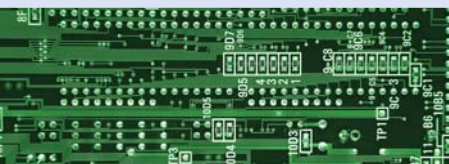


Excel Technology International Holdings Limited

(Incorporated in Bermuda with limited liability)



Interim
Report
2002



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

Highlights

- For the six months ended 30th June 2002, turnover amounted to HK\$75,788,000, representing a slight drop of 6% when compared with the same period of last year.
- The turnover for the second quarter of 2002 is HK\$46,648,000 which is 60% better than that of the first quarter of 2002.
- Loss from operations for the six months ended 30th June 2002 was HK\$13,747,000.
- For the second quarter of 2002, the loss from operations narrowed to HK\$5,730,000.
- Loss attributable to shareholders for the six months ended 30th June 2002 amounted to HK\$15,761,000.
- The Group acquired 40% interest in Excel Force Limited which is a provider of software to facilitate electronic submission of customs declaration in Shenzhen.
- The Group's subsidiary, HR21 Limited, has successfully launched the HR21 ASP service to the customers of United Overseas Bank in Singapore.
- For business in Chinese Mainland, following the contract with Shenzhen Guosen Securities for a centralized securities trading system, InterTrade-China, the Group signed a contract with a major state-owned bank in Chinese Mainland for the implementation of Wealth Management System.

INTERIM RESULTS ENDED 30TH JUNE 2002

The Directors of the Company are pleased to present the condensed unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 30th June 2002 ("Interim Financial Report"), together with the comparative figures for the corresponding periods in 2001, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Expressed in Hong Kong dollars)

| | Note | (Unaudited) 3 months ended 30th June | | (Unaudited) 6 months ended 30th June | |
|--|------|--|----------------|--|------------------|
| | | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 |
| Turnover | 2 | 46,648 | 39,321 | 75,788 | 80,590 |
| Cost of computer hardware & software | | <u>(19,774)</u> | (8,523) | <u>(25,761)</u> | (25,289) |
| | | 26,874 | 30,798 | 50,027 | 55,301 |
| Other revenue | | 312 | 1,970 | 496 | 5,405 |
| Other net (loss)/income | | (64) | 166 | (299) | 166 |
| Staff costs | | (20,476) | (16,091) | (40,148) | (32,676) |
| Depreciation | | (2,326) | (946) | (4,716) | (1,825) |
| Other operating expenses | | <u>(7,599)</u> | (7,730) | <u>(14,469)</u> | (12,618) |
| (Loss)/profit from operations before amortisation | | (3,279) | 8,167 | (9,109) | 13,753 |
| Amortisation of goodwill | | (644) | — | (1,278) | — |
| Amortisation of development costs | | <u>(1,807)</u> | (1,207) | <u>(3,360)</u> | (2,076) |
| (Loss)/profit from operations | | (5,730) | 6,960 | (13,747) | 11,677 |
| Finance costs | | (1,326) | (1,180) | (3,095) | (2,363) |
| Share of profits less losses of associates | | <u>859</u> | 841 | <u>1,456</u> | (1,350) |
| (Loss)/profit before taxation | 4 | (6,197) | 6,621 | (15,386) | 7,964 |
| Taxation | 5 | <u>(256)</u> | (120) | <u>(354)</u> | (155) |
| (Loss)/profit after taxation | | (6,453) | 6,501 | (15,740) | 7,809 |
| Minority interests | | <u>243</u> | 90 | <u>(21)</u> | 90 |
| (Loss)/profit attributable to shareholders | | <u>(6,210)</u> | <u>6,591</u> | <u>(15,761)</u> | <u>7,899</u> |
| (Loss)/earnings per share | | | | | |
| Basic and diluted | 6 | <u>(0.63) cent</u> | 0.66 cent | <u>(1.60) cents</u> | <u>0.79 cent</u> |

The notes on pages 7 to 15 form part of this interim financial report.

CONDENSED CONSOLIDATED BALANCE SHEET*(Expressed in Hong Kong dollars)*

| | | (Unaudited) 30th June 2002 | (Audited) 31st December 2001 |
|---|------|-------------------------------|---------------------------------|
| | Note | \$'000 | \$'000 |
| Non current assets | | | |
| Fixed assets | | 27,211 | 30,280 |
| Interests in associates | 7 | 14,918 | 13,669 |
| Goodwill | | 26,212 | 25,831 |
| Development costs | | 10,781 | 11,038 |
| Other financial assets | | 6,195 | 6,195 |
| | | <u>85,317</u> | <u>87,013</u> |
| Current assets | | | |
| Current investments | 8 | 2,073 | 66,525 |
| Inventories | | 39,232 | 39,245 |
| Work in progress | | 33,663 | 33,648 |
| Trade receivables | 9 | 21,795 | 12,483 |
| Deposits, prepayment and other receivables | | 10,123 | 8,274 |
| Taxation recoverable | | 130 | 130 |
| Pledged deposits | | 8,100 | 8,100 |
| Cash and cash equivalents | | 38,888 | 65,937 |
| | | <u>154,004</u> | <u>234,342</u> |
| Current liabilities | | | |
| Bank loans | 10 | 3,290 | 940 |
| Trade payables | 11 | 9,443 | 3,865 |
| Other payables and accrued expenses | | 11,999 | 12,865 |
| Deferred income | | 11,007 | 28,233 |
| Convertible note | 12 | — | 56,088 |
| | | <u>35,739</u> | <u>101,991</u> |
| Net current assets | | <u>118,265</u> | <u>132,351</u> |
| Total assets less current liabilities | | 203,582 | 219,364 |
| Minority interests | | (1,217) | (1,238) |
| NET ASSETS | | <u>202,365</u> | <u>218,126</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 13 | 98,505 | 98,505 |
| Reserves | 14 | 103,860 | 119,621 |
| | | <u>202,365</u> | <u>218,126</u> |

