



**Excel Technology
International
Holdings Limited**

(Incorporated in Bermuda with limited liability)

**Enterprise
Software Solution**



**IT Strategy
Consulting**



**Banking
&
Finance Focus**



**Systems
&
Infrastructure
Integration**



**3rd Quarterly
Report 2001**

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 nine month period ended 30th September, 2001, turnover amounted to HK\$129,294,000 representing a 23.5% increase over the corresponding period in 2000.
- Profit from operations was HK\$11,278,000, a decrease of 19.22% from the corresponding period in 2000.
- The Group incurred a loss attributable to shareholders of HK\$20,060,000 for the nine months ended 30th September, 2001, which is largely due to provisions made for diminution in the value of a listed company.
- The Group made debut in developing the China state-owned banking sector by winning a contract of over US\$1.0M from one of the state-owned banks.

THIRD QUARTER RESULTS ENDED 30TH SEPTEMBER, 2001

The Directors of the Company present herewith the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 30th September, 2001, together with comparative figures for the corresponding periods in 2000, as follows:

		For the three months ended 30th September		For the nine months ended 30th September	
		2001	2000	2001	2000
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	48,704	33,824	129,294	104,694
Profit from operations before amortisation of goodwill		638	4,505	12,315	13,962
Amortisation of goodwill		(1,037)	–	(1,037)	–
(Loss)/profit from operations		(399)	4,505	11,278	13,962
Finance costs	3	(1,181)	(1)	(3,544)	(251)
Diminution in value of investments		(25,462)	–	(25,462)	–
Share of profits less losses of associates		(505)	(609)	(1,855)	(3,565)
(Loss)/profit before taxation		(27,547)	3,895	(19,583)	10,146
Taxation	4	(61)	–	(216)	–
(Loss)/profit before minority interests		(27,608)	3,895	(19,799)	10,146
Minority interests		(351)	–	(261)	9
(Loss)/profit attributable to shareholders		(27,959)	3,895	(20,060)	10,155
(Loss)/earnings per share					
– Basic	5	(2.66) cents	0.39 cents	(1.97) cents	1.32 cents
– Fully diluted		(2.66) cents	0.46 cents	(1.97) cents	1.41 cents

Notes:

1. Basis of presentation

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

The financial information presented has been prepared in accordance with accounting policies which conform with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and the accounting principle generally accepted in Hong Kong and also the disclosure requirements of the GEM Listing Rules of the Exchange as applicable to quarterly reports

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

2. Turnover

Turnover represents the sale of enterprise software products, provision of customization, consulting & systems integration services, complimentary computer hardware and software resale and maintenance services and ASP software subscriptions.

3. Finance costs

	For the three months ended		For the nine months ended	
	30th September		30th September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans, overdraft, and other borrowings repayable within five years	—	1	3	251
Finance costs on convertible notes	1,181	—	3,541	—
	<u>1,181</u>	<u>1</u>	<u>3,544</u>	<u>251</u>

4. Taxation

	For the three months ended		For the nine months ended	
	30th September		30th September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Company and its Subsidiaries				
— Hong Kong Profits Tax	—	—	155	—
— Overseas Tax	—	—	—	—
Share of taxation of an associate	61	—	61	—
	<u>61</u>	<u>—</u>	<u>216</u>	<u>—</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the period. Overseas taxation has been calculated on the estimated assessable profits for the period at rates prevailing in the respective jurisdiction.

5. (Loss)/Earnings per share

The calculation of basic loss per share for the nine months ended 30th September, 2001 is based on the loss attributable to shareholders of approximately HK\$20,060,000 (2000: Profit of approximately HK\$10,155,000) and the weighted average number of 1,017,389,363 shares (2000: 766,450,904 shares) in issue during the period.

The calculation of basic loss per share for the three months ended 30th September, 2001 is based on the loss attributable to shareholders of approximately HK\$27,959,000 (2000: Profit of approximately HK\$3,895,000) and the weighted average number of 1,051,601,043 shares (2000: 1,000,000,000 shares) in issue during the period.

Diluted loss per share for the periods ended 30th September, 2001 is not presented because there was no dilutive effect in existence during the periods.

The calculation of diluted earnings per share is based on profit attributable to shareholders of approximately HK\$11,153,000 for the nine months ended 30th September, 2000 and HK\$4,870,000 for the three months ended 30th September, 2000 and on 788,782,818 shares and 1,065,022,960 shares respectively, being the weighted average number of shares outstanding during the period, adjusted for the effects of all dilutive potential shares.

