



*Excel*

TECHNOLOGY

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

**Annual Report 2004**



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

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

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

**The principal means of information dissemination on GEM is publication on the internet website operated by the 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.*



# CONTENTS

2	<b>CORPORATE INFORMATION</b>
3	<b>FINANCIAL HIGHLIGHTS</b>
4	<b>CHAIRMAN'S STATEMENT</b>
6	<b>MANAGEMENT DISCUSSION AND ANALYSIS</b>
9	<b>PROFILE OF DIRECTORS AND SENIOR MANAGEMENT</b>
12	<b>NOTICE OF ANNUAL GENERAL MEETING</b>
16	<b>REPORT OF THE DIRECTORS</b>
25	<b>REPORT OF THE AUDITORS</b>
26	<b>CONSOLIDATED INCOME STATEMENT</b>
27	<b>CONSOLIDATED BALANCE SHEET</b>
29	<b>BALANCE SHEET</b>
30	<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>
31	<b>CONSOLIDATED CASH FLOW STATEMENT</b>
33	<b>NOTES TO THE FINANCIAL STATEMENTS</b>
68	<b>FINANCIAL SUMMARY</b>



## CORPORATE INFORMATION

**EXECUTIVE DIRECTORS**

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

**NON-EXECUTIVE DIRECTOR**

IP Tak Chuen, Edmond

**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, CPA*

**COMPANY SECRETARY**

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

**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

**AUDITORS**

Deloitte Touche Tohmatsu

**LEGAL ADVISER**

Baker & McKenzie

**PRINCIPAL BANKER**

The Hongkong and Shanghai Banking  
 Corporation Limited  
 The Bank of East Asia, 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](http://www.excel.com.hk)



## FINANCIAL HIGHLIGHTS

for the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>	<b>162,888</b>	184,713
<b>Loss from operations</b>	<b>(26,845)</b>	(27,285)
<b>Net loss attributable to shareholders</b>	<b>(20,962)</b>	(26,529)
<b>Loss per share — Basic</b>	<b><u>(2.13 cents)</u></b>	<b><u>(2.69 cents)</u></b>
<b>Shareholders' funds</b>	<b><u>101,814</u></b>	<b><u>122,776</u></b>



## CHAIRMAN'S STATEMENT

I am pleased to report that we further narrowed our net loss in 2004 to HK\$20,962,000 from HK\$26,529,000 of 2003. The loss largely represents heavy investments for new initiatives, new software and new service developments in our growing China and Southeast Asia operations. This is necessary to continue and refresh our technology and market penetration to pave for the future. We expect payback of these investments would start as soon as 2005.

Turnover for 2004 was HK\$162,888,000 versus HK\$184,713,000 of 2003. The decrease in turnover is largely a result of the Group's conscious decision to decrease hardware systems integration business and some large software contracts were unexpectedly delayed due to client's business direction.

In year 2004, we made several achievements. First of all, the China joint ventures start to become more self-sufficient in supporting their own business development and operational needs. This enables the Group to look at further opportunities beyond the selling of enterprise software to banks and finance companies, such as starting ASP and software development outsourcing business in China.

On the enterprise software front, we have firmly established ourselves as a key player in the China market with the successfully launch of our loans management software in Volkswagen Finance (China), MinSheng Bank, Bank of East Asia (China) and Shenzhen Development Bank; and our securities solution in Shenzhen Stock Exchange and Chinalion Securities. In addition, our treasury software, Reserve and Treasury Portfolio System (REAPS), was put into use by China Hua Xia Bank. Together with the Wealth Management System (WMS) installation in Industrial and Commercial Bank of China ("ICBC") and Bank of Communication, we have made the Excel brand known to many banks and finance companies in China.

Also worth mentioning is our Shanghai subsidiary, which focuses on the Enterprise Resources, Supply Chain Management and Data Exchange (EDI) software for the Logistics Enterprise business, has gained the Shanghai Wai Gao Qiao Free Trade Zone as a strategic client, in addition to the already established Shanghai Tobacco Group. This will be a significant push to our growth in the Supply Chain and Logistics Enterprise software business in the coming years. In Hong Kong, demand of our enterprise software from the banks has grown steadily. Our securities trading system (InterTrade) was installed by two major banks, and our Loans software was chosen by the Hong Kong Government for its Student Finance Assistance Agency.

In Southeast Asia, a contract has been signed with Maybank - the largest bank in Malaysia - for the installation of our wealth management software in Singapore and Malaysia.

### PROSPECT

The Group started with a much stronger pipeline in 2005 with several sizable contracts. This is partly due to delayed contract negotiations in 2004 as well as new opportunities. Excel Technology has now been recognized as a regional firm, which can provide software products and services to multinational clients with offices in Greater China as well as Southeast Asia. This will be even more obvious when we conclude a number of contracts under negotiation, which ask for our enterprise software to be implemented in other offices of our clients in the region.



## CHAIRMAN'S STATEMENT

The Group had invested into a number of companies focusing on providing ASP services to Chinese enterprises via joint ventures with private and government entities. Two joint venture companies, the Shenzhen Excel China Technology Investment and the Beijing Excel China Technology Investment had been set up to provide ASP service and support to China Ministry of Science and Technology. Year 2005 will see the addition of Excel China Technology Investment in targeted provinces, which will be set up to provide ASP services to the enterprises in the provinces.

All these joint venture companies will be providing their products or ASP services using the core software technology developed by the Group in the past years and will help bring recurring income through usage and services.

Preparatory work is underway to set up our application development outsourcing business in China. We have started this business successfully, in a small way, in 2004 with some of our reputable banking and other clients. We expect this outsourcing business will be one of our fastest growing business areas in the years to come.

### TECHNOLOGY INVESTMENTS

The Group had made several major strategic investments in the past years, and some of which will start to give returns in the coming years. Our 21.5% investment in Camelot Information Systems Inc. (Camelot), a Beijing based software and service company managed by Chinese overseas returnees, has brought good operating results to the Group in 2004. This company is currently attracting a number of serious investors, and that confirms the likelihood of us getting a good return on this investment in the future.

Our other investment in a private equity technology fund is expected to turn in good results as well as one company invested by that fund was recently listed on NASDAQ.

