

INTERIM REPORT 2005

ENTERPRISE SOFTWARE
DEVELOPMENT AND DEPLOYMENT

APPLICATION SERVICE PROVIDER (ASP)

IT STRATEGY PLANNING CONSULTING

SYSTEMS AND PRODUCT INTEGRATION

Excel
TECHNOLOGY

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

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

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

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

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

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

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

INTERIM RESULTS ENDED 30 JUNE 2005

The Directors of the Company present the condensed unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 30 June 2005 ("Condensed Financial Statements"), together with the comparative figures for the corresponding periods in 2004, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2005

		(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2005	2004	2005	2004
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	59,138	25,613	94,924	61,961
Other operating income		123	398	154	844
Cost of sales and services rendered		(40,706)	(9,259)	(57,527)	(27,759)
Staff costs		(15,483)	(12,062)	(34,611)	(27,943)
Depreciation and amortisation		(1,729)	(2,552)	(3,612)	(5,478)
Other operating expenses		(4,283)	(5,047)	(8,385)	(9,750)
Loss from operations	4	(2,940)	(2,909)	(9,057)	(8,125)
Finance costs		(79)	(87)	(143)	(136)
Share of results of associates		762	1,457	773	1,627
Loss before taxation		(2,257)	(1,539)	(8,427)	(6,634)
Taxation	5	(29)	(51)	(33)	(51)
Loss for the period		(2,286)	(1,590)	(8,460)	(6,685)
Attributable to:					
Equity holders of the parent		(2,559)	(928)	(8,624)	(6,097)
Minority interests		273	(662)	164	(588)
		(2,286)	(1,590)	(8,460)	(6,685)
Loss per share – basic	7	(0.26) cents	(0.09) cents	(0.88) cents	(0.62) cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2005

		(Unaudited) 30 June 2005 HK\$'000	(Audited) 31 December 2004 HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment	8	14,148	13,999
Interests in associates		32,588	31,848
Goodwill		5,302	5,302
Development costs	9	6,239	8,121
Investments in securities		8,744	8,744
		67,021	68,014
Current assets			
Inventories – at cost		5,258	7,036
Work in progress		5,372	5,230
Trade receivables	10	64,282	20,042
Other receivables, deposits and prepayments		8,233	6,429
Investments in securities		171	1,672
Amount due from an associate		–	103
Pledged bank deposits		11,615	11,622
Bank balances and cash		7,031	20,196
		101,962	72,330
Current liabilities			
Trade payables	11	37,399	10,362
Other payables and accrued charges		12,169	6,090
Deferred income		17,119	14,084
Bank loans – secured		6,298	5,358
		72,985	35,894
Net current assets		28,977	36,436
Total assets less current liabilities		95,998	104,450
Capital and reserves			
Share capital	12	98,505	98,505
Reserves		(5,315)	3,309
		93,190	101,814
Minority interests		2,808	2,636
Total equity		95,998	104,450

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	98,505	179,650	(155,379)	122,776
Net loss for the year	—	—	(20,962)	(20,962)
At 31 December 2004 and 1 January 2005	98,505	179,650	(176,341)	101,814
Net loss for the period	—	—	(8,624)	(8,624)
At 30 June 2005	<u>98,505</u>	<u>179,650</u>	<u>(184,965)</u>	<u>93,190</u>
At 1 January 2004	98,505	179,650	(155,379)	122,776
Net loss for the period	—	—	(6,097)	(6,097)
At 30 June 2004	<u>98,505</u>	<u>179,650</u>	<u>(161,476)</u>	<u>116,679</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*FOR THE SIX MONTHS ENDED 30 JUNE 2005*

	(Unaudited)	
	Six months ended	
	30 June	
	2005	2004
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	(13,592)	5,025
Net cash used in investing activities	(378)	(12,866)
Net cash from financing activities	805	3,624
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(13,165)	(4,217)
Cash and cash equivalents at beginning of the period	20,196	24,390
	<hr/>	<hr/>
Cash and cash equivalents at end of the period, representing bank balances and cash	7,031	20,173
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Condensed Financial Statements*For the six months ended 30 June 2005***1. Basis of Presentation**

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The financial information has been prepared in accordance with all applicable new HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

This financial information also complies with the applicable disclosure requirements of the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the financial information is historical cost modified by the marking to market of certain investments in securities at the balance sheet date.

