



Excel

TECHNOLOGY

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

Interim Report 2004



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

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This report, for which the directors (the “Directors”) of Excel Technology International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: — (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Highlights

- For the six months ended 30 June 2004, turnover amounted to HK\$61,961,000, representing a decrease of 36% when compared with the same period of 2003.
- Loss from operations was HK\$8,125,000 for the first half of 2004.
- Loss attributable to shareholders was narrowed by 57% to HK\$6,097,000 for the six months ended 30 June 2004.
- Loss attributable to shareholders for the second quarter of 2004 was HK\$928,000, an improvement of 82% over the first quarter of 2004.
- Loss per share was 0.62 cents for the six months ended 30 June 2004.

INTERIM RESULTS ENDED 30 JUNE 2004

The Directors of the Company are pleased to present the condensed unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”; Stock Code: 8048) for the three months and six months ended 30 June 2004) (“Condensed Financial Statements”), together with the comparative figures for the corresponding periods in 2003, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2004

	NOTES	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	3	25,613	36,234	61,961	96,218
Other operating income		398	221	844	906
Cost of sales		(9,259)	(14,891)	(27,759)	(56,117)
Staff costs		(12,062)	(17,518)	(27,943)	(35,096)
Depreciation and amortisation		(2,552)	(3,618)	(5,478)	(7,127)
Other operating expenses		(5,047)	(5,957)	(9,750)	(13,007)
Loss from operations	5	(2,909)	(5,529)	(8,125)	(14,223)
Finance costs		(87)	(96)	(136)	(278)
Share of results of associates		1,457	120	1,627	389
Loss before taxation		(1,539)	(5,505)	(6,634)	(14,112)
Taxation	6	(51)	126	(51)	71
Loss before minority interests		(1,590)	(5,379)	(6,685)	(14,041)
Minority interests		662	(835)	588	(273)
Net loss attributable to shareholders		(928)	(6,214)	(6,097)	(14,314)
Loss per share — basic	8	(0.09) cents	(0.63) cents	(0.62) cents	(1.45) cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2004

	NOTES	(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
Non-current assets			
Property, plant and equipment	9	13,603	14,531
Interests in associates		27,613	25,614
Goodwill		5,850	6,398
Development costs	10	9,933	6,260
Investments in securities		8,203	8,203
		<u>65,202</u>	<u>61,006</u>
Current assets			
Inventories — at cost		8,034	6,615
Work in progress		11,198	7,085
Trade receivables	11	20,883	35,143
Other receivables, deposits and prepayments		10,772	10,942
Investments in securities		1,307	1,606
Pledged bank deposits	15	14,118	9,200
Bank balances and cash		20,173	24,390
		<u>86,485</u>	<u>94,981</u>
Current liabilities			
Trade payables	12	8,835	7,707
Other payables and accrued charges		7,640	7,052
Deferred income		6,614	9,310
Government grants		75	470
Bank loans		7,708	3,948
		<u>30,872</u>	<u>28,487</u>
Net current assets		<u>55,613</u>	<u>66,494</u>
Total assets less current liabilities		120,815	127,500
Minority interests		4,136	4,724
Net assets		<u>116,679</u>	<u>122,776</u>
Capital and reserves			
Share capital	13	98,505	98,505
Reserves		18,174	24,271
Shareholders' funds		<u>116,679</u>	<u>122,776</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*FOR THE SIX MONTHS ENDED 30 JUNE 2004*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	98,505	179,650	(128,850)	149,305
Net loss for the year	—	—	(26,529)	(26,529)
At 31 December 2003 and 1 January 2004	98,505	179,650	(155,379)	122,776
Net loss for the period	—	—	(6,097)	(6,097)
At 30 June 2004	<u>98,505</u>	<u>179,650</u>	<u>(161,476)</u>	<u>116,679</u>
At 1 January 2003	98,505	179,650	(128,850)	149,305
Net loss for the period	—	—	(14,314)	(14,314)
At 30 June 2003	<u>98,505</u>	<u>179,650</u>	<u>(143,164)</u>	<u>134,991</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*FOR THE SIX MONTHS ENDED 30 JUNE 2004*

	(Unaudited)	
	Six months ended	
	30 June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	5,025	12,709
Net cash used in investing activities	(12,866)	(7,110)
Net cash from (used in) financing activities	3,624	(278)
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(4,217)	5,321
Cash and cash equivalents at beginning of the period	24,390	24,514
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Cash and cash equivalents at end of the period, representing bank balances and cash	20,173	29,835
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the valuation of certain investments in securities.

The accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2003.

3. TURNOVER

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

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Enterprise software products	13,353	20,380	28,486	35,213
Systems integration	8,456	12,337	26,613	54,608
Professional services	2,551	2,126	4,388	3,860
ASP services	1,253	1,391	2,474	2,537
	<u>25,613</u>	<u>36,234</u>	<u>61,961</u>	<u>96,218</u>

4. SEGMENT INFORMATION

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 businesses can be subdivided into Hong Kong, other regions in the People's Republic of China (the "PRC") and other markets.

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

	Hong Kong		PRC		Others		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	40,983	40,110	19,209	54,631	1,769	1,477	61,961	96,218
Segment result	(3,901)	(10,292)	(3,478)	(2,786)	(746)	(1,145)	(8,125)	(14,223)
Finance costs	—	(4)	(136)	(274)	—	—	(136)	(278)
Share of results of associates	—	—	1,627	389	—	—	1,627	389
Loss before taxation	(3,901)	(10,296)	(1,987)	(2,671)	(746)	(1,145)	(6,634)	(14,112)
Taxation	—	—	(51)	71	—	—	(51)	71
Loss before minority interests	(3,901)	(10,296)	(2,038)	(2,600)	(746)	(1,145)	(6,685)	(14,041)
Minority interests	—	—	588	(273)	—	—	588	(273)
Net loss attributable to shareholders	(3,901)	(10,296)	(1,450)	(2,873)	(746)	(1,145)	(6,097)	(14,314)

Business segments

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Enterprise software products	28,486	35,213
Systems integration	26,613	54,608
Professional services	4,388	3,860
ASP services	2,474	2,537
	61,961	96,218

5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging (crediting):

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation and amortisation of property, plant and equipment	1,265	2,207	2,599	4,345
Amortisation of development costs	1,013	1,137	2,331	2,234
Amortisation of goodwill	274	274	548	548
Total depreciation and amortisation	2,552	3,618	5,478	7,127
Interest income	(39)	(37)	(75)	(89)
Dividend income from investments in securities	(24)	(53)	(24)	(53)
Unrealised loss (gain) on investments in securities	182	(105)	299	(531)

6. TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge (credit) comprises:				
Taxation in other jurisdictions				
Current year	—	—	—	—
Overprovision in prior years	—	(151)	—	(139)
	<u>—</u>	<u>(151)</u>	<u>—</u>	<u>(139)</u>
Taxation attributable to the Company and its subsidiaries	—	(151)	—	(139)
Share of taxation attributable to associates	<u>51</u>	<u>25</u>	<u>51</u>	<u>68</u>
	<u><u>51</u></u>	<u><u>(126)</u></u>	<u><u>51</u></u>	<u><u>(71)</u></u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profit for the respective periods.

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

The Group has not recognised any deferred tax assets arising from unused tax losses as it is not probable that they can be utilised in the future.

7. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: nil).

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
Net loss attributable to shareholders	<u>HK\$928,000</u>	<u>HK\$6,214,000</u>	<u>HK\$6,097,000</u>	<u>HK\$14,314,000</u>
Number of shares for the purposes of calculating basic loss per share	<u>985,050,000</u>	<u>985,050,000</u>	<u>985,050,000</u>	<u>985,050,000</u>

No diluted loss per share for the respective periods has been presented as the exercise price of the options was higher than the average market price per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2004, the Group spent HK\$1,671,000 (six months ended 30 June 2003: HK\$424,000) on acquisition of property, plant and equipment.