### APPRECIATION AND LOOKING FORWARD

I would like to extend my greatest appreciation to the board, the management, the staff, our clients, and our shareholders for their continuing support. Looking forward, more operational responsibilities and geographic expansion will be delegated to the respective directors and senior management. I will focus more on establishing even stronger relationship with our partners and clients to leverage on returns. I will also keep you and the financial sectors informed of our latest developments.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL PERFORMANCE

During the year ended 31 December 2004, the Group's net loss attributable to shareholders improved by 21% to HK\$20,962,000 (2003: HK\$26,529,000) but the turnover decreased by 12% to HK\$162,888,000 (2003: HK\$184,713,000).

Revenue on professional services increased by 56% to HK\$12,450,000 (2003: HK\$7,974,000), as a result of our conscious decision to grow the IT outsourcing business. Revenue derived from the ASP operation remains relatively stable at HK\$4,866,000 (2003: HK\$5,116,000).

Systems Integration decreased by 13% to HK\$94,824,000 (2003: HK\$108,546,000). This is largely our play down of hardware resell business and the Group has elected not to keep hardware inventory.

The overall sales of enterprise software products decreased by 20% to HK\$50,748,000 (2003: HK\$63,077,000). The unexpected decrease in software turnover is largely attributed to certain large projects not able to start on time due to client business decisions. These projects will likely materialize in 2005 with some of them in contract negotiation stage.

Staff counts remained relatively stable in 2004 with moderate decrease of salary cost, constituting 77% of the total operating expenses. The Group's total operating expenses reduced by 10% to HK\$87,040,000 (2003: HK\$97,244,000).

## OPERATION REVIEW

Beyond Hong Kong, the Group now has operations in Beijing, Shanghai, Shenzhen and Singapore. These offices are now maturing and starting to take on its own support, allowing management and the Hong Kong office to focus more on business development and new software and business offering.

Hong Kong remains being the Head Office, the key software architect and design center for the Group's enterprise software products. It also provides business analysts and industry consultants to the other offices besides offering products and services to its own market.

The Excel Shenzhen Shekou Software Center, under the direction of the Hong Kong management, provides programming services to develop the Group's enterprise software products. This software center also started to take on development services outside the Group for other Excel Clients.

Excel Beijing focuses on banking and finance solutions and systems integration business. It has a team of senior management who has significant business development and work experience in the banking sector.

Excel Shanghai is the Group's flagship in logistics and ERP. Albeit a small team, it provides expert consulting and project implementation to very significant clients.



## MANAGEMENT DISCUSSION AND ANALYSIS

Excel Shenzhen's mandate is in the securities and professional services arena.

Excel Singapore serves the South East Asia market as a marketing and implementation arm. All product support comes directly from Excel Hong Kong.

### NEW PRODUCTS / SERVICES

In year 2004, the Group invested and completed the development of three new software products. REAPS (Reserve and Treasury Portfolio System), targets the treasury functions for commercial banks, had landed its first client with the China Hua Xia Bank. WMS (Wealth Management System), after its debut with ICBC and Bank of Communication in China, makes a new face to meet the regional requirements for Singapore and Malaysia with Maybank being a key client. As part of our on-going research and development, our infrastructure components and work flow engine were further enhanced with newer server technology to provide scalability and high availability support for our banking clients. As major software development is largely completed, the same development staff will be re-deployed to project implementation.

The Group also invested in providing new ASP services and support to China Ministry of Science and Technology.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group held cash and cash equivalents of HK\$20,196,000 (2003: HK\$24,390,000), plus pledged bank deposits of HK\$11,622,000 (2003: HK\$9,200,000).

The computer hardware inventory level was HK\$7,036,000 (2003: HK\$6,615,000), which is largely equipment in transit, awaiting for delivery to clients.

The Group fully paid up its capital commitment of US\$1,000,000 to a private equity investment fund. There is no more outstanding capital commitment from the Group. As at 31 December 2004, the investment was carried at cost.

Camelot (a 21.5% associate) recorded a significant increase in its net profit by 73% to HK\$23,035,000 (2003: HK\$13,287,000). The Group took up its share of the profit attributable to shareholders for an amount of HK\$4,386,000 (2003: HK\$2,579,000) after charging for the goodwill amortization relating to the investment in Camelot.

During the year, the Group sold down the remaining 19.5% shareholding in Excel Force Ltd. at cost to the other shareholder. At present, the Group has no shareholding in Excel Force Ltd. 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 2004, the gearing ratio of the Group was 5.3% (2003: 3.2%) on the basis of bank borrowing divided by shareholders' fund.



# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE

As at 31 December 2004, the Group's outstanding issued shares were 985,050,000, which was the same as last year.

## SIGNIFICANT INVESTMENTS/ACQUISITIONS AND PERFORMANCES

During the year, the Group had not made 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\$75,924,000 (2003: HK\$81,944,000).

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\$89,587,000 (2003: HK\$100,639,000).

Singapore recorded a turnover of HK\$4,109,000 (2003: HK\$2,976,000).

## EMPLOYEES

The total number of employees as at 31 December 2004 was increased from 348 (beginning of 2004) to 361, largely representing the need to staff up staff force for project delivery in 2005. Average head counts during 2004 remains similar to those in 2003 and with slight decrease of salary cost.

## 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.



## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

#### **Ms. ZEE CHAN Mei Chu, Peggy (Age 50)**

*Chairman and Chief Executive Officer*

Ms. Chan is the founder of the Excel Group and is responsible for setting and implementing the corporate strategic directions of the Group. Ms. Chan has over 21 years of experience in business re-engineering, strategy studies, technology planning and systems development, serving major multi-national corporations and government agencies. Starting her career as a manager in Arthur Young & Company in Washington D.C., United States, Ms. Chan returned to Hong Kong in 1988 to establish the local office of an Australian software house, and later the Excel Group. She received the Hong Kong Young Entrepreneur Award in 1990. Ms. Chan is a founding member of the Cyber Youth Services, a non-profit organization dedicated to provide community services to young people through innovative usage of information technology. She is also 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. LEUNG Lucy, Michele (Age 52)**

*Executive Vice President*

Ms. Leung is in charge of the business development and operations in the Southeast Asia Region for the Group. She is also responsible for the development of wealth management related software products. Ms. Leung has over 22 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 Excel 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. Ms. Leung was appointed as an Executive Director of the Group in 2000.