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

2. Turnover

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

	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Enterprise software products	16,794	13,353	30,258	28,486
Systems integration	33,692	8,456	49,456	26,613
Professional services	7,380	2,551	12,608	4,388
ASP services	1,272	1,253	2,602	2,474
	59,138	25,613	94,924	61,961

3. Segment Information

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

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

	Hong Kong		PRC		Others		Elimination		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>41,520</u>	<u>40,983</u>	<u>55,636</u>	<u>19,209</u>	<u>4,553</u>	<u>1,769</u>	<u>(6,785)</u>	<u>-</u>	<u>94,924</u>	<u>61,961</u>
Segment result	(7,367)	(3,901)	(1,750)	(3,478)	60	(746)			(9,057)	(8,125)
Finance costs	-	-	(143)	(136)	-	-			(143)	(136)
Share of results of associates	-	-	773	1,627	-	-			773	1,627
Loss before taxation	<u>(7,367)</u>	<u>(3,901)</u>	<u>(1,120)</u>	<u>(1,987)</u>	<u>60</u>	<u>(746)</u>			<u>(8,427)</u>	<u>(6,634)</u>
Taxation	-	-	(33)	(51)	-	-			(33)	(51)
Loss before minority interests	<u>(7,367)</u>	<u>(3,901)</u>	<u>(1,153)</u>	<u>(2,038)</u>	<u>60</u>	<u>(746)</u>			<u>(8,460)</u>	<u>(6,685)</u>
Minority interests	9	-	(173)	588	-	-			(164)	588
Net loss attributable to shareholders	<u>(7,358)</u>	<u>(3,901)</u>	<u>(1,326)</u>	<u>(1,450)</u>	<u>60</u>	<u>(746)</u>			<u>(8,624)</u>	<u>(6,097)</u>

Business segments

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

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Enterprise software products	30,258	28,486
Systems integration	49,456	26,613
Professional services	12,608	4,388
ASP services	2,602	2,474
	<u>94,924</u>	<u>61,961</u>

4. Loss from Operations

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

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation and amortisation of property, plant and equipment	878	1,265	1,730	2,599
Amortisation of development costs	1,125	1,013	1,882	2,331
Amortisation of goodwill	(274)	274	–	548
Total depreciation and amortisation	<u>1,729</u>	<u>2,552</u>	<u>3,612</u>	<u>5,478</u>
Interest income	(81)	(39)	(127)	(75)
Dividend income from investments in securities	–	(24)	(24)	(24)
Unrealised loss on investments in securities	140	182	158	299

5. Taxation

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:				
Taxation in other jurisdictions				
Current year	—	—	—	—
Taxation attributable to the Company and its subsidiaries	—	—	—	—
Share of taxation attributable to associates	29	51	33	51
	<u>29</u>	<u>51</u>	<u>33</u>	<u>51</u>

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

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

The Group has not recognised any deferred tax assets arising from unused tax losses due to the unpredictability of future profit streams.

6. Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: nil).

7. Loss per Share

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

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
Net loss attributable to shareholders	<u>HK\$2,559,000</u>	HK\$928,000	<u>HK\$8,624,000</u>	HK\$6,097,000
Number of shares for the purposes of calculating basic loss per share	<u>985,050,000</u>	985,050,000	<u>985,050,000</u>	985,050,000

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

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8. Property, Plant and Equipment

During the six months ended 30 June 2005, the Group spent HK\$1,879,000 (six months ended 30 June 2004: HK\$1,671,000) on acquisition of property, plant and equipment.

9. Development Costs

During the six months ended 30 June 2005, the Group did not incur development costs (six months ended 30 June 2004: HK\$6,004,000).

10. Trade Receivables

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

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

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Current	51,599	10,088
Overdue for 1 to 3 months	8,774	8,165
Overdue more than 3 months but less than 12 months	3,909	1,789
	<u>64,282</u>	<u>20,042</u>

11. Trade Payables

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

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Not yet due	32,946	6,033
Overdue within 30 days	160	1,750
Overdue within 31 to 60 days	93	11
Overdue more than 60 days	4,200	2,568
	<u>37,399</u>	<u>10,362</u>

12. Share Capital

	30 June 2005 & 31 December 2004 Number of shares	Amount HK\$'000
Authorised:		
Shares of HK\$0.10 each	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
Shares of HK\$0.10 each	<u>985,050,000</u>	<u>98,505</u>

13. Contingent Liabilities

At 30 June 2005, the Company has given corporate guarantees of HK\$27,300,000 (31 December 2004: HK\$27,300,000) to suppliers to secure the credit facilities granted to its subsidiaries. At 30 June 2005, the amount of facilities utilised by the subsidiaries amounted to HK\$21,000 (31 December 2004: HK\$2,402,000).