10. DEVELOPMENT COSTS

During the six months ended 30 June 2004, the Group incurred development costs of HK\$6,004,000 (six months ended 30 June 2003: HK\$3,183,000).

11. 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 Group's trade receivables at the reporting date:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Current	9,220	26,654
Overdue for 1 to 3 months	5,245	3,893
Overdue more than 3 months but less than 12 months	<u>6,418</u>	<u>4,596</u>
	<u>20,883</u>	<u>35,143</u>

12. TRADE PAYABLES

The following is an aged analysis of the Group's trade payables at the reporting date:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Due within 1 month or on demand	<u>8,835</u>	<u>7,707</u>

13. SHARE CAPITAL

	30 June 2004 & 31 December 2003	
	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>

14. CONTINGENT LIABILITIES

At 30 June 2004, the Company has given corporate guarantees of HK\$21,450,000 (31 December 2003: HK\$21,450,000) to suppliers to secure the credit facilities granted to its subsidiaries. At 30 June 2004, the amount of facilities utilised by the subsidiaries amounted to HK\$3,468,000 (31 December 2003: HK\$2,638,000).

At 31 December 2003, the Company had 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 (30 June 2004: nil).

15. PLEDGE OF ASSETS

At 30 June 2004, bank deposits of HK\$14,118,000 (31 December 2003: HK\$9,200,000) were pledged to a bank and a financial institution to secure the credit facilities granted to the Group.

16. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Sales of hardware to a minority shareholder of a subsidiary	1,653	—
Sales of enterprise software to a minority shareholder of a subsidiary	517	—
Management fee and service income from a related company	120	90
Design fee paid to a related company	120	96
Purchases of hardware from a minority shareholder of a subsidiary	—	14,866
Rental income from a related company	—	192
	<u> </u>	<u> </u>

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 price.

The rental income was calculated based on the percentage of floor space occupied by the related company at market rate.

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 2003 and 27 December 2003.

CHAIRMAN'S STATEMENT

I am delighted to report that, despite a slower than expected recovery in the technology sector, we are moving in the right direction by further reducing our loss to HK\$6.09 million for the six-month period ending 30 June 2004. This compares favorably with the HK\$14.31 million loss in the same period of last year, and with the HK\$5.17 million loss in first quarter of 2004.

While we were working towards regaining our profitability earlier this year, we came across a number of business opportunities which require some upfront investments. Weighing in the long term strategic values of these business opportunities, we have decided to put in the investments, which were mainly staff costs spent in research and development prior to contract. We believe these investments will give us a good start towards building longer term financial returns to the Group.

While we are investing in the future, we have not lost sight of the cost controls and measures we had put in place to restore the profitability of the Group. This is reflected in the reduction in loss despite a significantly lower turnover of HK\$61.96 million in the first 6 months of 2004, comparing to HK\$96.21 million in the same six-month period of 2003. These controls and measures effectively lowered our operating costs by a significant amount.

In Hong Kong, the Closer Economic Partnership Agreement ("CEPA") with China has yet to demonstrate positive effect on the IT industry as well as the banking and securities industry, of which most of our customers belong to. This translates into only a 2% growth of business for Hong Kong comparing to 2003. We anticipate the economic outlook in Hong Kong will not impose any drastic difference on our business outlook in the coming months of 2004.

Many of our new business opportunities come from China. Apart from the ASP potential we are actively pursuing, our enterprise software business there is showing healthy growth. Our retail lending package (LOANS), wealth management package (WMS) and our treasury package (REAPS, formerly MBS) have made their ways into the final selection lists of many local banks in China. We are quite confident that some of these potentials will turn into signed contracts in the second half of 2004.

In addition to the positive development in China, our regional footprint in Southeast Asia has been more secured by landing a major contract using our wealth management software — the WMS — with a leading bank in Malaysia. This deal highly raised our profile in the banking community there as well as in other Association of South East Asian Nations (ASEAN) countries, and since then we have received many inquiries from the banks in that region.