#### **Mr. FUNG Din Chung, Rickie (Age 49)**

*Executive Vice President*

Mr. Fung is responsible for business development and corporate marketing work for Hong Kong and the South China area. In addition, he oversees a number of subsidiaries, including i21 (ASP service), HR21 (payroll software) and others. Mr. Fung has over 25 years of IT experience. Prior to joining the Excel Group in 1996, Mr. Fung worked for IBM Hong Kong for 17 years, holding various positions in technical service, training, marketing and management areas. Mr. Fung is the treasurer and secretary of ISIA (Information and Software Industry Association), and a frequent speaker on various information technology subjects. Mr. Fung was appointed as an Executive Director of the Group in 2000.

#### **Mr. WEN Pei Sung, Dennis (Age 57)**

*Executive Vice President*

Mr. Wen is the General Manager of Greater China and is responsible for developing and managing the China market for the Group. He has over 34 years of IT marketing and services experience. Prior to joining the Group in 2000, Mr. Wen was the consulting head of Oracle in its Greater China Region. Before that, Mr. Wen has more than 27 years with IBM Greater China Group in various senior executive positions. Mr. Wen completed the Management Development Program at ASIA Institute of Management. Mr. Wen was appointed as an Executive Director of the Group in 2003.



## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### NON-EXECUTIVE DIRECTOR

#### Mr. IP Tak Chuen, Edmond (Age 52)

Mr. Ip 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. Mr. Ip was appointed as a Non-Executive Director of the Group on 21 February 2000.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

#### Mr. CHEONG Ying Chew, Henry (Age 57)

Mr. Cheong is a director of certain other listed companies in Hong Kong. He is a member of the Process Review Panel for the Securities and Futures Commission ("SFC"), a member of the Committee on Real Estate Investment Trusts of the SFC, 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. Mr. Cheong holds a Bachelor of Science degree in Mathematics and a Master of Science degree in Operational Research and Management. Mr. Cheong was appointed as an Independent Non-Executive Director of the Group on 30 May 2000.

#### Mr. CHANG Ka Mun (Age 45)

Mr. Chang 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. Mr Chang was appointed as an Independent Non-Executive Director of the Group on 30 May 2000.

#### Ms. WONG Mee Chun, JP (Age 52)

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 ICAC Complaints Committee, Administrative Appeals Board, the Solicitors' Disciplinary Tribunal and the Standing Committee on Disciplined Services Salaries and Conditions of Service. 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 Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Ms. Wong 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 (Age 46)**

*Chief Technology Officer*

Being the CTO of the Group, Dr. Ng is responsible for the setting the technology direction of its enterprise software development strategy. Leading a team of software engineers, Dr. Ng performs research and development of the Group's software infrastructure, which becomes the building blocks used by other software development teams in the Group. He has over 15 years of IT experience. Besides his strong technical capabilities, Dr. Ng also has extensive knowledge in banking, stock brokerage, portfolio management and treasury business. Prior to joining the Excel Group in 1996, Dr. Ng was the technology head for Citibank's Hong Kong Private Banking Group, in which, he managed a number of development projects for regional and global implementation.

#### **Mr. CHEONG Ho Sang, Alfred (Age 48)**

*Director*

Mr. Cheong is responsible for the development and implementation of banking software in the treasury and securities areas. He has over 24 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. Prior to joining the Excel Group in 2000, Mr. Cheong worked for Citibank and UBS AG in various senior management positions. At Citibank, he was in-charge of investment banking technology department for the Asia Pacific region. He 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 (Age 47)**

*Group Financial Controller and Company Secretary*

Ms. Tang has over 20 years of accounting and financial management experience in telecommunication, property development and media industries. Prior to joining the Group in 2002, Ms. Tang had held managerial positions in several sizeable listed companies in Hong Kong. She was the Group Financial Controller for Star Telecom Group and South China Media Group respectively. Ms. Tang is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.



## 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 25 April 2005 (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 2004;
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, 21 March 2005

*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 2004.

## 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 2004 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 in the property, plant and equipment of the Group during the year 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 (*Chairman*)

Fung Din Chung, Rickie

Leung Lucy, Michele

Wen Pei Sung

Ip Kim Kuen (resigned on 31 January 2004)

### ***Non-executive directors:***

Ip Tak Chuen, Edmond

Quek Cher Teck (resigned on 13 July 2004)

# 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, Leung Lucy, Michele and Cheong Ying Chew, Henry 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 2004, the interests and short positions of the directors and the chief executives of the Company and their associates 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"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), were as follows:

### Long positions

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

Name of director	Number of ordinary shares held				Percentage of the issued share capital of the Company
	Beneficial owner	Held by family	Held by controlled corporation	Total	
Zee Chan Mei Chu, Peggy	2,544,000	—	563,679,197 <i>(Note 1)</i>	566,223,197	57.48%
Fung Din Chung, Rickie	24,559,498	—	—	24,559,498	2.49%
Leung Lucy, Michele	—	—	24,559,498 <i>(Note 2)</i>	24,559,498	2.49%
Wen Pei Sung	2,328,847	—	—	2,328,847	0.24%
Wong Mee Chun	40,000	382,000 <i>(Note 3)</i>	—	422,000	0.04%

#### 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.
- (3) These shares were held by the spouse of Wong Mee Chun.



# 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

#### Notes:

- (1) The exercisable period is from 1 September 2000 to 31 August 2005 (both dates inclusive) (vesting period with the 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 exercisable 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 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 31 December 2004.

# 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		
	Date of grant	Exercise price HK\$	Outstanding at 1.1.2004	Lapsed during the year	Outstanding at 31.12.2004
<b>Directors</b>					
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)	—
			<u>26,000,000</u>	<u>(8,000,000)</u>	<u>18,000,000</u>
<b>Employees</b>					
	1 September 2000 ( <i>Note 1</i> )	0.90	18,467,500	(1,539,500)	16,928,000
	11 October 2001 ( <i>Note 2</i> )	0.70	14,382,000	(1,738,000)	12,644,000
			<u>32,849,500</u>	<u>(3,277,500)</u>	<u>29,572,000</u>
			<u>58,849,500</u>	<u>(11,277,500)</u>	<u>47,572,000</u>

### Notes:

- (1) The exercisable 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 exercisable 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 2004, the Group had the following transactions with connected persons as defined in the GEM Listing Rules.

Pursuant to the agreements dated 29 August 2003 and 1 September 2004 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\$41,800.

Pursuant to the agreement dated 27 December 2003 entered into between the Group and Net Fun Limited, the Group agreed to provide general administrative services and technical support services to Net Fun Limited. The management fee and service income receivable by the Group during the year amounted to HK\$240,000.