14. Pledge of Assets

At 30 June 2005, bank deposits of HK\$11,615,000 (31 December 2004: HK\$11,622,000) were pledged to a bank and a financial institution to secure the credit facilities granted to the Group.

15. Related Party Transactions

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

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Sale of hardware to a minority shareholder	–	1,653
Sale of enterprise software products to a minority shareholder	1,913	517
Sale of enterprise software products to an associate	338	–
Management fee and service income from a related company	100	120
Design fee paid to a related company	100	120
Purchases of software from a minority shareholder	10,407	–
Professional fee paid to a minority shareholder	545	–
Professional fee paid to an associate	106	–
Rental paid to a minority shareholder of a subsidiary	34	–

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 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 in January 2005.

The rental expenses is based on agreements entered into between the minority shareholder and the Group in August 2004 and April 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six-month period ended 30 June 2005, the Group recorded an increase of 53% in turnover to HK\$94,924,000, compared with HK\$61,961,000 in the same period of last year. Loss attributable to shareholders in the first half of 2005 was HK\$8,624,000 (2004: Loss of HK\$6,097,000).

The major factor of the turnover growth was the increase in China's systems integration business, which grew by 86% to HK\$49,456,000 (2004: HK\$26,613,000) due to a large transaction in software services.

Professional service was another contributor to the turnover increase. It grew by 187% to HK\$12,608,000 (2004: HK\$4,388,000). The increase was largely attributed to the rapid growth of the IT outsourcing business, which is in line with our strategy in growing this business significantly over the next few years.

Enterprise software product increased slightly by 6% in turnover to HK\$30,258,000 (2004: HK\$28,486,000).

The ASP business in Hong Kong was still relatively small but continued to be stable.

The loss from operations for the period is HK\$9,057,000, increased by 11% as compared to the loss of HK\$8,125,000 in the same period of last year. The increase in loss was largely due to the investment put in localizing the commercial version of treasury system (REAPS). Adding the effect of finance cost, minority interests in the joint venture and share of associate companies, the loss attributable to shareholder for the six months ended 30 June 2005 was HK\$8,624,000 (2004: Loss of HK\$6,097,000).

Liquidity and Financial Resources

As of 30 June 2005, the Group had cash and cash equivalents amounted to HK\$7,031,000, plus pledged deposit of HK\$11,615,000.

The Group has maintained a bank borrowing of HK\$6,298,000 for funding the working capital needs of the operations in Mainland China.

Trade receivables was significantly increased to HK\$64,282,000 (31 December 2004: HK\$20,042,000), which is largely due to receivables to be collected for systems integration business in China. The Group does not anticipate any problem in collecting these receivables.

As of 30 June 2005, the gearing ratio of the Group was 6.8% (31 December 2004: 5.3%) on the basis of bank borrowing divided by shareholders' fund.

Capital Structure

As at 30 June 2005, the Group's outstanding issued shares were 985,050,000. There has not been any change to the capital structure of the Company during the reporting period.

Significant Investments

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

Segmental Performances

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Excel Hong Kong recorded a slight increase of 1% in turnover to HK\$41,520,000 (2004: HK\$40,983,000) with attributable loss of HK\$7,358,000 (2004: Loss of HK\$3,901,000).

Excel China achieved a growth of 190% in turnover to HK\$55,636,000 (2004: HK\$19,209,000). The attributable loss was reduced to HK\$1,326,000 from the loss of HK\$1,450,000 for the same period of last year.

Excel Singapore also achieved satisfactory growth of 157% in turnover to HK\$4,553,000 (2004: HK\$1,769,000). The attributable profit was HK\$60,000, a turnaround from the loss of HK\$746,000 for the same period of last year.

Employees

As of 30 June 2005, the Group has a total of 373 employees, with an allocation of 42%, 57% and 1% in Hong Kong, China and Singapore respectively. This represents a slight increase of 12 employees in the past six months, mainly in China.

Exposure to Foreign Exchange Risk

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

Outlook for the Second Half of 2005

We see signs of improvements in the financials of the second quarter over the first quarter this year. We feel confident that this positive and improving trend will continue into the second half of 2005, which will push us closer to our goal of restoring profitability in the coming future.

