognised		(1,883)	(13,479)
Loss from operations	7	(27,285)	(66,916)
Finance costs	10	(417)	(3,239)
Share of results of associates		2,107	1,236
Loss before taxation		(25,595)	(68,919)
Taxation	11	529	(565)
Loss before minority interests		(25,066)	(69,484)
Minority interests		(1,463)	663
Net loss attributable to shareholders		<u>(26,529)</u>	<u>(68,821)</u>
Loss per share — Basic	12	<u>(2.69 cents)</u>	<u>(6.99 cents)</u>

CONSOLIDATED BALANCE SHEET

at 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Property, plant and equipment	13	14,531	22,708
Interests in associates	15	25,614	24,450
Goodwill	16	6,398	7,494
Development costs	17	6,260	5,094
Investments in securities	18	8,203	3,903
		61,006	63,649
Current assets			
Inventories — at cost		6,615	23,090
Work in progress	19	7,085	17,184
Trade receivables	20	35,143	49,896
Bills receivable		—	19,520
Other receivables, deposits and prepayments		10,942	7,961
Investments in securities	18	1,606	3,057
Taxation recoverable		—	345
Pledged bank deposits		9,200	8,000
Bank balances and cash		24,390	24,514
		94,981	153,567
Current liabilities			
Trade payables	22	7,707	25,203
Bills payable		—	1,873
Other payables and accrued charges		7,052	16,031
Deferred income	23	9,310	15,785
Government grants	24	470	—
Bank loans	25	3,948	5,828
		28,487	64,720
Net current assets		66,494	88,847
Total assets less current liabilities		127,500	152,496
Minority interests		4,724	3,191
Net assets		122,776	149,305

CONSOLIDATED BALANCE SHEET *(continued)**at 31 December 2003*

	Notes	2003 HK\$'000	2002 HK\$'000
Capital and reserves			
Share capital	26	98,505	98,505
Reserves	27(a)	24,271	50,800
		<u>122,776</u>	<u>149,305</u>

The financial statements on pages 26 to 61 were approved and authorised for issue by the Board of Directors on 22 March 2004 and are signed on its behalf by:

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

BALANCE SHEET

at 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Investments in subsidiaries	14	—	—
Current assets			
Other receivables and prepayments		—	130
Amounts due from subsidiaries	21	146,403	167,321
Bank balances and cash		142	129
		146,545	167,580
Current liabilities			
Other payables and accrued charges		709	714
Amounts due to subsidiaries	21	64,740	64,740
		65,449	65,454
Net current assets		81,096	102,126
		81,096	102,126
Capital and reserves			
Share capital	26	98,505	98,505
Reserves	27(b)	(17,409)	3,621
		81,096	102,126

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2003

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	98,505	179,650	(60,029)	218,126
Net loss for the year	—	—	(68,821)	(68,821)
At 31 December 2002	98,505	179,650	(128,850)	149,305
Net loss for the year	—	—	(26,529)	(26,529)
At 31 December 2003	98,505	179,650	(155,379)	122,776

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
Cash flows from operating activities		
Loss before taxation	(25,595)	(68,919)
Adjustments for:		
Share of results of associates	(2,107)	(1,236)
Dividend income from other investments	(76)	(55)
Interest income	(186)	(492)
Interest expense	417	3,239
Realised gain on other investments	(275)	(528)
Realised loss on investment securities	—	1,159
Unrealised loss on other investments	281	764
Reversal of accrued rentals on early termination of an operating lease	(9,203)	—
Depreciation and amortisation of property, plant and equipment	8,423	9,609
Amortisation of development costs	4,950	6,468
Amortisation of goodwill	1,096	2,029
Loss on partial disposal of investments in subsidiaries	—	584
Gain on disposal of associates	(440)	—
Loss (gain) on disposal of property, plant and equipment	728	(497)
Impairment loss recognised in respect of property, plant and equipment	1,760	900
Impairment loss recognised in respect of development costs	123	2,579
Impairment loss recognised in respect of goodwill	—	10,000
Operating cash flows before movements in working capital	(20,104)	(34,396)
Decrease in inventories	16,475	16,155
Decrease in work in progress	10,099	16,464
Decrease (increase) in trade receivables	14,753	(37,126)
Decrease (increase) in bills receivable	19,520	(19,520)
(Increase) decrease in other receivables, deposits and prepayments	(2,981)	313
(Decrease) increase in trade payables	(17,496)	21,338
(Decrease) increase in bills payable	(1,873)	1,873
Increase (decrease) in other payables and accrued charges	224	(95)
Decrease in deferred income	(6,475)	(12,448)
Increase in government grants	470	—
Net cash generated from (used in) operations	12,612	(47,442)
Hong Kong Profits Tax refunded (paid)	995	(198)
PRC Enterprise Income Tax paid	—	(129)
Net cash from (used in) operating activities	13,607	(47,769)