During the year, Net Fun Limited provided design services to the Group. The design fee payable by the Group for the year amounted HK\$240,000.

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 and Leung Lucy, Michele for a term of three years commencing on 1 March 2000. The service contracts were renewed for further periods from 1 March 2003 to 31 December 2003 and from 1 January 2004 to 31 December 2004. The service contracts will continue thereafter until terminated by not less than six months' notice in writing by either party to the other.

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 further periods from 1 March 2003 to 31 December 2003 and from 1 January 2004 to 31 December 2004. 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)*

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 contracts were 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.

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 45.1% of the Group's total turnover and the Group's largest customer accounted for approximately 21.0% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 59.9% of the Group's total purchases and the Group's largest supplier accounted for approximately 22.0% 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 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.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS *(continued)*

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

Name of shareholder	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Zee Chan Mei Chu, Peggy <i>(Note 1)</i>	566,223,197	57.48%
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 <i>(Note 2)</i>	71,969,151	7.31%
iBusiness Corporation Limited <i>(Note 2)</i>	67,264,000	6.83%

#### Notes:

- (1) These shares have been disclosed as directors' interests 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"). 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 be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1, TDT2 and CKH are 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.



## REPORT OF THE DIRECTORS

### **SUBSTANTIAL SHAREHOLDERS** *(continued)*

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company at 31 December 2004.

### **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.

### **CORPORATE GOVERNANCE AND AUDIT COMMITTEE**

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 December 2004.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 December 2004.

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered to be independent.

The Company established an audit committee with written terms of reference in accordance with Rule 5.28 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 of the Group. The audit committee met on a quarterly basis during the year ended 31 December 2004.



# REPORT OF THE DIRECTORS

## COMPETING INTERESTS

Ip Tak Chuen, Edmond, a non-executive director of the Company, and Cheong Ying Chew, Henry, an independent non-executive director of the Company, are a non-executive director and an independent non-executive director of TOM Group 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 2004, 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.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2004.

## AUDITORS

The financial statements for the year ended 31 December 2002 were audited by Messrs. KPMG while the financial statements for each of the two years ended 31 December 2004 were audited by Messrs. Deloitte Touche Tohmatsu. 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, 21 March 2005



## REPORT OF THE AUDITORS



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 67 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 Institute of Certified Public 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 2004 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

21 March 2005

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>	4	<b>162,888</b>	184,713
Other operating income	6	<b>2,333</b>	11,054
Cost of sales		<b>(96,280)</b>	(109,456)
Staff costs		<b>(66,999)</b>	(68,761)
Depreciation and amortisation		<b>(8,746)</b>	(14,469)
Other operating expenses		<b>(20,041)</b>	(28,483)
Impairment losses recognised		<b>—</b>	(1,883)
<b>Loss from operations</b>	7	<b>(26,845)</b>	(27,285)
Finance costs	10	<b>(382)</b>	(417)
Share of results of associates		<b>4,727</b>	2,107
<b>Loss before taxation</b>		<b>(22,500)</b>	(25,595)
Taxation	11	<b>(550)</b>	529
<b>Loss before minority interests</b>		<b>(23,050)</b>	(25,066)
Minority interests		<b>2,088</b>	(1,463)
<b>Net loss attributable to shareholders</b>		<b><u>(20,962)</u></b>	<b><u>(26,529)</u></b>
<b>Loss per share — Basic</b>	12	<b><u>(2.13 cents)</u></b>	<b><u>(2.69 cents)</u></b>

# CONSOLIDATED BALANCE SHEET

at 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	13,999	14,531
Interests in associates	15	31,848	25,614
Goodwill	16	5,302	6,398
Development costs	17	8,121	6,260
Investments in securities	18	8,744	8,203
		<b>68,014</b>	61,006
<b>Current assets</b>			
Inventories — at cost		7,036	6,615
Work in progress	19	5,230	7,085
Trade receivables	20	20,042	35,143
Other receivables, deposits and prepayments		6,429	10,942
Investments in securities	18	1,672	1,606
Amount due from an associate	21	103	—
Pledged bank deposits		11,622	9,200
Bank balances and cash		20,196	24,390
		<b>72,330</b>	94,981
<b>Current liabilities</b>			
Trade payables	23	10,362	7,707
Other payables and accrued charges		6,090	7,052
Deferred income	24	14,084	9,310
Government grants	25	—	470
Bank loans — secured		5,358	3,948
		<b>35,894</b>	28,487
<b>Net current assets</b>		<b>36,436</b>	66,494
<b>Total assets less current liabilities</b>		<b>104,450</b>	127,500
<b>Minority interests</b>		<b>2,636</b>	4,724
<b>Net assets</b>		<b>101,814</b>	122,776

**CONSOLIDATED BALANCE SHEET** *(continued)**at 31 December 2004*

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>Capital and reserves</b>			
<b>Share capital</b>	26	<b>98,505</b>	98,505
<b>Reserves</b>	27 (a)	<b>3,309</b>	24,271
<b>Shareholders' funds</b>		<b>101,814</b>	122,776

The financial statements on pages 26 to 67 were approved and authorised for issue by the Board of Directors on 21 March 2005 and are signed on its behalf by:

**Zee Chan Mei Chu, Peggy**  
*Director*

**Fung Din Chung, Rickie**  
*Director*

# BALANCE SHEET

at 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	14	—	—
<b>Current assets</b>			
Prepayments		150	—
Amounts due from subsidiaries	22	135,768	146,403
Bank balances		210	142
		<b>136,128</b>	146,545
<b>Current liabilities</b>			
Other payables and accrued charges		662	709
Amounts due to subsidiaries	22	64,740	64,740
		<b>65,402</b>	65,449
<b>Net current assets</b>		<b>70,726</b>	81,096
<b>Net assets</b>		<b>70,726</b>	81,096
<b>Capital and reserves</b>			
Share capital	26	98,505	98,505
Reserves	27 (b)	(27,779)	(17,409)
<b>Shareholders' funds</b>		<b>70,726</b>	81,096

**Zee Chan Mei Chu, Peggy**  
Director

**Fung Din Chung, Rickie**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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 year	—	—	(20,962)	(20,962)
<b>At 31 December 2004</b>	<b>98,505</b>	<b>179,650</b>	<b>(176,341)</b>	<b>101,814</b>