Enterprise software business in Hong Kong will be steady, but it is gaining momentum in China as well as in Southeast Asia. We have successfully closed a deal with the Stock Exchange of Thailand, our first ever enterprise software contract in that country. We have also signed another deal with another Hong Kong based bank to deploy our UTS (Unit Trust System) in their Singapore branches, and negotiation is underway on extending the same deal to their branches in Malaysia as well. In China, our REAPS treasury system has been successfully put into operation in HuaXia Bank, and is therefore considered a proven solution among the banking community in PRC.

Systems integration business in China has contributed significantly to our top line in the first half of 2005, we expect it will continue to do so in the second half of the year. This business generates profit to the group, it also helps us to build connections to large corporations in China, in which we could discover their other IT needs and market our enterprise software and other services.

Software application outsourcing business is definitely our focus in the coming period. Our business model is to offer computer-programming services, using our IT resources in China, to multi-national companies. Many of these multi-national companies are seeking alternatives to their India service providers, who have been very successful in supporting these companies for many years in the past. To support this fast growing business, we have recruited a number of IT professionals who have in-depth knowledge and hands-on experience in China outsourcing, and have set up office in Dalian to capture opportunities from Japan and the United States. Some initial successes have been landed already for the new office of the Group, and we are stepping up our marketing effort to fuel the growth of this business.

Our first priority still remains with restoring profitability for the Group, while we are investing for growth in the future. In fact, some cost cutting measures have been adopted in the past months to ensure we stay lean and mean with our operation budget. The management team has looked into every subsidiary company, every business units and every business lines to ensure we will be on our way to solid ground of profitability in the coming future.

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

At 30 June 2005, 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			Total	Percentage of the issued share capital of the Company
	Beneficial owner	Held by family	Held by controlled corporation		
Zee Chan Mei Chu, Peggy	2,544,000	–	563,679,197 (Note 1)	566,223,197	57.48%
Fung Din Chung, Rickie	24,559,498	–	–	24,559,498	2.49%
Leung Lucy, Michele	–	–	24,559,498 (Note 2)	24,559,498	2.49%
Wen Pei Sung	2,328,847	–	–	2,328,847	0.24%
Wong Mee Chun	40,000	382,000 (Note 3)	–	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.

(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 30 June 2005, none of the directors or chief executive or any of their spouses or children under the age of 18 had any right to subscribe for the shares of the Company, or had exercised any such right.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2005.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

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

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company at 30 June 2005.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICE

The Board of Directors is committed to maintaining a high standard of corporate governance. The Company has complied with the Code of Corporate Governance Practice and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16 with effective from the accounting periods from 1 January 2005.

BOARD EFFECTIVENESS

Board Composition

The Board currently comprises four executive Directors and four non-executive Directors. The non-executive Directors are with a wide range of experience and caliber, bring valuable judgment on issues of strategy, performance and resources.

Chairman and Chief Executive Officer

Zee Chan Mei Chu, Peggy serves as the Chairman and Chief Executive Officer.

The reasons for not splitting the roles of Chairman and Chief Executive Officer at this moment are as follow:

- The company size is still relatively small and thus not justified in separating the roles of Chairman and Chief Executive Officer
- The Group has in place an internal control system to perform the check and balance function

Board Process

The Board meets at least quarterly. Directors are provided with comprehensive reports on the management's strategic plans, updates by business unit heads on their lines of business, financial objectives, plans and actions. All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters.

Board Committees

▪ *Audit Committee*

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. Their principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. Cheong Ying Chew, Henry is the chairman of the audit committee.

The unaudited consolidated results of the Group for the six months ended 30 June 2005 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

▪ *Remuneration Committee*

The Company adopted that a remuneration committee be established with specific written terms of reference which deal clearly with its authority and duties. The terms of reference will follow the requirement of Code Provision B.1.3.

The composition of the remuneration committee includes Chairman Zee Chan Mei Chu, Peggy and two independent non-executive directors, Cheong Ying Chew, Henry and Chang Ka Mun.

Compliance of Code for Directors' Securities Transaction

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 six months ended 30 June 2005.

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 30 June 2005, 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.

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

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

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

The Board comprises of:

Zee Chan Mei Chu, Peggy (*Executive Director*)
Leung Lucy, Michele (*Executive Director*)
Fung Din Chung, Rickie (*Executive Director*)
Wen Pei Sung (*Executive Director*)
Ip Tak Chuen, Edmond (*Non-executive Director*)
Cheong Ying Chew, Henry (*Independent non-executive Director*)
Chang Ka Mun (*Independent non-executive Director*)
Wong Mee Chun (*Independent non-executive Director*)

Hong Kong, 8 August 2005