CONSOLIDATED CASH FLOW STATEMENT *(continued)**for the year ended 31 December 2003*

	Note	2003 HK\$'000	2002 HK\$'000
Cash flows from investing activities			
Proceeds from disposal of other investments		1,445	65,309
Proceeds from disposal of associates		861	—
Interest received		186	492
Dividend received from other investments		76	55
Proceeds from disposal of property, plant and equipment		71	803
Development costs capitalised		(6,239)	(3,103)
Purchase of investment securities		(3,899)	—
Purchase of property, plant and equipment		(2,805)	(2,963)
(Increase) decrease in pledged bank deposits		(1,200)	100
Proceeds from disposal of investment securities		—	1,133
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	28	—	184
Purchase of other investments		—	(2,077)
Investment in an associate		—	(1,180)
Net cash (used in) from investing activities		(11,504)	58,753
Cash flows from financing activities			
New bank loans raised		9,870	4,888
Capital contributed by minority interests		70	2,032
Repayment of bank loans		(11,750)	—
Interest paid		(417)	(3,239)
Repayment of convertible notes		—	(56,088)
Net cash used in financing activities		(2,227)	(52,407)
Net decrease in cash and cash equivalents		(124)	(41,423)
Cash and cash equivalents at beginning of the year		24,514	65,937
Cash and cash equivalents at end of the year, representing bank balances and cash		24,390	24,514

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Passion Investment (BVI) Limited, a company which is incorporated in the British Virgin Islands.

The Company is an investment holding company. Its principal subsidiaries are engaged in the development of computer software and the provision of systems integration, professional services and ASP services.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS"(s)) issued by the Hong Kong Society of Accountants. The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP"(s)) and interpretations approved by the Hong Kong Society of Accountants:

SSAP 12 (Revised)	Income taxes
SSAP 35	Government grant

Income taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods.

Government grants

In accordance with SSAP 35, government grants are recognised as income over the periods necessary to match them with the related costs. The Group has elected to apply the accounting provisions of SSAP 35 only to grants or portions becoming receivable or repayable after the adoption of SSAP 35.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities, and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiary and associate acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Turnover

Turnover represents the aggregate of the net amounts received and receivable from the sale of enterprise software products, and the provision of application, systems integration and professional services during the year.

Revenue recognition

Income from enterprise software products includes the sale of enterprise software products, custom development and the provision of maintenance services.

Income from systems integration includes the provision of systems integration services and the resale of complementary hardware and software products.

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".

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

In circumstances where the contract price can be allocated on a reasonable basis into the elements of resale of hardware and software products, sale of software licences and development of customised software, revenue is recognised as described below:

- (a) Revenue from resale of complementary hardware and software products is recognised when the goods are delivered and title has been passed.
- (b) Revenue from sale of software licences is recognised upon delivery of the software products to the customer when there are no post-delivery obligations.
- (c) Revenue from the development of customised software is recognised by reference to the stage of completion of the customisation work (including post-delivery service support) at the balance sheet date.

Where the contract price cannot be allocated into individual elements of the sale of enterprise software products and custom development, revenue from sale of enterprise software products and custom development 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.

Maintenance service income is recognised on a straight line basis over the terms of the relevant maintenance service contracts. Where maintenance service income is not separately invoiced, it is unbundled from licence fees and deferred and recognised on a straight line basis over the period of the relevant maintenance service contracts.

Systems integration service income is recognised when the services are provided.

Professional service income is recognised when the services are provided.

Application Service Provider ("ASP") service income is recognised when the services are provided.

Management fee income is recognised when the management services are provided.

Service income is recognised when the services are provided.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. The reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

ASP software represents all direct costs incurred 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 allocation of overheads. Capitalised software costs are stated at cost less amortisation and any accumulated impairment losses.

Other property, plant and equipment are stated at cost less depreciation and amortisation and any accumulated impairment losses.