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
<b>Cash flows from operating activities</b>		
Loss before taxation	(22,500)	(25,595)
Adjustments for:		
Share of results of associates	(4,727)	(2,107)
Dividend income from other investments	(34)	(76)
Interest income	(191)	(186)
Interest expense	382	417
Realised gain on investment securities	(418)	—
Unrealised (gain) loss on other investments	(66)	281
Depreciation and amortisation of property, plant and equipment	4,461	8,423
Amortisation of development costs	3,189	4,950
Amortisation of goodwill	1,096	1,096
Realised gain on other investments	—	(275)
Reversal of accrued rentals on early termination of an operating lease	—	(9,203)
Gain on disposal of associates	—	(440)
Loss on disposal of property, plant and equipment	—	728
Impairment loss recognised in respect of property, plant and equipment	—	1,760
Impairment loss recognised in respect of development costs	—	123
<b>Operating cash flows before movements in working capital</b>	<b>(18,808)</b>	<b>(20,104)</b>
(Increase) decrease in inventories	(421)	16,475
Decrease in work in progress	1,855	10,099
Decrease in trade receivables	15,101	14,753
Decrease in bills receivable	—	19,520
Decrease (increase) in other receivables, deposits and prepayments	5,332	(2,981)
Increase in amount due from an associate	(103)	—
Increase (decrease) in trade payables	2,655	(17,496)
Decrease in bills payable	—	(1,873)
(Decrease) increase in other payables and accrued charges	(962)	224
Increase (decrease) in deferred income	4,774	(6,475)
(Decrease) increase in government grants	(470)	470
<b>Net cash generated from operations</b>	<b>8,953</b>	<b>12,612</b>
Taxation in other jurisdictions paid	(113)	—
Hong Kong Profits Tax refunded	—	995
<b>Net cash from operating activities</b>	<b>8,840</b>	<b>13,607</b>

# CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
<b>Cash flows from investing activities</b>		
Interest received	191	186
Dividend received from other investments	34	76
Development costs capitalised	(5,050)	(6,239)
Purchase of property, plant and equipment	(3,929)	(2,805)
Increase in pledged bank deposits	(2,422)	(1,200)
Investments in associates	(1,944)	—
Purchase of investment securities	(942)	(3,899)
Proceeds from disposal of other investments	—	1,445
Proceeds from disposal of associates	—	861
Proceeds from disposal of property, plant and equipment	—	71
<b>Net cash used in investing activities</b>	<b>(14,062)</b>	<b>(11,504)</b>
<b>Cash flows from financing activities</b>		
New bank loans raised	1,410	9,870
Interest paid	(382)	(417)
Capital contributed by minority interests	—	70
Repayment of bank loans	—	(11,750)
<b>Net cash from (used in) financing activities</b>	<b>1,028</b>	<b>(2,227)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(4,194)</b>	<b>(124)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>24,390</b>	<b>24,514</b>
<b>Cash and cash equivalents at end of the year, representing bank balances and cash</b>	<b>20,196</b>	<b>24,390</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 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, sales and implementation of enterprise software and the provision of systems integration, professional services and ASP services.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 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 subsidiaries and associates acquired or disposed 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 acquisition 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".

In circumstances where the contract price can be allocated on a reasonable basis to 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition *(continued)*

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.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 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 plus unamortised goodwill in so far as it has not already been written off, less any identified impairment loss.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

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.

### Foreign currencies

Transactions in foreign currencies are translated at the approximate 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 expenses as they fall due.

## 4. TURNOVER

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

	2004 HK\$'000	2003 HK\$'000
Enterprise software products	50,748	63,077
Systems integration	94,824	108,546
Professional services	12,450	7,974
ASP services	4,866	5,116
	<u>162,888</u>	<u>184,713</u>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 5. SEGMENT INFORMATION

### (a) Geographical segments

Information relating to geographical segments based on the location of assets for 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	<b>75,924</b>	81,944	<b>89,587</b>	100,639	<b>4,109</b>	2,976	<b>(6,732)</b>	(846)	<b>162,888</b>	184,713
Segment result	<b>(11,209)</b>	(19,270)	<b>(14,590)</b>	(5,286)	<b>(1,046)</b>	(2,729)	—	—	<b>(26,845)</b>	(27,285)
Finance costs	—	(4)	<b>(381)</b>	(413)	<b>(1)</b>	—	—	—	<b>(382)</b>	(417)
Share of results of associates	—	(593)	<b>4,727</b>	2,700	—	—	—	—	<b>4,727</b>	2,107
Loss before taxation	<b>(11,209)</b>	(19,867)	<b>(10,244)</b>	(2,999)	<b>(1,047)</b>	(2,729)	—	—	<b>(22,500)</b>	(25,595)
Taxation	—	650	<b>(550)</b>	(121)	—	—	—	—	<b>(550)</b>	529
Loss before minority interests	<b>(11,209)</b>	(19,217)	<b>(10,794)</b>	(3,120)	<b>(1,047)</b>	(2,729)	—	—	<b>(23,050)</b>	(25,066)
Minority interests	—	—	<b>2,088</b>	(1,463)	—	—	—	—	<b>2,088</b>	(1,463)
Net loss attributable to shareholders	<b>(11,209)</b>	(19,217)	<b>(8,706)</b>	(4,583)	<b>(1,047)</b>	(2,729)	—	—	<b>(20,962)</b>	(26,529)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 5. SEGMENT INFORMATION (continued)

### (a) Geographical segments (continued)

(ii) Other information:

	Hong Kong		PRC		Others		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Capital additions	6,332	1,482	2,470	7,562	177	—	—	—	8,979	9,044
Depreciation and amortisation	4,572	11,503	4,092	2,780	82	186	—	—	8,746	14,469
Impairment loss recognised	—	1,752	—	—	—	131	—	—	—	1,883
Revenue from external customers by the location of customers	69,784	80,843	94,046	100,639	5,790	4,077	(6,732)	(846)	162,888	184,713