The notes on pages 7 to 15 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*(Expressed in Hong Kong dollars)*

| | 6 months ended | |
|---|-----------------------|----------------|
| | 30th June 2002 | 30th June 2001 |
| | \$'000 | \$'000 |
| Net cash outflow from operating activities | (23,994) | (10,957) |
| Net cash outflow from investing activities | (5,247) | (19,942) |
| Net cash outflow before financing | (29,241) | (30,899) |
| Net cash inflow/(outflow) from financing | 2,192 | (4,638) |
| Net decrease in cash and cash equivalents | (27,049) | (35,537) |
| Cash and cash equivalents at the beginning of period | 65,937 | 292,642 |
| Cash and cash equivalents at the end of period | 38,888 | 257,105 |
| Analysis of balances of cash and cash equivalents: | | |
| Cash and cash equivalents | 38,888 | 257,105 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*(Expressed in Hong Kong dollars)*

| | Share capital \$'000 | Share premium \$'000 | Retained profits/(loss) \$'000 | Total \$'000 |
|---|----------------------------|----------------------------|--------------------------------------|------------------|
| At 1st January 2001 | 100,000 | 185,475 | 24,747 | 310,222 |
| Issue of new shares and changes in share premium arising from: | | | | |
| Acquisition of a subsidiary | 6,726 | 40,359 | — | 47,085 |
| Acquisition of an associate | 312 | 1,622 | — | 1,934 |
| Shares repurchased | (8,533) | (47,806) | — | (56,339) |
| Loss for the year | — | — | (84,776) | (84,776) |
| | <u>98,505</u> | <u>179,650</u> | <u>(60,029)</u> | <u>218,126</u> |
| At 31st December 2001 | | | | |
| At 1st January 2002 | 98,505 | 179,650 | (60,029) | 218,126 |
| Loss for the period | — | — | (15,761) | (15,761) |
| | <u>98,505</u> | <u>179,650</u> | <u>(75,790)</u> | <u>(202,365)</u> |
| At 30th June 2002 | | | | |

NOTES ON THE INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Basis of presentation

The Company was incorporated in Bermuda on 21st January 2000 with its shares listed on the GEM operated by the Exchange on 30th June 2000.

The interim financial report has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

The interim financial report has been prepared in accordance with the requirements of the GEM Listing Rules, including compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The financial information relating to the financial year ended 31st December 2001 included in the financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December 2001 are available from the Company's principal place of business in Hong Kong. The auditors have expressed an unqualified opinion on those financial statements in their report dated 18th March 2002.

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

The same accounting policies adopted in the consolidated financial statements of the Group for the year ended 31st December 2001 have been applied to the interim financial report. The Group has adopted the new and revised Statements of Standard Accounting Practice ("SSAPs") which became effective on 1st January 2002 including SSAP1 (revised) "Presentation of financial statements", SSAP15 (revised) "Cash flow statements" and SSAP34 "Employee benefits". The adoption of these new and revised SSAPs has no material effect on the Group's financial results for the six months ended 30th June 2002.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 annual report.

2. Turnover

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

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

| | (Unaudited) 3 months ended 30th June | | (Unaudited) 6 months ended 30th June | |
|---|--|---------------|--|---------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Principal activities | | | | |
| Sale of enterprise software products and custom development | 17,829 | 25,047 | 28,718 | 45,596 |
| Complementary hardware and software resale | 21,560 | 10,838 | 28,382 | 29,454 |
| Consulting and systems integration services | 2,979 | 1,579 | 11,300 | 2,653 |
| Maintenance services | 2,770 | 1,857 | 4,798 | 2,887 |
| Revenue from ASP business | 1,510 | — | 2,590 | — |
| | <u>46,648</u> | <u>39,321</u> | <u>75,788</u> | <u>80,590</u> |

3 Segment reporting

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

(a) Segment information of the Group during the financial periods is as follows:

| | Hong Kong | | PRC | | Others | | Consolidated | |
|---|-----------------|----------------|----------------|--------------|----------------|--------------|-----------------|----------------|
| | 6 months ended | | 6 months ended | | 6 months ended | | 6 months ended | |
| | 30th June | | 30th June | | 30th June | | 30th June | |
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Turnover | <u>68,801</u> | <u>79,787</u> | <u>6,347</u> | <u>398</u> | <u>640</u> | <u>405</u> | <u>75,788</u> | <u>80,590</u> |
| Segment result | (9,718) | 13,021 | (2,353) | (492) | (1,676) | (852) | (13,747) | 11,677 |
| Share of profit less losses of associates | — | (1,350) | 1,456 | — | — | — | 1,456 | (1,350) |
| Finance costs | <u>(3,017)</u> | <u>(2,359)</u> | <u>(63)</u> | <u>—</u> | <u>(15)</u> | <u>(4)</u> | <u>(3,095)</u> | <u>(2,363)</u> |
| (Loss)/profit before taxation | <u>(12,735)</u> | <u>9,312</u> | <u>(960)</u> | <u>(492)</u> | <u>(1,691)</u> | <u>(856)</u> | <u>(15,386)</u> | <u>7,964</u> |
| Taxation | — | (155) | (354) | — | — | — | (354) | (155) |
| Minority interests | — | — | (21) | 90 | — | — | (21) | 90 |
| | <u>(12,735)</u> | <u>9,157</u> | <u>(1,335)</u> | <u>(402)</u> | <u>(1,691)</u> | <u>(856)</u> | <u>(15,761)</u> | <u>7,899</u> |
| Depreciation & amortisation | <u>(8,831)</u> | <u>(3,818)</u> | <u>(430)</u> | <u>(25)</u> | <u>(93)</u> | <u>(58)</u> | <u>(9,354)</u> | <u>(3,901)</u> |
| Revenue from external customers by the location of customer | <u>68,801</u> | <u>79,787</u> | <u>6,347</u> | <u>398</u> | <u>640</u> | <u>405</u> | <u>75,788</u> | <u>80,590</u> |

(b) Business segments

| | Enterprise software development & distribution | | IT consulting & e-Business solution | | ASP Services | | Consolidated | |
|------------------------------------|--|---------------|--|--------------|----------------|----------|----------------|---------------|
| | 6 months ended | | 6 months ended | | 6 months ended | | 6 months ended | |
| | 30th June | | 30th June | | 30th June | | 30th June | |
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue from external customers | <u>61,898</u> | <u>77,937</u> | <u>11,300</u> | <u>2,653</u> | <u>2,590</u> | <u>—</u> | <u>75,788</u> | <u>80,590</u> |

4 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging/(crediting):

| | 3 months ended 30th June | | 6 months ended 30th June | |
|---|-----------------------------|--------------|-----------------------------|---------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| a) Finance costs: | | | | |
| Finance costs on convertible note | 1,175 | 1,180 | 2,938 | 2,360 |
| Interest on bank loans, overdraft and other Borrowings repayable within 5 years | 151 | — | 157 | 3 |
| | <u>1,326</u> | <u>1,180</u> | <u>3,095</u> | <u>2,363</u> |
| b) To the extent that staff costs and direct overheads can be allocated by management on a reasonable basis to research and development activities, research and development expenses are as follows: | | | | |
| — staff costs | 4,920 | 7,754 | 10,548 | 15,864 |
| — direct overheads | 897 | 983 | 1,993 | 2,193 |
| | <u>5,817</u> | <u>8,737</u> | <u>12,541</u> | <u>18,057</u> |
| Less: Costs capitalized | (470) | (5,264) | (3,103) | (9,615) |
| | <u>5,347</u> | <u>3,473</u> | <u>9,438</u> | <u>8,442</u> |
| Other costs such as depreciation of fixed assets and indirect overheads have not been included in the above analysis. | | | | |
| c) Other items: | | | | |
| Auditors' remuneration | 554 | 133 | 704 | 232 |
| Rentals payable under operating leases in respect of land and buildings | 3,425 | 1,156 | 6,588 | 3,060 |
| Retirement contributions | 615 | 945 | 1,299 | 1,818 |
| Loss on disposal of fixed assets | 161 | — | 161 | — |
| Bad debts (written back) / written off | (335) | 216 | (335) | 216 |
| | <u>(335)</u> | <u>216</u> | <u>(335)</u> | <u>216</u> |

5 Taxation

| | 3 months ended | | 6 months ended | |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 30th June 2002 \$'000 | 30th June 2001 \$'000 | 30th June 2002 \$'000 | 30th June 2001 \$'000 |
| Provision for Hong Kong | | | | |
| Profits Tax for the period | — | 120 | — | 155 |
| | — | 120 | — | 155 |
| Overseas taxation | 112 | — | 126 | — |
| | 112 | 120 | 126 | 155 |
| Share of associates' taxation | 144 | — | 228 | — |
| | 256 | 120 | 354 | 155 |

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong Profits Tax has been made in the financial statements of the subsidiaries operating in Hong Kong as these subsidiaries incurred taxable losses during the period ended 30th June 2002.

6 Loss/(earnings) per share

The calculation of basic loss per share for the six months ended 30th June 2002 is based on the loss attributable to shareholders of approximately \$15,761,000 (2001: Profit \$7,899,000) and the weighted averaged number of 985,050,000 shares (2001: 1,000,000,000 shares) in issue during the period.

Diluted (loss)/earnings per share for the periods ended 30th June 2002 and 2001 are the same as the basic (loss) / earnings per share because there was no dilutive effect in existence during the respective periods.