Depreciation or amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired terms of the lease
Buildings	2.5%
Leasehold improvements	25%
Computer and office equipment	20% to 33 $\frac{1}{3}$ %
ASP software	20%
Furniture and fixtures	25%
Motor vehicles	30%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates in so far as it has not already been written off, less any identified impairment loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income over the period necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful life of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as other operating income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant leases.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

4. TURNOVER

An analysis of the Group's turnover is as follows:

	2003 HK\$'000	2002 HK\$'000
Enterprise software products	63,077	49,644
Systems integration	108,546	122,237
Professional services	7,974	15,817
ASP services	5,116	5,700
	184,713	193,398

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

5. SEGMENT INFORMATION

(a) Geographical segments

Information relating to geographical segments based on the location of the provision of development of computer software, maintenance and related services rendered to customers is chosen as the primary segment reporting format because this is considered by management to be more relevant to the Group in making operating and financial decisions. The Group's business can be subdivided into Hong Kong, other regions in the People's Republic of China (the "PRC") and other markets.

(i) An analysis of the Group's turnover and results by geographical segments is as follows:

	Hong Kong		PRC		Others		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	81,944	97,417	100,639	94,803	2,976	1,178	(846)	—	184,713	193,398
Segment result	(19,270)	(56,567)	(5,286)	(6,888)	(2,729)	(3,461)	—	—	(27,285)	(66,916)
Finance costs	(4)	(2,938)	(413)	(301)	—	—	—	—	(417)	(3,239)
Share of results of associates	(593)	(568)	2,700	1,804	—	—	—	—	2,107	1,236
Loss before taxation	(19,867)	(60,073)	(2,999)	(5,385)	(2,729)	(3,461)	—	—	(25,595)	(68,919)
Taxation	650	—	(121)	(565)	—	—	—	—	529	(565)
Loss before minority interests	(19,217)	(60,073)	(3,120)	(5,950)	(2,729)	(3,461)	—	—	(25,066)	(69,484)
Minority interests	—	—	(1,463)	663	—	—	—	—	(1,463)	663
Net loss attributable to shareholders	(19,217)	(60,073)	(4,583)	(5,287)	(2,729)	(3,461)	—	—	(26,529)	(68,821)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

5. SEGMENT INFORMATION (continued)

(a) Geographical segments (continued)

(ii) Other information:

	Hong Kong		PRC		Others		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Capital additions	1,482	3,534	7,562	2,239	—	293	—	—	9,044	6,066
Depreciation and amortisation	11,503	17,029	2,780	895	186	182	—	—	14,469	18,106
Impairment loss recognised	1,752	13,479	—	—	131	—	—	—	1,883	13,479
Revenue from external customers by the location of customers	80,843	95,749	100,639	94,803	4,077	2,846	(846)	—	184,713	193,398

Inter-segment sales are charged at similar terms as outsiders.

(iii) An analysis of the Group's balance sheet by geographical segments is as follows:

	Hong Kong		PRC		Others		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Assets										
Segment assets	163,241	189,922	52,146	41,533	1,472	356	(86,486)	(39,390)	130,373	192,421
Taxation recoverable	—	345	—	—	—	—	—	—	—	345
Interests in associates	—	7,750	25,614	16,700	—	—	—	—	25,614	24,450
Consolidated total assets	163,241	198,017	77,760	58,233	1,472	356	(86,486)	(39,390)	155,987	217,216
Liabilities										
Segment liabilities	(16,257)	(45,039)	(87,609)	(48,240)	(7,159)	(5,003)	86,486	39,390	(24,539)	(58,892)
Bank loan	—	—	(3,948)	(5,828)	—	—	—	—	(3,948)	(5,828)
Consolidated total liabilities	(16,257)	(45,039)	(91,557)	(54,068)	(7,159)	(5,003)	86,486	39,390	(28,487)	(64,720)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

5. SEGMENT INFORMATION (continued)

(b) Business segments

The Group is organised into four operating divisions, namely enterprise software products, systems integration, professional services and ASP services:

Principal activities of the operating divisions are as follows:

Enterprise software products	—	sale of enterprise software products and provision of maintenance services
Systems integration	—	provision of systems integration services and resale of complementary hardware and software products
Professional services	—	provision of consultancy services
ASP services	—	provision of services in respect of ASP business

An analysis of the revenue from external customers, the carrying amount of segment assets and capital additions by business segments is as follows:

	Enterprise software products		Systems integration		Professional services		ASP services		Unallocated assets		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	63,077	49,644	108,546	122,237	7,974	15,817	5,116	5,700	—	—	184,713	193,398
Segment assets	37,158	50,643	36,436	74,519	30,707	31,519	6,959	6,271	44,727	54,264	155,987	217,216
Capital additions	8,958	5,302	31	49	55	356	—	359	—	—	9,044	6,066

There is re-grouping of business segments to align with turnover classification.

6. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Dividend income from other investments — listed	76	55
Gain on disposal of associates	440	—
Gain on disposal of property, plant and equipment	—	497
Interest income	186	492
Management fee and service income	564	464
Realised gain on other investments	275	528
Reversal of accrued rentals on early termination of an operating lease	9,203	—
Others	310	521
	11,054	2,557

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

7. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	2003 HK\$'000	2002 HK\$'000
Directors' remuneration	5,871	5,813
Other staff costs	67,078	77,278
Retirement benefit costs	1,707	3,004
	74,656	86,095
Less: Staff costs capitalised in development costs	(5,895)	(2,421)
	68,761	83,674
Depreciation and amortisation of property, plant and equipment	8,423	9,609
Amortisation of development costs	4,950	6,468
Amortisation of goodwill	1,096	2,029
	14,469	18,106
Impairment loss recognised in respect of property, plant and equipment	1,760	900
Impairment loss recognised in respect of development costs	123	2,579
Impairment loss recognised in respect of goodwill	—	10,000
	1,883	13,479
Auditors' remuneration	624	740
Cost of inventories consumed	99,982	111,251
Loss on disposal of property, plant and equipment	728	—
Loss on partial disposal of investments in subsidiaries	—	584
Minimum lease payments in respect of land and buildings	10,223	13,968
Realised loss on investment securities	—	1,159
Unrealised loss on other investments	281	764
	111,618	128,366
For disclosure purpose only:		
Research and development expenditure (including staff costs of HK\$18,746,000; 2002: HK\$21,205,000)	21,202	24,864
Less: Amount capitalised in development costs	(6,239)	(3,103)
	14,963	21,761

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

8. DIRECTORS' REMUNERATION

	2003 HK\$'000	2002 HK\$'000
Fees to non-executive and independent non-executive directors	<u>300</u>	<u>300</u>
Other emoluments to executive directors (<i>note</i>)		
— salaries and other benefits	5,336	5,453
— performance related incentive payments	175	—
— retirement benefit costs	<u>60</u>	<u>60</u>
	<u>5,571</u>	<u>5,513</u>
Total directors' remuneration	<u><u>5,871</u></u>	<u><u>5,813</u></u>

Note: The amount excluded the estimated rateable value of residential accommodation in respect of properties owned by the Group and occupied by two executive directors of the Company of HK\$462,000 (2002: HK\$549,000).

The emoluments of the directors were within the following bands:

	2003	2002
HK\$nil to HK\$1,000,000	6	5
HK\$1,000,001 to HK\$1,500,000	<u>5</u>	<u>5</u>

During the year ended 31 December 2003, the six executive directors received individual emoluments of HK\$1,012,000 (2002: HK\$1,045,000), HK\$1,012,000 (2002: HK\$1,045,000), HK\$1,012,000 (2002: HK\$1,045,000), HK\$1,062,000 (2002: HK\$1,312,000), HK\$367,000 (2002: HK\$1,066,000) and HK\$1,106,000 (2002: nil) respectively; and the three independent non-executive directors each received directors' fees of HK\$100,000 (2002: HK\$100,000).

No director waived any emoluments during both years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2002: three) are directors of the Company, whose emoluments are included in the disclosure in note 8 above. The emoluments of the remaining one (2002: two) highest paid individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,200	2,758
Retirement benefit costs	12	24
	<u>1,212</u>	<u>2,782</u>

The emoluments of the one (2002: two) individuals were within the following bands:

	Number of employees	
	2003	2002
HK\$1,000,000 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	—	1
	<u>—</u>	<u>1</u>

No emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank loans	413	301
Other borrowings	4	—
Interest on convertible notes	—	2,938
	<u>417</u>	<u>3,239</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

11. TAXATION

The (credit) charge comprises:

The Company and its subsidiaries:

Hong Kong Profits Tax

Overprovision in prior years

Taxation in other jurisdictions

Current year

Share of taxation of associates

2003	2002
HK\$'000	HK\$'000
(650)	—
—	112
(650)	112
121	453
(529)	565

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries incurred tax losses during both years.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax (credit) charge for the year can be reconciled to the loss before taxation as follows:

	2003	2002
	HK\$'000	HK\$'000
Loss before taxation	(25,595)	(68,919)
Tax at the Hong Kong Profits Tax rate of 17.5% (2002: 16%)	(4,479)	(11,027)
Tax effect of income that is not taxable for tax purposes	(487)	(1,554)
Tax effect of expenses that are not deductible for tax purposes	1,571	2,413
Tax effect of deductible temporary difference not recognised	4,554	10,582
Tax effect of share of results of associates	(247)	255
Effect of different tax rates of subsidiaries operating in other jurisdictions	(125)	(104)
Overprovision in prior years	(650)	—
Tax effect of utilisation of tax losses previously not recognised	(666)	—
Tax (credit) charge for the year	(529)	565

At 31 December 2003, the Group has unused tax losses of approximately HK\$128,302,000 (2002: HK\$92,873,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. There were no other significant temporary differences arising during the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders of HK\$26,529,000 (2002: HK\$68,821,000) and the 985,050,000 (2002: 985,050,000) shares in issue during the year.

No diluted loss per share has been presented as the exercise price of the options was higher than the average market price per share. Thus no exercise of the Company's outstanding options is assumed.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Computer and office equipment HK\$'000	ASP software HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1 January 2003	7,856	4,614	25,876	7,187	6,611	717	52,861
Additions	—	1,251	1,505	—	49	—	2,805
Disposals	—	(3,459)	(108)	—	(5,045)	—	(8,612)
At 31 December 2003	7,856	2,406	27,273	7,187	1,615	717	47,054
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 January 2003	1,920	2,422	17,335	2,436	5,631	409	30,153
Provided for the year	75	1,303	5,153	1,312	478	102	8,423
Impairment loss recognised in the year	—	—	131	1,629	—	—	1,760
Eliminated on disposals	—	(2,956)	(64)	—	(4,793)	—	(7,813)
At 31 December 2003	1,995	769	22,555	5,377	1,316	511	32,523
NET BOOK VALUES							
At 31 December 2003	5,861	1,637	4,718	1,810	299	206	14,531
At 31 December 2002	5,936	2,192	8,541	4,751	980	308	22,708

The Group's leasehold land and buildings are situated in Hong Kong and are held under long leases.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2003, the directors of the Company assessed the recoverable amount of certain computer equipment by writing off the carrying amount to zero and an impairment loss of HK\$131,000 which has been charged to the income statement for the year.

At 31 December 2003, the directors of the Company also assessed the value of the ASP software by reference to the market demands and financial viability of the ASP business and identified an impairment loss of HK\$1,629,000 which has been charged to the income statement for the year. The recoverable amount was estimated by reference to the estimated future discounted cashflows from the underlying business at a discount rate of 9%.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost of US\$1	—	—

Details of the Company's principal subsidiaries at 31 December 2003 are set out in note 36.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	18,430	15,834
Goodwill	7,184	8,616
	25,614	24,450

At 31 December 2003, the Group holds a 21.5% interest in the issued share capital of Camelot Information Systems Inc., a company which is incorporated in the British Virgin Islands and is engaged in the provision of IT consultancy and support services.

The goodwill is amortised on a straight line basis over its estimated useful life of fifteen years. Amortisation charged in the current year amounting to HK\$712,000 (2002: HK\$670,000) has been included in the amount reported as share of results of associates in the consolidated income statement.

At 31 December 2003, the accumulated profits of the Group include profits of HK\$5,271,000 (2002: loss of HK\$1,373,000) retained by the Group's associates.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

16. GOODWILL

THE GROUP

HK\$'000

COST

At 1 January 2003 and 31 December 2003

51,696

AMORTISATION AND IMPAIRMENT

At 1 January 2003

44,202

Provided for the year

1,096

At 31 December 2003

45,298

CARRYING AMOUNT

At 31 December 2003

6,398

At 31 December 2002

7,494

The goodwill is amortised on a straight line basis over its estimated useful life of five to ten years.

17. DEVELOPMENT COSTS

THE GROUP

HK\$'000

COST

At 1 January 2003

19,796

Additions

6,239

At 31 December 2003

26,035

AMORTISATION AND IMPAIRMENT

At 1 January 2003

14,702

Provided for the year

4,950

Impairment loss recognised in the year

123

At 31 December 2003

19,775

CARRYING AMOUNT

At 31 December 2003

6,260

At 31 December 2002

5,094

The development costs are amortised on a straight line basis over its estimated useful life of three years.