RESERVES

Movements in reserves for the period ended 30th September, 2001 and 2000 were as follows:

	Share Premium	Retained Profit	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2000	—	1,488	1,488
Reserves arising from the Reorganisation	—	539	539
Premium on shares issued upon			
Conversion of convertible notes	106,038	—	106,038
Capitalisation issue	(84,758)	—	(84,758)
Share premium arising on issue of IPO shares	192,000	—	192,000
Share issue expenses	(27,805)	—	(27,805)
Profit for the period	—	10,155	10,155
At 30th September, 2000	<u>185,475</u>	<u>12,182</u>	<u>197,657</u>
At 1st January, 2001	185,475	24,747	210,222
Share premium arising on issue of shares	41,980	—	41,980
Share premium utilized on repurchase of shares	(39,720)	—	(39,720)
Loss for the period	—	(20,060)	(20,060)
At 30th September, 2001	<u>187,735</u>	<u>4,687</u>	<u>192,422</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2001 (2000: Nil).

BUSINESS REVIEW

For the nine months ended 30th September, 2001, the unaudited turnover of the Group was HK\$129,294,000 which was 23.5% more than the corresponding period in 2000. Sales of enterprise software products and customized development in this quarter was more than the corresponding period in 2000 by about 15%. Complimentary resale of hardware and software increased by about 44%. The remaining turnover comprised of consulting and systems integration services and maintenance services. With effect from July 2001, the Group started to consolidate the accounts of i21 Limited ("i21"), in which the Group had increased its interest to 80.1%. For this reporting period, the revenue contribution from i21 was not significant, however, management is optimistic of the future prospects of the ASP services.

Profit from operations for the nine months ended 30th September, 2001 was HK\$11,278,000 which was 19.22% less than the corresponding period in 2000. The reduction in profit from operations was due to the increase in the proportion of complimentary resale of computer hardware and software in turnover, which have a lower margin compared to other major components of turnover. In addition, the Group incurred additional costs in the localization of software products and support of overseas expansion in China and Singapore.

The Group recorded a loss attributable to shareholders of HK\$20,060,000 for the nine month period ended 30th September 2001. This primarily resulted from the provision for diminution in the value of a listed company, which were received by the Group for settlement of the consideration on disposal of iClaims21 Limited and payment for software customization services rendered to that company.

The first nine-month period of the year closed with an extended period of receding spending in the global IT market. The Group achieved growth in the turnover because of its geographical expansion strategy into China. The Beijing operation won a substantial contract with a major state-owned bank and the Shenzhen operation focused on selling our stock trading system to securities firms. Although the development of the Singapore office was slower than expected due to the economic slow down in the SE Asia region, the Singaporean operation was expanded to prepare for the launch of the iHR21 service to a major local bank.

The Group completed the plan to combine the HRMS enterprise software with iHR21 Service into a company called HR21 Holdings Limited ("HR21"). Announcement had been made on 26th October, 2001 regarding the transfer of the HRMS software from Excel to HR21. The purpose is to create a focused vertical product company to develop the human resource management related market in the Greater China and ASEAN regions.

The Shekou Software Development Center has successfully taken over part of the software development work from Hong Kong. This trend is expected to continue as the Group had put in more resources to develop the Center into an outsourcing service center for internal and external clients.

As part of the Group's cost conscious exercise, the management froze the Hong Kong head counts and salary increase and replaced the traditional year-end bonus with a performance based cash plus stock option program. The change is designed to reward staff based on performance.

During the period, the Board of Directors had exercised its right pursuant to a resolution passed in the Annual General Meeting to purchase the Company's shares from the open market. Details of these share repurchase transactions had been announced on the website of the GEM.

FUTURE PROSPECTS

The business outlook for the rest of the year can be cautiously optimistic as the Group's China operation begins to reap results in winning high profile accounts and the Group is in talk with non-banking MNC clients seeking to establish in China for outsourcing support. For year 2002, we would expect China to generate significant turnover for the Group. The first two solutions to be distributed to the China market would be the LOANS system and InterTrade system. In anticipation of business expansion in China, more financial resources will be set aside for the China operations.

The IT sector in Hong Kong warrants a conservative outlook. Banking clients are navigating through the storm of deteriorating business environment with significant energies expanded in business rationalization due to mergers. Yet, the Group is in talk with major local and international banks on some large-scale outsourcing projects.

The iHR21 ASP service continues to expand into the region with an expected launch of the service in Singapore in the last quarter of this year. HR21 will make available the service through another major local bank, thereby accessing to a large customer base conveniently. This is a replication of the business model in Hong Kong. Besides the ASP service, HR21 will also offer licensed software HRMS for corporations. By then, HR21 would capture a vertical profile of small, medium and large corporations who has system needs in human resource management.