7 Interests in associates

| | 30th June 2002 \$'000 | 31st December 2001 \$'000 |
|--|--------------------------------------|---------------------------------|
| Unlisted shares, at cost | — | — |
| Share of net asset other than goodwill | 14,918 | 13,699 |
| | <u>14,918</u> | <u>13,699</u> |

Details of principal associates at 30th June 2002 are as follows:

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Group's effective holding | Percentage of equity | | Principal activities and operation |
|----------------------------------|--------------------------------------|---|---------------------------|----------------------|----------------------|--|
| | | | | Held by the Company | Held by a subsidiary | |
| Camelot Information Systems Inc. | British Virgin Islands | 22,500 shares of US\$1 each | 21.5% | — | 21.5% | Provision for IT consultancy and support services in the PRC |
| Excel Force Limited | British Virgin Islands | 10,000 shares of US\$1 each | 40% | — | 40% | Investment holding |

On 17th June 2002, the Group acquired a 40% interest in Excel Force Limited for a cash consideration of \$1,680,000.

Excel Force Limited has a wholly owned subsidiary, iApplication Limited which is engaged in enterprise software development and ASP services.

8 Current investments

| | 30th June 2002 \$'000 | 31st December 2001 \$'000 |
|---|--------------------------------------|---------------------------------|
| Global liquidity fund | — | 63,601 |
| Trading securities listed in Hong Kong (at market value) | <u>2,073</u> | <u>2,924</u> |
| | <u>2,073</u> | <u>66,525</u> |

During the six months ended 30th June 2002, the Group redeemed a global liquidity fund of \$63,601,000 with a gain of approximately \$575,000.

9 Trade receivables

| | 30th June 2002 \$'000 | 31st December 2001 \$'000 |
|---|--------------------------------------|---------------------------------|
| Current | 16,536 | 7,860 |
| 1 to 3 months | 3,479 | 3,205 |
| More than 3 months overdue but less than 18 months overdue | <u>1,780</u> | <u>1,418</u> |
| | <u>21,795</u> | <u>12,483</u> |

10 Bank loans

Banking facilities of certain subsidiaries of the Group are secured by pledged deposits with banks in Hong Kong for a total of \$8,100,000 at 30th June 2002 (31st December 2001: \$8,100,000). Banking facilities amounting to \$7,520,000 were utilized to the extent of \$3,290,000 at 30th June 2002 (31st December 2001: \$940,000).

11 Trade payables

Trade payables have the following ageing analysis:

| | 30th June 2002 \$'000 | 31st December 2001 \$'000 |
|---------------------------------|--------------------------------------|---------------------------------|
| Due within 1 month or on demand | 9,443 | 3,865 |

12 Convertible note

| | Principal amount \$'000 | Finance costs \$'000 | Carrying Value \$'000 |
|---|--|-------------------------------------|--------------------------------------|
| At 1st January 2002 | 47,220 | 8,868 | 56,088 |
| Finance costs to 31st May 2002 (maturity date) | — | 2,938 | 2,938 |
| At 31st May 2002 | 47,220 | 11,806 | 59,026 |
| Less: Repayment at maturity date | (47,220) | (11,806) | (59,026) |
| At 30th June 2002 | — | — | — |

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

13 Share capital

There was no movement in the share capital of the Company during the six months ended 30th June 2002.

Pursuant to the share option scheme for employees which was adopted on 16th June 2000 and amended at the annual general meeting of 18th April 2001 (“Old Scheme”), the Directors may at their discretion grant options to full-time employees and executive directors of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the share option scheme. On 1st September 2000, the Company granted to employees of the Group options to subscribe for shares in the Company under the Old Scheme. The subscription price of the option shares is \$0.90 per share with the option period from 1st September 2000 to 31st August 2005 (both dates inclusive). The options may be exercised at any time within the option period provided that the options have been vested.

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

At the special general meeting of the Company held on 23rd April 2002, a new share option scheme (the “New Scheme”) was adopted and approved in substitution of the Old Scheme in which upon adoption of the New Scheme, no further options will be granted under the Old Scheme but in all other respects, the provisions of the Old Scheme shall remain in force and all options granted prior thereto shall continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

13 Share capital *(continued)*

There were no options granted to employees for the six months ended 30th June 2002.

As at 30th June 2002, the number of share options outstanding under the share option scheme are as follows:

| Date of grant | Subscription price per share | Number of shares to be issued upon the exercise of share options |
|--------------------|---------------------------------|--|
| 1st September 2000 | \$0.90 | 49,434,500 |
| 11th October 2001 | <u>\$0.70</u> | <u>26,988,000</u> |

No options were exercised during the six months ended 30th June 2002.

14 Reserves

| | Share premium \$'000 | Retained profits \$'000 | Total \$'000 |
|-----------------------------|----------------------------|-------------------------------|------------------|
| At 1st January 2001 | 185,475 | 24,747 | 210,222 |
| Share premium arising from: | | | |
| Acquisition of a subsidiary | 40,359 | — | 40,359 |
| Acquisition of an associate | 1,622 | — | 1,622 |
| Share repurchased | (47,806) | — | (47,806) |
| Loss for the year | <u>—</u> | <u>(84,776)</u> | <u>(84,776)</u> |
| At 31st December 2001 | <u>179,650</u> | <u>(60,029)</u> | <u>119,621</u> |
| At 1st January 2002 | 179,650 | (60,029) | 119,621 |
| Loss for the period | <u>—</u> | <u>(15,761)</u> | <u>(15,761)</u> |
| At 30th June 2002 | <u>179,650</u> | <u>(75,790)</u> | <u>(103,860)</u> |

15 Commitments and contingencies

(a) Commitments under operating leases

At 30th June 2002, the total future minimum lease payments under non-cancelable operating leases in respect of land and buildings are payable as follows:

| | 30th June 2002 \$'000 | 31st December 2001 \$'000 |
|---------------------------------|--------------------------------------|---------------------------------|
| Within 1 year | 6,861 | 11,746 |
| After 1 year but within 5 years | 41,869 | 35,243 |
| After 5 years | 6,966 | — |
| | <u>55,696</u> | <u>46,989</u> |

(b) Capital commitments

At 30th June 2002, the Group had an outstanding commitment to inject a further investment amount of US\$500,000 into a private equity fund.