At 31 December 2003, the directors of the Company assessed the value of the development costs by reference to the market demands of the software products in the foreseeable future and identified an impairment loss of HK\$123,000 which has been charged to the income statement for the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Investments securities		
— unlisted private equity fund, at cost	7,802	3,903
— unlisted equity investments, at cost	401	—
Other investments		
— equity securities listed in Hong Kong, at market value	1,606	3,057
	9,809	6,960
Analysed for reporting purpose as:		
Non-current	8,203	3,903
Current	1,606	3,057
	9,809	6,960

The unlisted private equity fund principally invests in unlisted companies in high growth technology industries and is held for identified long-term strategic purposes.

19. WORK IN PROGRESS

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

20. TRADE RECEIVABLES

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.

The following is an aged analysis of the trade receivables at the balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Current	26,654	34,593
Overdue for 1 to 3 months	3,893	12,049
Overdue more than 3 months but less than 12 months	4,596	3,254
	<u>35,143</u>	<u>49,896</u>

21. AMOUNTS DUE FROM/TO SUBSIDIARIES

THE COMPANY

The amounts are unsecured, non-interest bearing and repayable on demand.

22. TRADE PAYABLES

The following is an aged analysis of the trade payables at the balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Due within 1 month or on demand	7,707	25,203
	<u>7,707</u>	<u>25,203</u>

23. DEFERRED INCOME

Deferred income represents the 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 income statement within one year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

24. GOVERNMENT GRANTS

The amount at 31 December 2003 represents government grants received in the year towards the costs of development of computer software. Upon fulfilment of the conditions and obtaining approval from the relevant municipal government, the amount will be credited to the income statement.

During the year ended 31 December 2002, the Group received similar government grants amounting to HK\$470,000 which has been credited to the income statement during that year.

25. BANK LOANS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Secured	3,948	4,700
Unsecured	—	1,128
	<u>3,948</u>	<u>5,828</u>

26. SHARE CAPITAL

	2003 & 2002	
	Number of shares	Amount HK\$'000
Authorised:		
Shares of HK\$0.10 each	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
Shares of HK\$0.10 each	<u>985,050,000</u>	<u>98,505</u>

There was no change in the Company's authorised, issued and fully paid share capital during both years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

27. RESERVES

(a) The Group

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	179,650	(60,029)	119,621
Net loss for the year	—	(68,821)	(68,821)
At 1 January 2003	179,650	(128,850)	50,800
Net loss for the year	—	(26,529)	(26,529)
At 31 December 2003	179,650	(155,379)	24,271

(b) The Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	179,650	(50,225)	129,425
Net loss for the year	—	(125,804)	(125,804)
At 1 January 2003	179,650	(176,029)	3,621
Net loss for the year	—	(21,030)	(21,030)
At 31 December 2003	179,650	(197,059)	(17,409)

At 31 December 2003, there were no reserves available for distribution to the Company's shareholders. (2002: nil).

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

28. ACQUISITION OF A SUBSIDIARY

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	—	280
Trade receivables	—	287
Bank balances and cash	—	184
Other payables and accrued charges	—	(2,761)
	<hr/>	<hr/>
	—	(2,010)
Goodwill	—	2,010
	<hr/>	<hr/>
	—	—
	<hr/>	<hr/>
Satisfied by:		
Cash	—	—
	<hr/>	<hr/>

The subsidiary acquired during the year ended 31 December 2002 contributed HK\$184,000 to the Group's cash flows for that year.

29. OPERATING LEASES COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	3,008	6,665
In the second to fifth year inclusive	1,866	42,433
Over five years	—	2,868
	<hr/>	<hr/>
	4,874	51,966
	<hr/>	<hr/>

The lease payments are fixed for a term of one to two years and no arrangements have been entered into for contingent rental payments.

The Company did not have any operating lease commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

30. OTHER COMMITMENTS

At 31 December 2002, the Group was committed to invest HK\$3,900,000 (2003: nil) in respect of the investment securities.

The Company did not have any significant other commitments at the balance sheet date.

31. CONTINGENT LIABILITIES

At 31 December 2003, the Company has given corporate guarantees of HK\$21,450,000 (2002: HK\$8,798,400) to suppliers to secure the credit facilities granted to its subsidiaries. At 31 December 2003, the amount of facilities utilised by the subsidiaries amounted to HK\$2,638,000 (2002: HK\$2,307,000).

At 31 December 2003, the Company has also given a guarantee to a customer in respect of the quality of services provided by a subsidiary to the extent of HK\$8,500,000 (2002: nil).

32. PLEDGE OF ASSETS

THE GROUP

At 31 December 2003, bank deposits of HK\$9,200,000 (2002: HK\$8,000,000) were pledged to a bank to secure the credit facilities granted to the Group.