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Assets										
Segment assets	132,106	163,241	33,814	52,146	4,676	1,472	(62,100)	(86,486)	108,496	130,373
Interests in associates	—	—	31,848	25,614	—	—	—	—	31,848	25,614
Consolidated total assets	132,106	163,241	65,662	77,760	4,676	1,472	(62,100)	(86,486)	140,344	155,987
Liabilities										
Segment liabilities	(18,492)	(16,257)	(62,734)	(87,609)	(11,410)	(7,159)	62,100	86,486	(30,536)	(24,539)
Bank loan	—	—	(5,358)	(3,948)	—	—	—	—	(5,358)	(3,948)
Consolidated total liabilities	(18,492)	(16,257)	(68,092)	(91,557)	(11,410)	(7,159)	62,100	86,486	(35,894)	(28,487)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue from external customers	50,748	63,077	94,824	108,546	12,450	7,974	4,866	5,116	—	—	162,888	184,713
Segment assets	35,747	37,158	17,327	36,436	37,061	30,707	5,454	6,959	44,755	44,727	140,344	155,987
Capital additions	8,011	8,958	—	31	960	55	8	—	—	—	8,979	9,044

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 6. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Dividend income from other investments — listed	34	76
Gain on disposal of associates	—	440
Income from government grants	470	—
Interest income	191	186
Management fee and service income	120	564
Realised gain on investment securities	418	—
Realised gain on other investments	—	275
Reversal of accrued rentals on early termination of an operating lease	—	9,203
Unrealised gain on other investments	66	—
Others	1,034	310
	<b>2,333</b>	<b>11,054</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 7. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

Directors' remuneration (*Note 8*)

Other staff costs

Retirement benefit costs

Total staff costs

Less: Staff costs capitalised in development costs

Depreciation and amortisation of property, plant and equipment

Amortisation of development costs

Amortisation of goodwill

Total depreciation and amortisation

Impairment loss recognised in respect of property, plant and equipment

Impairment loss recognised in respect of development costs

Total impairment loss recognised

Auditors' remuneration

Cost of inventories consumed

Loss on disposal of property, plant and equipment

Minimum lease payments in respect of land and buildings

Unrealised loss on other investments

For disclosure purpose only:

Research and development expenditure (including staff costs of HK\$16,894,000; 2003: HK\$18,746,000)

Less: Amount capitalised in development costs

	2004 HK\$'000	2003 HK\$'000
Directors' remuneration ( <i>Note 8</i> )	4,882	5,871
Other staff costs	64,225	67,078
Retirement benefit costs	2,942	1,707
Total staff costs	72,049	74,656
Less: Staff costs capitalised in development costs	(5,050)	(5,895)
	66,999	68,761
Depreciation and amortisation of property, plant and equipment	4,461	8,423
Amortisation of development costs	3,189	4,950
Amortisation of goodwill	1,096	1,096
Total depreciation and amortisation	8,746	14,469
Impairment loss recognised in respect of property, plant and equipment	—	1,760
Impairment loss recognised in respect of development costs	—	123
Total impairment loss recognised	—	1,883
Auditors' remuneration	793	624
Cost of inventories consumed	88,518	99,982
Loss on disposal of property, plant and equipment	—	728
Minimum lease payments in respect of land and buildings	4,391	10,223
Unrealised loss on other investments	—	281
	<b>17,797</b>	21,202
Less: Amount capitalised in development costs	(5,050)	(6,239)
	<b>12,747</b>	14,963

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 8. DIRECTORS' REMUNERATION

	2004 HK\$'000	2003 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	4,533	5,336
— performance related incentive payments	—	175
— retirement benefit costs	<u>49</u>	<u>60</u>
	<u>4,582</u>	<u>5,571</u>
Total directors' remuneration	<u><u>4,882</u></u>	<u><u>5,871</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\$404,000 (2003: HK\$462,000).

The emoluments of the directors were within the following bands:

	2004	2003
Nil to HK\$1,000,000	6	6
HK\$1,000,001 to HK\$1,500,000	<u>4</u>	<u>5</u>

During the year ended 31 December 2004, the five executive directors received individual emoluments of HK\$1,012,000 (2003: HK\$1,012,000), HK\$1,012,000 (2003: HK\$1,012,000), HK\$1,012,000 (2003: HK\$1,012,000), HK\$84,333 (2003: HK\$1,062,000) and HK\$1,462,000 (2003: HK\$1,106,000) respectively; and individual directors' fee of the three independent non-executive directors was HK\$100,000 (2003: HK\$100,000).

No director waived any emoluments during both years.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2003: four) are directors of the Company whose emoluments are included in the disclosure in note 8 above. The emoluments of the remaining two (2003: one) highest paid individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	2,200	1,200
Retirement benefit costs	24	12
	<u>2,224</u>	<u>1,212</u>

The emoluments of the two (2003: one) individuals were within the following bands:

	Number of employees	
	2004	2003
HK\$1,000,000 to HK\$1,500,000	<u>2</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

	2004 HK\$'000	2003 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank loans	304	413
Other borrowings	78	4
	<u>382</u>	<u>417</u>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 11. TAXATION

The charge (credit) comprises:

The Company and its subsidiaries:

Hong Kong Profits Tax

— current year

— overprovision in prior years

Taxation in other jurisdictions

Share of taxation of associates

Taxation in other jurisdictions

2004 HK\$'000	2003 HK\$'000
—	—
—	(650)
—	(650)
<b>113</b>	—
<b>113</b>	(650)
<b>437</b>	121
<b>550</b>	(529)

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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 11. TAXATION (continued)

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

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<b>(22,500)</b>	(25,595)
Tax at the Hong Kong Profits Tax rate of 17.5% (2003: 17.5%)	<b>(3,938)</b>	(4,479)
Tax effect of income not taxable for tax purposes	<b>(200)</b>	(487)
Tax effect of expenses not deductible for tax purposes	<b>2,279</b>	1,571
Tax effect of deductible temporary differences not recognised	<b>2,964</b>	4,554
Tax effect of share of results of associates	<b>(390)</b>	(247)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(165)</b>	(125)
Overprovision in prior years	—	(650)
Tax effect of utilisation of tax losses previously not recognised	—	(666)
Tax charge (credit) for the year	<b>550</b>	(529)

## 12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders of HK\$20,962,000 (2003: HK\$26,529,000) and the 985,050,000 (2003: 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 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
<b>THE GROUP</b>							
<b>COST</b>							
At 1 January 2004	7,856	2,406	27,273	7,187	1,615	717	47,054
Additions	—	218	3,695	—	16	—	3,929
Disposals	—	—	(55)	—	—	—	(55)
<b>At 31 December 2004</b>	<b>7,856</b>	<b>2,624</b>	<b>30,913</b>	<b>7,187</b>	<b>1,631</b>	<b>717</b>	<b>50,928</b>
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>							
At 1 January 2004	1,995	769	22,555	5,377	1,316	511	32,523
Provided for the year	75	810	2,595	737	187	57	4,461
Eliminated on disposals	—	—	(55)	—	—	—	(55)
<b>At 31 December 2004</b>	<b>2,070</b>	<b>1,579</b>	<b>25,095</b>	<b>6,114</b>	<b>1,503</b>	<b>568</b>	<b>36,929</b>
<b>NET BOOK VALUES</b>							
<b>At 31 December 2004</b>	<b>5,786</b>	<b>1,045</b>	<b>5,818</b>	<b>1,073</b>	<b>128</b>	<b>149</b>	<b>13,999</b>
At 31 December 2003	5,861	1,637	4,718	1,810	299	206	14,531

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 2004

## 14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost of US\$1	—	—

Details of the Company's principal subsidiaries at 31 December 2004 are set out in note 36.