Pursuant to a resolution passed by a subsidiary of the Group on 7th June 2001, the Group has a commitment to make a further investment in the amount of RMB 4,500,000 (\$4,230,118) into a subsidiary. Such capital investment was outstanding at 30th June 2002.

(c) Contingencies

At 30th June 2002, the Company had contingent liabilities amounting to US\$750,000 in respect of guarantees given to independent third parties in the ordinary course of business to ensure the due performance of a subsidiary and observance of the obligations of the subsidiary to certain agreements.

16 Material related party transactions

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

| | | 30th June | 30th June |
|---|-------------|------------------|-----------|
| | | 2002 | 2001 |
| | <i>Note</i> | \$'000 | \$'000 |
| Rental receivable on land and buildings | (i) | 200 | 2,086 |
| Management fee receivable | (ii) | 162 | 270 |

Notes:

- (i) This represents office rental receivable from i21 Limited for the period from 1st January 2001 to 30th June 2001 and Net Fun Limited for the six months ended 30th June 2002 and 2001. Rentals have been calculated based on the percentage of floor space occupied by i21 Limited and Net Fun Limited.
- (ii) This represents management fees receivable from Net Fun Limited. The amount is based on estimated staff costs and overheads incurred by the Group.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2002 (2001: Nil).

CHAIRMAN'S STATEMENT

I am pleased to report that the Group had achieved a turnover of \$75,788,000 for the six-month period ended 30th June 2002, representing a slight drop of 6% when comparing with the same period of last year. Turnover for the second quarter of 2002 was HK\$46,648,000 which was 60% better than that of the first quarter of 2002. After deducting the costs and operating expenses, the Group had successfully narrowed the operating loss for the second quarter to \$5,730,000, representing a decrease of 29% from the first quarter of 2002.

The business in Hong Kong remains sluggish. However, the Group had successfully signed contracts for @Surance and Unit Trust System respectively. Several contracts for the stock trading settlement system are still in the negotiation stage and expected to be materialized in the coming months.

The ASP business is developing slowly, but steadily, in the midst of a tough economy. The Group's subsidiary HR21 Limited successfully launched the HR21 ASP service to the customers of United Overseas Bank in Singapore. The preparatory work to launch the same service with one of the largest banks in Malaysia is currently underway.

In June 2002, the Group acquired a 40% interest in Excel Force Limited which, through its Shenzhen wholly-owned subsidiary, provides application software service for electronic submission of customs declaration in Shenzhen. With the investment in Excel Force Limited, the Group will be providing new ASP service in Shenzhen for an estimated 1,000 enterprises who need to submit customs declaration on a day-to-day basis.

Chinese Mainland offers the Group with substantial business opportunities and has continued to contribute to the revenue growth as the Group gained traction among major state-owned banks and foreign banks operating in Chinese Mainland. Turnover from Chinese Mainland increased to HK\$6,347,000, representing 8% of the Group's total turnover for this six-month period (2001: less than 1%).

The recent sales of our WMS (Wealth Management System), the InterTrade (Securities Trading System), and LOANS (the Loans Origination and Processing System) in Chinese Mainland confirmed our ability to penetrate a new market with our software products. The major state-owned banks and large securities houses are more receptive to imported application software developed with best practices. And therefore we are optimistic of the future business outlook in Chinese Mainland.

After China's accession to the WTO, our foreign bank clients have accelerated their development in Chinese Mainland. While, we are breeding China staff to take up the skills and work ethics of Hong Kong, we have also deployed more experienced managers to cultivate relationship with the long-timed customers in Hong Kong and make a consistent plan to support their growth in Chinese Mainland. As such, the Group is considering the establishment of an office in Shanghai with a view to supporting our future business development in Chinese Mainland.

We have expanded our staff force in Chinese Mainland to cope with the increasing workload on local projects. More programming works have been relocated to the Shekou Software Center. Experienced Hong Kong staff are redeployed to strengthen the sales force, product management and account management, and to provide product and management knowledge to the Chinese staff. We will also co-locate the Shekou Software Center with our Shenzhen joint venture as the first step to consolidate the Chinese Mainland operations.

We do not expect a strong rebound for Hong Kong in the second half of 2002 but see IT capital spending coming back, albeit in a slower pace but much better than the first half of 2002. The management is pinning its hope on further expanding Excel's market share in Chinese Mainland .

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

Turnover of the Group represents sale of enterprise software products, provision for customization, consulting & systems integration services, complementary computer hardware and software resale, maintenance services and ASP software subscription revenue.