33. SHARE OPTION SCHEMES

On 16 June 2000, the Company adopted a share option scheme (the "Old Scheme") and this scheme was substituted by a new share option scheme (the "New Scheme") pursuant to the shareholders' resolution in a special general meeting on 23 April 2002 for complying with the terms of the Rules Governing the Listing of Securities on the GEM. Under the Old Scheme, the directors may at their discretion grant options to eligible employees of the Group, including executive directors of the Company or its subsidiaries, to subscribe for shares in the Company. An option may be exercised within an option period, which shall not be less than three years and not be more than ten years from the date of grant where the acceptance date should not be later than 28 days after the date of offer. A nominal consideration of HK\$1 was payable on acceptance of the grant of the options. The subscription price of the options was the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted under the Old Scheme may not exceed 30% of the issued shares capital of the Company from time to time. Options granted under the Old Scheme prior to its cessation which have not been fully exercised remain valid until such time that such options are fully exercised or have lapsed.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

33. SHARE OPTION SCHEMES (continued)

The New Scheme adopted on 23 April 2002 will expire on 22 April 2012. The purpose of the New Scheme is to provide the participants with an opportunity to acquire equity interests in the Company and with an incentive to continue contributing to the success of the Company. Under the New Scheme, the directors may grant options at their discretion to any eligible employees of the Group, including executive directors of the Company and its subsidiaries to subscribe for shares in the Company. The exercisable period of the options granted commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant where the acceptance date should not be later than 14 days after the date of offer. A nominal consideration of HK\$1 is payable on acceptance of the grant of the options. The subscription price of the options shall 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 trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted under the New Scheme may not exceed the nominal amount of 10% of the issued share capital of the Company. However, the total maximum number of shares which may be issued upon exercise of all outstanding options must not exceed 30% of the issued share capital from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval of the Company's shareholders.

No share options were granted under the New Scheme since its adoption.

A summary of the movements of the outstanding options during each of the two years ended 31 December 2003 under the Old Scheme is as follows:

Date of grant	Exercise price HK\$	Number of options		
		Outstanding at 1.1.2003	Lapsed during the year	Outstanding at 31.12.2003
1.9.2000 (note a)	0.90	44,672,000	2,204,500	42,467,500
11.10.2001 (note b)	0.70	24,176,000	7,794,000	16,382,000
		<u>68,848,000</u>	<u>9,998,500</u>	<u>58,849,500</u>
Date of grant	Exercise price HK\$	Number of options		
		Outstanding at 1.1.2002	Lapsed during the year	Outstanding at 31.12.2002
1.9.2000 (note a)	0.90	49,774,500	5,102,500	44,672,000
11.10.2001 (note b)	0.70	28,264,000	4,088,000	24,176,000
		<u>78,038,500</u>	<u>9,190,500</u>	<u>68,848,000</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

33. SHARE OPTION SCHEMES (continued)

Details of the share options held by the directors and chief executive included in the above table are as follows:

Date of grant	Exercise price HK\$	Number of options			Outstanding at 31.12.2003
		Outstanding at 1.1.2003	Lapsed during the year	Reclassification	
1.9.2000 (note a)	0.90	32,000,000	—	(8,000,000)	24,000,000
11.10.2001 (note b)	0.70	—	—	2,000,000	2,000,000
		<u>32,000,000</u>	<u>—</u>	<u>(6,000,000)</u>	<u>26,000,000</u>

Date of grant	Exercise price HK\$	Number of options			Outstanding at 31.12.2002
		Outstanding at 1.1.2002	Lapsed during the year	Reclassification	
1.9.2000 (note a)	0.90	<u>32,000,000</u>	<u>—</u>	<u>—</u>	<u>32,000,000</u>

Notes:

- (a) 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).
- (b) The option period is from 11 October 2001 to 10 October 2006 (both dates inclusive) (vesting period with 1st tranche of 20% is 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).

No share options were exercised under the Old Scheme during both years.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

34. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of a trustee. The Group contributes 5% of the relevant payroll costs to the MPF Scheme, and this contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC and Singapore are members of the state-managed retirement benefits scheme operated by the relevant governments. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

35. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

	2003 HK\$'000	2002 HK\$'000
Revenue:		
Sale of complementary hardware and software to a minority shareholder	18,290	8,324
Management fee and service income from a related company	564	464
Purchases and expenses:		
Purchases of hardware from a minority shareholder	15,733	968
Design fee paid to a related company	192	120

Ms. Zee Chan Mei Chu, Peggy, a director of the Company, has beneficial interests in the related company.