The Group submitted a proposal to a major corporation in Japan for solution development in our PRC software center. It is also in talks with another Japanese multinational on the cooperation in providing IT support services to the latter's China operations. The Group is also in discussion with a major US investment bank on providing IT outsourcing services in China as well. To develop a non-banking client base comprising of multinationals would give the Group a diversified revenue source and avoid over-concentration on the banking sector.

We have been very active in looking at a number of M&A potential candidates and would expect commencing due diligence study on several key targets which will bring us new geographic penetration and additional product expertise.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th September, 2001, 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	—	—	575,286,044*	—
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, 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. The maximum number of ordinary shares in respect of which options may be granted under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time.

The following directors were granted share options 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 September, 2001
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 September, 2001, 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.

The interest of the initial management shareholders (as defined in the GEM Listing Rules) in the share capital of the Company are the same as disclosed above.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2001, according to the register of substantial shareholders maintained pursuant to Section 16(1) of the SDI Ordinance and so far as is known to the Directors in the Company and were the shareholders who had an interest of 10% or more in the issued share capital of the Company are as following:—

Name of shareholder	No. of shares held
Passion Investment (BVI) Limited (<i>Note 1</i>)	575,286,044
Cheung Kong (Holdings) Limited (<i>Note 2</i>)	143,233,151
Li Ka-Shing Unity Trustee Corporation Limited (<i>Note 2</i>)	143,233,151
Li Ka-Shing Unity Trustee Company Limited (<i>Note 2</i>)	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:

- These shares have been disclosed as the corporate interest of the director in the Paragraph "Directors and chief executive's interests in securities".*
- The shares in which Cheung Kong (Holdings) Limited was interested represent the shares in which Li Ka-Shing Unity Trustee Corporation Limited was interested; the shares in which Li Ka-Shing Unity Trustee Corporation Limited was interested represent the shares in which Li Ka-Shing Unity Trustee Company Limited was interested; the shares in which Li Ka-Shing Unity Trustee Company Limited was interested represent the shares in which Li Ka-Shing Unity Holdings Limited was interested and the shares in which Li-Ka-Shing Unity Holdings Limited was interested represent the shares in which Mr. Li Ka Shing was interested.*

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 September, 2001.

SPONSOR'S INTERESTS

As notified by the Company's retained sponsor, The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), four employees of 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 38,000 shares of HK\$0.10 each in the issued share capital of the Company as at 30th September, 2001. 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 and HK\$53,696,634 convertible notes in the Company held by companies in which CKH is entitled to exercise or control the exercise of more than one third of the voting power at their general meetings.

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 September, 2001.

COMPETING INTERESTS

Mr. IpTak Chuen, Edmond, a non-executive director of the Company, and Mr. 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.com Limited respectively. Tom.com Limited is in operation of an internet portal delivering internet infotainment content and services, development of software and computer network systems, provision of related services and event production.

Mr. IpTak Chuen, Edmond is also a director of iBusinessCorporation.com Holdings Limited, which is a company facilitating e-commerce business on the internet. In addition, Mr. Ip is also a non-executive director of ehealthcareasia Limited which is a company for provision of online healthcare information, product and services on the Internet and the creation of an e-commerce platform linking doctors, hospitals pharmacies, suppliers and insurance companies.

Save as disclosed above, as at 30th September, 2001, the Directors were not aware of any business or interest of each director, chief executive, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Group has established an audit committee with written terms of reference which deal clearly with its authority and duties. Its principal duties are the review and supervision of the Group's financial reporting and internal control procedures and any other duties as required under Rule 5.25 of the GEM Listing Rules. The audit committee has two members comprising the two independent non-executive directors, namely, Mr. Cheong Ying Chew, Henry and Mr. Chang Ka Mun.

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

During the nine months ended 30th September, 2001, the Company repurchased on The Stock Exchange of Hong Kong Limited a total of 70,452,000 shares of HK\$0.10 each in the share capital of the Company at an aggregate price of HK\$46,537,514.40, details of which are as follows:

Month of Repurchase	No. of Shares Repurchased	Price per Share		Aggregate Price Paid
		Highest	Lowest	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
September 2001	70,452,000	0.71	0.60	46,537,514.40

Subsequent to 30th September, 2001, the Company further repurchased on The Stock Exchange of Hong Kong Limited 12,888,000 shares of HK\$0.10 each in the share capital of the Company at an aggregate price of HK\$8,746,104.60. As a result, the Group has repurchased a total of 83,340,000 shares.

The Directors of the Company considered that the above repurchases were made with a view to enhancing the net asset and earnings per share of the Company. These shares were cancelled upon repurchase and the issued share capital of the Company was correspondingly reduced.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30th September, 2001.

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

Hong Kong, 12th November, 2001