For the six-month period ended 30th June 2002, the Group recorded a slight drop in its turnover to \$75,788,000 (2001: \$80,590,000), down about 6%. However, on a quarterly basis, turnover increased by 60% to \$46,648,000 (2002 Q1: \$29,140,000). The growth was attributable to the expansion in Chinese Mainland and a moderate recovery in Hong Kong. Sales originated from Chinese Mainland contributed to 8% of Group's total turnover and a large part of which was made in the second quarter of 2002.

The breakdown of the Group's total turnover for the six months ended 30th June 2002 is as follows: 38% was software sales and custom development, 37% was hardware resale and distribution, 15% was consulting and systems integration services, 6% was maintenance services and the rest being revenue from the ASP business. Although software sales was slowed down when comparing with the same period of last year, consulting and systems integration services and maintenance services recorded the highest increase of 326% and 66% respectively.

The loss attributable to shareholders for the six months ended 30th June 2002 amounted to \$15,761,000 (2001: profit of \$7,899,000). The loss attributable to shareholders for the second quarter of 2002 is narrowed to \$6,210,000 when comparing with the first quarter of 2002 in the amount of \$9,551,000, representing a decrease of 35%.

Although Singapore is still slow, we expect one or two major sales of our enterprise software products can be made within the second half of the year.

The ASP business is being developed in a steady pace in the midst of a tough economy. Nevertheless, certain progress has been made - HR21 was launched in Singapore to the customers of United Overseas Bank and launch of the same service is being prepared for the second largest bank in Malaysia. Following the Group's acquisition of 40% interests in Excel Force Limited, electronic submission of customs declaration to the Customs Department in the form of ASP mode will be carried out in Shenzhen. It is expected that over 1,000 enterprises in Shenzhen can make use of the service.

The Group's associate company in Beijing, Camelot Information Systems Inc., has been making encouraging progress in its business development. It is developing into the public sector and also undertaking large scale ERP implementation for domestic enterprises. Camelot has just been appointed the first partner of IBM's "Blue Easy Program" to implement CRM solution for China enterprises. Camelot is profitable for the six-month period ended 30th June 2002.

Operations

Total operating expenses of the Group was contained at a healthy level. In Hong Kong, we relinquished an office premises upon lease expiry in July. Therefore, further reduction in rental and other operating expenses can be expected. We are planning the consolidation of the offices in Shenzhen so as to reduce overhead and increase efficiency. On the other hand, we expanded the Beijing office to cope with a growing work force.

Liquidity and Financial Resources

In May 2002, the Group had redeemed the convertible note from Alps Mountain Limited. The total redemption amount plus redemption premium amounted to \$59,026,000.

As at 30th June 2002, \$3,290,000 out of the banking facilities of Rmb8,000,000 maintained by the Group was drawn down for working capital in the Chinese Mainland. This banking facilities was secured by a charge to deposit of \$8,000,000 with a bank in Hong Kong.

The Group has an outstanding capital commitment to a private equity investment fund for US\$500,000. As at 30th June 2002, there was no indication from the investment fund as to when the commitment will be called.

As at 30th June 2002, the Group had a total amount of \$38,888,000 cash and cash equivalents and deposits with banks; and another \$2,073,000 in marketable securities investments. The Directors of the Company believe that the Group has adequate financial resources to fund internal operations on an ongoing basis.

Capital Structure

There has not been any change to the capital structure of the Company during the reporting period.

New Products/Services

The Group will be launching an application software service, through its 40% owned associate company, for the submission of customs declaration in Shenzhen via electronic data interface (EDI). The service is expected to be launched in the second half of the year.

Lately, Wealth Management has been a popular banking product in Asia and Chinese Mainland. The Group embarked on developing the new product, Wealth Management System (WMS) in early 2002 to cater for this emerging demand. Since then, we have successfully sold WMS to a major state-owned bank in Chinese Mainland. The first implementation is targeted to roll out for production use by the third quarter of 2002. The same product is expected to be launched with two major banks in Singapore and Malaysia in the second half of the year.

Significant Investments/Acquisition and Performances

In June 2002 the Group acquired 40% interests in Excel Force Limited, which is a provider of application software service for the submission of customs declaration in Shenzhen via electronic data interface (EDI). The Group aims to leverage on Excel Force Limited to provide further ASP service in Chinese Mainland.

Segmental Performances

Hong Kong's turnover (included sale of enterprise software products, provision for customization, consulting & systems integration services, complementary computer hardware and software resale and maintenance services and ASP subscription) was \$68,801,000 with an operating loss of \$9,718,000.

The PRC operations recorded a total turnover of \$6,347,000 with an operating loss of \$2,353,000.

Singapore recorded a turnover of \$640,000 and an operating loss of \$1,676,000.

Employees

The Group employed a total of 388 staff as at 30th June 2002, of which 220, 8 and 160 are located in Hong Kong, Singapore and Chinese Mainland respectively.

All the employees in Hong Kong are entitled to participate in the Share Option Scheme. As at 30th June 2002, a total of 76,422,500 option shares had been issued and remained outstanding pursuant to this scheme. None had been exercised during the reporting period.