Trying to find a balance between investing for the future and restoring profitability, we have been very selective in taking up new projects which require investment, large and small. While we put much attention into China, we still manage to maintaining, and slightly growing, our business portfolio in Hong Kong and in the Southeast Asia countries. We believe that this regional platform will make us less susceptible to the economic impact of a particular country and will also provide us a stronger foundation of sustainable growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six-month period ended 30 June 2004, the Group recorded a turnover of HK\$61,961,000, representing a decrease of 36% compared with HK\$96,218,000 in the same period of last year. Loss attributable to shareholders in the first half of 2004 was HK\$6,097,000, 57% lower than the Group's attributable loss of HK\$14,314,000 for the same period in 2003, a significant improvement of HK\$8,217,000.

The major factor of the turnover drop was the reduction of the systems integration business, which dropped by 51% to HK\$26,613,000 (2003: HK\$54,608,000). This was due to a conscious effort in controlling the computer hardware inventory required to support this business in China.

Enterprise software product also decreased by 19% in turnover to HK\$28,486,000 (2003: HK\$35,213,000). The delays in getting contract signed with customers have pushed some income in this category into the next quarter.

Professional service grew by 13%, which was largely attributed to the growth of the IT outsourcing business, to HK\$4,388,000 (2003: HK\$3,860,000). The ASP business in Hong Kong remained relatively small and stable.

Operation Review

Total operating expenses for the first six months decreased by 22% from HK\$48,103,000 to HK\$37,693,000 when compared with the same period of last year. This reduction was largely attributed to the saving of two major expense items: staff costs and rental expenses. Overall staff costs were reduced significantly, mainly from Hong Kong as result of shifting more software development work to our software center in Shenzhen, China. Rental expenses dropped by 60%, also from Hong Kong as we have relocated our headquarter office out of the Central business district of Hong Kong.

The loss from operations for the period is HK\$8,125,000, down from HK\$14,223,000 or 43% in the same period of last year. Adding the effect of share of excellent results of associated companies, finance cost and minority interests in the joint venture companies, the loss attributable to shareholder for the six-month ended 30 June 2004 was significantly reduced by 57% to HK\$6,097,000 (period ended 30 June 2003: Loss of HK\$14,314,000).

Liquidity and Financial Resources

As of 30 June 2004, the Group had cash and cash equivalents amounted to HK\$20,173,000, plus pledged deposit of HK\$14,118,000.

The Group has maintained a bank borrowing of HK\$7,708,000 for funding the working capital needs of the operations in China.

Trade receivables and bills receivable were significantly reduced to HK\$20,883,000 (31 December 2003: HK\$35,143,000).

As of 30 June 2004, the gearing ratio of the Group was 6.6% (31 December 2003: 3.2%) on the basis of bank borrowing divided by shareholders' fund.

Capital Structure

As at 30 June 2004, the Group's outstanding issued shares were 985,050,000. There has not been any change to the capital structure of the Company during the reporting period.

Significant Investments

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

Segmental Performances

Excel Hong Kong recorded a slight increase of 2% in turnover to HK\$40,983,000 (2003: HK\$40,110,000) with attributable loss of HK\$3,901,000. (2003: Loss of HK\$10,296,000)

Excel China recorded a drop of 65% in turnover to HK\$19,209,000 (2003: HK\$54,631,000), mainly due to a conscious effort to tighten the control of the computer hardware inventory in supporting the systems integration business and directly more effort in enterprise software sales and professional services. The attributable loss was HK\$1,450,000, improved from the loss of HK\$2,873,000 for the same period of last year.

Excel Singapore achieved satisfactory growth of 20% in turnover to HK\$1,769,000 (2003: HK\$1,477,000). This includes receiving a new contract to provide our wealth management software and related services in both Singapore and Malaysia with a leading bank in Malaysia. The attributable loss was reduced to HK\$746,000 from HK\$1,145,000 compared with the same period of last year.

Employees

As of 30 June 2004, the Group has a total of 359 employees, with an allocation of 41%, 57% and 2% in Hong Kong, China and Singapore respectively. This represents a slight increase of 11 employees in the past six months, mainly in China.