## 15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	25,231	18,430
Goodwill	6,617	7,184
	<b>31,848</b>	<b>25,614</b>

As at 31 December 2004, the Group had interests in the following associates:

Name of associate	Place of incorporation/ registration	Principal place of operation	Proportion of normal value of issued share capital/ registered capital attributable to the Group	Principal activities
Camelot Information Systems Inc.	British Virgin Islands	PRC	21.5%	Provision of IT consultancy and support services
深圳志鴻中科科技有限公司	PRC	PRC	45.0%	Development of computer software services and provision of sale and marketing support
錢引信息科技(上海)有限公司	PRC	PRC	38.0%	Development of computer software services and provision of sale and marketing support

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\$567,000 (2003: HK\$712,000) has been included in the amount reported as share of results of associates in the consolidated income statement.

At 31 December 2004, the accumulated losses of the Group include profits of HK\$10,128,000 (2003: HK\$5,271,000) retained by the Group's associates.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 16. GOODWILL

### THE GROUP

HK\$'000

#### COST

At 1 January 2004 and 31 December 2004

51,696

#### AMORTISATION AND IMPAIRMENT

At 1 January 2004

45,298

Provided for the year

1,096

#### At 31 December 2004

46,394

#### CARRYING AMOUNT

##### At 31 December 2004

5,302

At 31 December 2003

6,398

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 17. DEVELOPMENT COSTS

The development costs represented all direct costs incurred in the development of enterprise software products.

	<b>THE GROUP</b>
	HK\$'000
<b>COST</b>	
At 1 January 2004	26,035
Additions	5,050
	<hr/>
<b>At 31 December 2004</b>	<b>31,085</b>
	<hr/>
<b>AMORTISATION AND IMPAIRMENT</b>	
At 1 January 2004	19,775
Provided for the year	3,189
	<hr/>
<b>At 31 December 2004</b>	<b>22,964</b>
	<hr/>
<b>CARRYING AMOUNT</b>	
<b>At 31 December 2004</b>	<b>8,121</b>
	<hr/> <hr/>
At 31 December 2003	6,260
	<hr/> <hr/>

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Investment securities		
— unlisted private equity fund, at cost	7,802	7,802
— unlisted equity investments, at cost	942	401
Other investments		
— equity securities listed in Hong Kong, at market value	1,672	1,606
	<b>10,416</b>	<b>9,809</b>
Analysed for reporting purposes as:		
Non-current	8,744	8,203
Current	1,672	1,606
	<b>10,416</b>	<b>9,809</b>

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

### THE GROUP

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 2004

## 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	
	2004 HK\$'000	2003 HK\$'000
Current	10,088	26,654
Overdue for 1 to 3 months	8,165	3,893
Overdue more than 3 months but less than 12 months	1,789	4,596
	<u>20,042</u>	<u>35,143</u>

## 21. AMOUNT DUE FROM AN ASSOCIATE

### THE GROUP

The amount is unsecured, non-interest bearing and repayable on demand.

## 22. AMOUNTS DUE FROM/TO SUBSIDIARIES

### THE COMPANY

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 23. TRADE PAYABLES

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Not yet due	6,033	3,924
Overdue within 30 days	1,750	2,572
Overdue within 31 to 60 days	11	507
Overdue more than 60 days	2,568	704
	<u>10,362</u>	<u>7,707</u>

## 24. DEFERRED INCOME

### THE GROUP

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.

## 25. GOVERNMENT GRANTS

### THE GROUP

The amount of HK\$470,000 represented government grants received in 2003 towards the expenses of development of computer software. Upon fulfilment of the conditions and obtaining approval from the relevant municipal government by the Group in 2004, the amount was credited to the income statement during the year.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 26. SHARE CAPITAL

	2004 & 2003	
	Number of shares	Amount HK\$'000
Authorised:		
Shares of HK\$0.10 each	5,000,000,000	500,000
Issued and fully paid:		
Shares of HK\$0.10 each	985,050,000	98,505

There were no changes in the Company's authorised, issued and fully paid share capital in both years.

## 27. RESERVES

### (a) THE GROUP

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	179,650	(128,850)	50,800
Net loss for the year	—	(26,529)	(26,529)
At 31 December 2003 and 1 January 2004	179,650	(155,379)	24,271
Net loss for the year	—	(20,962)	(20,962)
<b>At 31 December 2004</b>	<b>179,650</b>	<b>(176,341)</b>	<b>3,309</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 27. RESERVES (continued)

### (b) THE COMPANY

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	179,650	(176,029)	3,621
Net loss for the year	—	(21,030)	(21,030)
At 31 December 2003 and 1 January 2004	179,650	(197,059)	(17,409)
Net loss for the year	—	(10,370)	(10,370)
<b>At 31 December 2004</b>	<b>179,650</b>	<b>(207,429)</b>	<b>(27,779)</b>

At 31 December 2004, there were no reserves available for distribution to the Company's shareholders (2003: nil).