Exposure to Foreign Exchange Risk

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

Outlook for the second half of 2002

We are cautiously optimistic about the sales pipeline for the second half of 2002. A number of major contracts in Chinese Mainland and Singapore are expected to be closed in the second half of the year. With the growing importance of the China market, the Group is deploying additional resources to acquire market share. These include increasing the investment in Chinese Mainland, placing key management resources to strengthen the management bandwidth, expanding office accommodation, transferring skills from Hong Kong and recruiting talented local managers. Business growth in Chinese Mainland recorded encouraging growth in this six-month period, and we are positive about the sustainability of this growth rate in Chinese Mainland for the remaining part of the year.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Key Business Initiatives

Actual business progress from January to June 2002

Further developing the ASP Business by launching new enterprise software developed by the Group as well as third party software vendors

The Group had concentrated its efforts in developing client base and markets for the two existing ASP services (iStock21 & iHR21). As such, new ASP service launch was postponed to the second half of 2002.

The Group also acquired Excel Force Limited as a platform to launch further ASP business in connection with the Chinese customs declaration submission.

Marketing the MBS to enterprise and banks for their treasury and capital market operations and businesses upon completion of full development, and continuing to promote and market Insurance21 aggressively

The development of the MBS product is around 80% finished and will be fully completed in the third quarter of 2002. Pre-marketing activities have been done to selected potential customers. Formal marketing campaign will be launched towards the end of 2002.

We had signed an agreement with an insurance company for the provision of @Surance and related customization and implementation services. The targeted system roll out date for Phase 1 is in the fourth quarter of 2002.

Continuing to expand the operations of the Group through organic growth and acquisitions

We have adopted a series of cost containment measures in Hong Kong: consolidation of office locations, shift development work to Chinese Mainland and re-deployed resources to strengthen the sales force.

The operations in the PRC subsidiaries in both Beijing and Shenzhen have been expanded with additional staff force, the office in Beijing was relocated to a larger office building. All these expansions have been taken to cope with the growth in business volume in the PRC.

The Group has continued to put up sales and marketing efforts in Singapore. Through these efforts, we have successfully established ourselves as the preferred vendor for local banks in Singapore. Sales of our enterprise software products to the local bank is anticipated to materialize soon. In view of the slow recovery in Singapore, we have contained the size of the local sales and marketing team.

The Group had acquired 40% interest in Excel Force Limited and through its Shenzhen based subsidiary, provides application software for electronic submission of customs declaration in Shenzhen. The Group continues to look for investment targets which can provide domain knowledge and market share in the PRC.

Sales and Marketing

Expanding the sales force in the regional offices

As an effort to step up our sales force, we have redeployed some of our experienced staff to provide more coverage on prospects and existing customers. In Hong Kong, a re-organization of the sales team had taken place to better position ourselves to serve and cultivate a stronger relationship with our existing clients in addition to acquiring new clients. In the PRC and Singapore, we have appointed a number of resellers to promote our products.

China has made significant wins in banking and securities industries respectively on Excel enterprise product selling. China has also embarked on outsourcing business with multinational corporations in other industries

Recruiting additional local distributors and/or resellers in PRC and other Asian countries

We continue to develop reseller networks in PRC and Southeast Asia. Several resellers have been appointed in Hong Kong and PRC to resell some of our enterprise software products and services. We have also recently started to sell our enterprise software in Singapore and ASEAN through the local branch of reputable consulting firms. We are in discussions with several other resellers in the Southeast Asian region for reseller partnerships.

Product and Service Development

Completing development of the final phase of MBS Phase II development is around 80% finished and will be fully completed in the third quarter of 2002.

Geographical Expansion

Establishing additional offices in PRC We withheld the establishment of a new office in PRC. Instead, we are looking for partners in Shanghai to spearhead the expansion, this may include making acquisitions if a suitable target is identified.

Establishing additional offices in other Asian countries In view of the current economic climate in Southeast Asia, we have shifted to the strategy of developing reseller network instead of starting new offices. However, we have provided sales and training supports to these resellers in the initial period. Establishment of additional offices is put on hold for the moment.

Use of Proceeds

The net proceeds from the public listing was about HK\$180,000,000. During the period from 30th June 2000 (date of listing) to 30th June 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus:—

| | Estimate (HK\$mn) | | Actual (HK\$mn) | |
|--|------------------------------|-------------------|------------------------------|-------------------|
| | Date of Listing | | Date of Listing | |
| | 1st Jan 02 to 30th Jun 02 | to 31st Dec 02 | 1st Jan 02 to 30th Jun 02 | to 30th Jun 02 |
| For the development of the ASP business | 2 | 40 | 3 | 32 |
| For the research & development of new enterprise software | 10 | 20 | 3 | 20 |
| For the geographical expansion of the Group into the PRC and Southeast Asia | 8 | 20 | 2 | 17 |
| For setting up the e-Center | — | 10 | — | 1 |
| For marketing and promotional activities | 2 | 10 | — | 3 |
| For acquisitions of and investments in companies and business which fit into the Group's business strategy | — | 50 | 2 | 29 |
| Total | <u>22</u> | <u>150</u> | <u>10</u> | <u>102</u> |

The balance of the proceed of HK\$30,000,000 were used for general working capital.