Exposure to Foreign Exchange Risk

The Group received renminbi from sales in China. The renminbi income was fully applied to working capital need in China.

Outlook for the Second Half of 2004

The management team is cautiously optimistic for the second half of 2004. Restoring profitability while maintaining growth and investing in the future is still a strong target for us to achieve.

Enterprise software and systems integration business in Hong Kong will be steady, but the IT outsourcing business will be growing fast. The business model is, using Hong Kong as a “window”, to offer computer programming service to Hong Kong and multi-national companies using resources from both our Hong Kong and China software centers. Our presence in both sides of the China/Hong Kong border gives us the advantage of having both project management skills and technical capacity at an attractive price to these companies. Negotiation has been underway with a number of potential customers in this area.

On the China front, our enterprise software has been gaining acceptance by the local banking community there. Our loans management system (LOANS) will continue to be our flagship product there, while our treasury system (REAPS) is likely to land its first contract in China in the next few months with contract negotiation already underway. Our other enterprise software, such as the wealth management system (WMS), will also find a more receptive market there.

The third leg of our geography focus is Southeast Asia, anchoring from Singapore. Following the signing of a wealth management software contract in Malaysia, we have received many inquiries about our enterprise software from banks in the region. There is a general desire to upgrade the technology used in the banks, and coupled with the overall improvement of economic situation in many of these Southeast Asia countries, we believe the potentials for our enterprise software in this geography could be significant for the years to come.

Overall, the management team is positive about the coming period. With careful and cautious execution of our plans and strategies, we believe the Group is on the right and steady track of restoring profitability.

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

At 30 June 2004, 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	1,580,000	—	563,679,197 (note 1)
Fung Din Chung, Rickie	24,559,498	—	—
Leung Lucy, Michele	—	—	24,559,498 (note 2)
Wen Pei Sung	2,328,847	—	—
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.

(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

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 30 June 2004, 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 30 June 2004.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, 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	No. of issued ordinary shares held	Percentage of the issued share capital of the Company
Zee Chan Mei Chu, Peggy (Note 1)	565,259,197	57.38%
Passion Investment (BVI) Limited (Note 1)	563,679,197	57.22%
Cheung Kong (Holdings) Limited (Note 2)	143,233,151	14.54%
Li Ka-Shing Unity Trustee Company Limited (Note 2) (as trustee of The Li Ka-Shing Unity Trust)	143,233,151	14.54%
Li Ka-Shing Unity Trustcorp Limited (Note 2) (as trustee of another discretionary trust)	143,233,151	14.54%
Li Ka-Shing Unity Trustee Corporation Limited (Note 2) (as trustee of The Li Ka-Shing Unity Discretionary Trust)	143,233,151	14.54%
Li Ka-shing (Note 2)	143,233,151	14.54%
Alps Mountain Agent Limited (Note 2)	71,969,151	7.31%
iBusiness Corporation Limited (Note 2)	67,264,000	6.83%

Notes:

1. These shares have been disclosed as the corporate interest of the director in the paragraph "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"). CKH is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Alps Mountain Agent Limited ("Alps") and iBusiness Corporation Limited ("iBusiness").

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.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1, TDT2 and CKH is deemed to be interested in the 143,233,151 shares of the Company of which 71,969,151 shares are held by Alps and 67,264,000 shares are held by iBusiness.

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 30 June 2004.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 June 2004, the Company was compliance with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

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

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

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

The Board comprises of:

Zee Chan Mei Chu, Peggy (Executive Director)

Leung Lucy, Michele (Executive Director)

Fung Din Chung, Rickie (Executive Director)

Wen Pei Sung (Executive Director)

Ip Tak Chuen, Edmond (Non-executive Director)

Cheong Ying Chew, Henry (Independent non-executive Director)

Chang Ka Mun (Independent non-executive Director)

Wong Mee Chun (Independent non-executive Director)

Hong Kong, 9 August 2004