The sales and purchase transactions were carried out at market prices.

The management fee and service income is calculated with reference to the estimated staff costs and overheads incurred by the Group.

The design fee is calculated based on agreements entered into between the related company and the Group on 1 June 2002 and 1 June 2003.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

36. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued share capital/registered capital			Principal activities
			Attributable to the Group	Held by the Company	Held by subsidiaries	
Excel (BVI) Limited	British Virgin Islands*	5,000 shares 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
Excel System Limited	British Virgin Islands*	100 shares of US\$1 each	65%	—	65%	Systems integration
Excel Technology International (BVI) Limited	British Virgin Islands*	1 share 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 provision of maintenance services
Excelink Development Corporation	British Virgin Islands*	10,000 shares of US\$1 each	100%	—	100%	Investment holding
Excelink Technology Pte Ltd.	Singapore*	714,286 shares of S\$1 each	100%	—	100%	Development of computer software and provision of sale and marketing services
北京志鴻英華科技有限公司	PRC***	US\$1,230,000	65%	—	65%	Systems integration

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

36. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued share capital/registered capital			Principal activities
			Attributable to the Group	Held by the Company	Held by subsidiaries	
深圳志鴻聯匯計算機 系統有限公司	PRC***	RMB6,000,000	66%	—	66%	Development of computer software and provision of sale and marketing services
Grandful Star Ltd.	British Virgin Islands*	1 share of US\$1	100%	—	100%	Investment holding
HR21 Holdings Limited	British Virgin Islands*	50,000 shares of US\$1 each	93%	—	93%	Investment holding
HR21 Limited	Hong Kong*	2 shares of HK\$1 each	93%	—	93%	Development of computer software and provision of maintenance services
HR21 Singapore Holdings Pte Limited	Singapore*	2 shares of S\$1 each	93%	—	93%	Investment holding
HR21 Singapore Pte Ltd.	Singapore*	2 shares of S\$1 each	93%	—	93%	Computer software development and marketing
i21 Limited	Hong Kong*	14,000 shares of HK\$1 each	80.1%	—	80.1%	ASP services provider
Infostar Ltd.	British Virgin Islands*	1 share of US\$1 each	100%	—	100%	Investment holding
New Crest Technology Corp.	British Virgin Islands*	1 share of US\$1 each	100%	—	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

36. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued share capital/registered capital			Principal activities
			Attributable to the Group	Held by the Company	Held by subsidiaries	
Wise Success Ltd.	British Virgin Islands*	5,000 shares of US\$1 each	100%	—	100%	Investment holding
志鴻軟件(深圳)有限公司	PRC**	HK\$3,000,000	100%	—	100%	Development of computer software and provision of maintenance services
安利科技(上海)有限公司	PRC**	US\$200,000	100%	—	100%	Provision of professional services

* Limited liability company

** Wholly-owned foreign enterprise

*** Sino-foreign equity joint venture enterprise

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at 31 December 2003 or at any time during the year.

FINANCIAL SUMMARY

	1999 HK\$'000 (Note)	2000 HK\$'000 (Note)	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
RESULTS					
Turnover	<u>98,071</u>	<u>155,425</u>	<u>173,111</u>	<u>193,398</u>	<u>184,713</u>
(Loss) profit before taxation	(11,799)	23,260	(85,516)	(68,919)	(25,595)
Taxation	<u>227</u>	<u>(540)</u>	<u>(284)</u>	<u>(565)</u>	<u>529</u>
(Loss) profit before minority interests	(11,572)	22,720	(85,800)	(69,484)	(25,066)
Minority interests	<u>—</u>	<u>—</u>	<u>1,024</u>	<u>663</u>	<u>(1,463)</u>
Net (loss) profit attributable to shareholders	<u>(11,572)</u>	<u>22,720</u>	<u>(84,776)</u>	<u>(68,821)</u>	<u>(26,529)</u>
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES					
Total assets	74,062	395,272	321,355	217,216	155,987
Total liabilities	(72,064)	(85,050)	(101,991)	(64,720)	(28,487)
Minority interests	<u>—</u>	<u>—</u>	<u>(1,238)</u>	<u>(3,191)</u>	<u>(4,724)</u>
Shareholders' funds	<u>1,998</u>	<u>310,222</u>	<u>218,126</u>	<u>149,305</u>	<u>122,776</u>

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.

The financial results of the Group for the years ended 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.