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

## 28. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	THE GROUP		
	Accelerated tax depreciation HK\$'000	Development costs HK\$'000	Tax losses HK\$'000
At 1 January 2003	(259)	815	(556)
Charge (credit) for the year	142	(697)	555
Effect of change in tax rate	(24)	76	(52)
At 31 December 2003 and 1 January 2004	(141)	194	(53)
(Credit) charge for the year	(60)	690	(630)
<b>At 31 December 2004</b>	<b>(201)</b>	<b>884</b>	<b>(683)</b>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the Statement of Standard Accounting Practice No. 12 (Revised) "Income taxes" issued by the HKICPA.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 28. DEFERRED TAXATION (continued)

At 31 December 2004, the Group has unused tax losses of approximately HK\$148,841,000 (2003: HK\$128,302,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$3,903,000 (2003: HK\$301,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of approximately HK\$144,938,000 (2003: HK\$128,001,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except losses of approximately HK\$13,747,000 (2003: HK\$10,023,000) which will expire as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Year of expiry		
2006	1,089	1,089
2007	4,582	4,849
2008	3,669	4,085
2009	4,407	—
	<u>13,747</u>	<u>10,023</u>

## 29. MAJOR NON-CASH TRANSACTION

During the year, the Group disposed of one of its investment securities at a consideration of HK\$819,000 which was included in other receivables, deposits and prepayments at 31 December 2004.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 30. 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	
	2004 HK\$'000	2003 HK\$'000
Within one year	3,225	3,008
In the second to fifth years inclusive	633	1,866
	<u>3,858</u>	<u>4,874</u>

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.

## 31. CONTINGENT LIABILITIES

At 31 December 2004, the Company has given corporate guarantees of HK\$27,300,000 (2003: HK\$21,450,000) to suppliers to secure the credit facilities granted to its subsidiaries. At 31 December 2004, the amount of facilities utilised by the subsidiaries amounted to HK\$2,402,000 (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 (2004: nil).

## 32. PLEDGE OF ASSETS

### THE GROUP

At 31 December 2004, bank deposits of HK\$11,622,000 (2003: HK\$9,200,000) were pledged to a bank and a financial institution to secure the credit facilities granted to the Group.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 33. SHARE OPTION SCHEMES (continued)

A summary of the movements of the outstanding options during each of the two years ended 31 December 2004 under the Old Scheme is as follows:

Date of grant	Exercise price HK\$	Number of options		
		Outstanding at 1.1.2004	Lapsed during the year	Outstanding at 31.12.2004
1 September 2000 (Note a)	0.90	42,467,500	(9,539,500)	<b>32,928,000</b>
11 October 2001 (Note b)	0.70	16,382,000	(1,738,000)	<b>14,644,000</b>
		<u>58,849,500</u>	<u>(11,277,500)</u>	<u><b>47,572,000</b></u>

Date of grant	Exercise price HK\$	Number of options		
		Outstanding at 1.1.2003	Lapsed during the year	Outstanding at 31.12.2003
1 September 2000 (Note a)	0.90	44,672,000	(2,204,500)	42,467,500
11 October 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>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 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 1.1.2004	Lapsed during the year	Outstanding at 31.12.2004
1 September 2000 (Note a)	0.90	24,000,000	(8,000,000)	16,000,000
11 October 2001 (Note b)	0.70	2,000,000	—	2,000,000
		<u>26,000,000</u>	<u>(8,000,000)</u>	<u>18,000,000</u>

Date of grant	Exercise price HK\$	Number of options		
		Outstanding at 1.1.2003	Reclassification	Outstanding at 31.12.2003
1 September 2000 (Note a)	0.90	32,000,000	(8,000,000)	24,000,000
11 October 2001 (Note b)	0.70	—	2,000,000	2,000,000
		<u>32,000,000</u>	<u>(6,000,000)</u>	<u>26,000,000</u>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 33. SHARE OPTION SCHEMES *(continued)*

Notes:

- (a) The exercisable 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 exercisable 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).

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.

## 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. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000.

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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 35. RELATED PARTY TRANSACTIONS

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

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Revenue:		
Sale of complementary hardware and software to a minority shareholder	<b>1,909</b>	18,290
Sale of enterprise software products to an associate	<b>1,415</b>	—
Professional service fee from an associate	<b>395</b>	—
Professional service fee from a minority shareholder	<b>367</b>	—
Management fee and service income from a related company	<b>240</b>	564
Purchases and expenses:		
Purchases of complementary hardware and software from a minority shareholder	<b>10,017</b>	15,733
Professional fee paid to an associate	<b>367</b>	—
Design fee paid to a related company	<b>240</b>	192
Interest paid to a minority shareholder	<b>78</b>	—
Rental paid to a minority shareholder	<b>56</b>	—
	<b>56</b>	—

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

The sales and purchase transactions were conducted at mutually agreed prices and terms.

The professional service fee, 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, 1 June 2003 and 27 December 2003.

The professional service fee is calculated based on an agreement entered into between the associate and the Group in December 2004.

The interest expense is charged quarterly at 2%.

The rental expense is based on agreements entered into between the minority shareholder and the Group in March 2004 and August 2004.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 36. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2004 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	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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 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	
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	100%	—	100%	Investment holding
New Crest Technology Corp.	British Virgin Islands*	1 share of US\$1	100%	—	100%	Investment holding
Wise Success Ltd.	British Virgin Islands*	5,000 shares of US\$1 each	100%	—	100%	Investment holding
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 2004

## 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
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 2004 or at any time during the year.



## FINANCIAL SUMMARY

	2000 HK\$'000 (Note)	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
<b>RESULTS</b>					
Turnover	<u>155,425</u>	<u>173,111</u>	<u>193,398</u>	<u>184,713</u>	<u><b>162,888</b></u>
Profit (loss) before taxation	23,260	(85,516)	(68,919)	(25,595)	<b>(22,500)</b>
Taxation	<u>(540)</u>	<u>(284)</u>	<u>(565)</u>	<u>529</u>	<u><b>(550)</b></u>
Profit (loss) before minority interests	22,720	(85,800)	(69,484)	(25,066)	<b>(23,050)</b>
Minority interests	<u>—</u>	<u>1,024</u>	<u>663</u>	<u>(1,463)</u>	<u><b>2,088</b></u>
Net profit (loss) attributable to shareholders	<u>22,720</u>	<u>(84,776)</u>	<u>(68,821)</u>	<u>(26,529)</u>	<u><b>(20,962)</b></u>
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	395,272	321,355	217,216	155,987	<b>140,344</b>
Total liabilities	(85,050)	(101,991)	(64,720)	(28,487)	<b>(35,894)</b>
Minority interests	<u>—</u>	<u>(1,238)</u>	<u>(3,191)</u>	<u>(4,724)</u>	<u><b>(2,636)</b></u>
Shareholders' funds	<u>310,222</u>	<u>218,126</u>	<u>149,305</u>	<u>122,776</u>	<u><b>101,814</b></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 year ended 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.