Use of proceeds is almost same as the estimation made in the Prospectus dated 20th June 2000 except the setting up of e-Centre. Progress on the further development of this business initiatives have slowed down as the Group is still identifying a suitable Promotor which is the operator to manage and maintain the e-Centre and provide consultancy services to its participants in relation to store-front management. Not until such Promotor is identified, the Group will withhold investment on this business initiatives.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th June 2002, the interests of the Directors and chief executive in the share capital of the Company and its associated corporations (as defined under the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance were as follows:

I. Shares in the Company:

| Name of Director | Number of shares held | | | |
|-------------------------|-----------------------|--------|---------------|-------|
| | Personal | Family | Corporate | Other |
| Zee Chan Mei Chu, Peggy | 228,000 | — | 573,197,044 * | — |
| Fung Din Chung, Rickie | 24,559,498 | — | — | — |
| Leung Lucy, Michele | — | — | 24,559,498 # | — |
| Ng Wai King, Steve | 21,050,998 | — | — | — |
| Ip Kim Kuen | 1,403,400 | — | — | — |

* These shares were held by Passion Investment (BVI) Limited, a company incorporated in the British Virgin Islands and is wholly-owned by Zee Chan Mei Chu, Peggy.

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

II. Options to subscribe for shares in the Company:

Pursuant to the share option scheme for employees which was adopted on 16th June 2000 and amended on 18th April 2001 (the "Old Scheme"), the Directors may at their discretion grant options to full-time employees and executive directors of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Old Scheme. The maximum number of ordinary shares in respect of which options may be granted under the Old Scheme shall not exceed 30% of the issued share capital of the Company from time to time. At the special general meeting of the Company held on 23rd April 2002, a new share option scheme ("New Scheme") was adopted and approved in substitution for the Old Scheme. Upon adoption of the New Scheme, no further options will be granted under the Old Scheme but in all other respects, the provisions of the Old Scheme shall remain in force and all options granted prior thereto shall continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

The following directors were granted share options under the Old Scheme for nominal consideration to subscribe for shares in the Company, details of which are as follows:

| Name of Directors | Number of options granted on 1st September, 2000 at exercise price of HK\$0.90 per share | Balance of options as at 30th June 2002 |
|--------------------------|---|--|
| Fung Din Chung, Rickie | 8,000,000 | 8,000,000 |
| Leung Lucy, Michele | 8,000,000 | 8,000,000 |
| Ng Wai King, Steve | 8,000,000 | 8,000,000 |
| Ip Kim Kuen | 8,000,000 | 8,000,000 |

The options at the exercise price of HK\$0.90 per share with the option period from 1st September 2000 to 31st August 2005 (both dates inclusive) are subject to the following vesting period:—

- (i) 20% of the options commencing on 1st March 2001;
- (ii) 20% of the options commencing on 1st September 2001;
- (iii) 15% of the options commencing on 1st March 2002;
- (iv) 15% of the options commencing on 1st September 2002;
- (v) 15% of the options commencing on 1st March 2003; and
- (vi) the remaining 15% of the options commencing on 1st September 2003.

Save as disclosed above and other than certain nominee shares in subsidiaries held by a director in trust for the Group, as at 30th June 2002, none of the directors or chief executive or their respective spouses or children under 18 years of age had any right to subscribe for the shares of the Company or its associated corporations.

SUBSTANTIAL SHAREHOLDERS

The Company has been notified of the following interests in the Company's issued shares at 30th June 2002 amounting to 10% or more of the shares in issue:—

| Name of shareholders | No. of shares held |
|--|---------------------------|
| Zee Chan Mei Chu, Peggy (<i>Note 1</i>) | 573,425,044 |
| Passion Investment (BVI) Limited (<i>Note 1</i>) | 573,197,044 |
| Cheung Kong (Holdings) Limited (<i>Note 2</i>) | 143,233,151 |
| Li Ka-Shing Unity Trustee Corporation Limited (<i>Note 2</i>) (as trustee of The Li Ka-Shing Unity Discretionary Trust) | 143,233,151 |
| Li Ka-Shing Unity Trustee Company Limited (<i>Note 2</i>) (as trustee of The Li Ka-Shing Unity Trust) | 143,233,151 |
| Li Ka-Shing Unity Holdings Limited (<i>Note 2</i>) | 143,233,151 |
| Mr. Li Ka Shing (<i>Note 2</i>) | 143,233,151 |

Notes:

1. These shares have been disclosed as the corporate interest of the director in the paragraph "Directors and chief executive's interests in securities".
2. Li Ka-Shing Unity Holdings Limited, of which Mr. Li Ka Shing owns the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited. Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust, together with certain companies which Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited which as trustee of The Li Ka-Shing Unity Discretionary Trust, holds a majority of units in The Li Ka-Shing Unity Trust.

Other than disclosed above, the Company has not been notified of any other interest representing 10% or more of the Company's issued share capital as at 30th June 2002.

SPONSOR'S INTERESTS

As notified by the Company's retained sponsor, The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), two employees of the corporate finance and advisory department of HSBC (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) who were involved in providing advice to the Company were interested in a total of 18,000 shares of HK\$0.10 each in the issued share capital of the Company as at 30th June 2002. As at the same date, a non-executive director of HSBC, by virtue of his deemed interests in the share capital of Cheung Kong (Holdings) Limited ("CKH") pursuant to the SDI Ordinance, is deemed to be interested in 143,233,151 shares in the Company held by a CKH's subsidiary.

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

Save as the above, neither HSBC nor any of its directors or employees of corporate finance and advisory department or associates (as referred to in rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company including options or rights to subscribe for such securities as at 30th June 2002.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30th June 2002, the Company was compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

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

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

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

Hong Kong, 12th August 2002