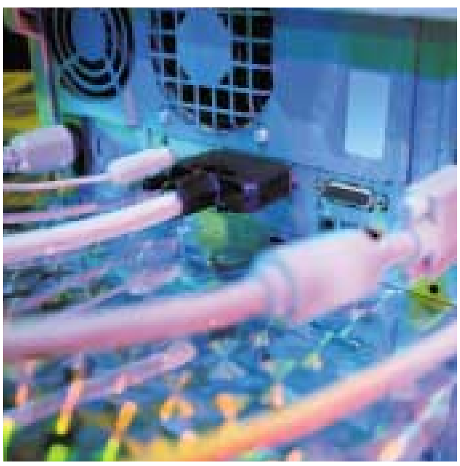
Excel
TECHNOLOGY

Excel Technology International Holdings Limited

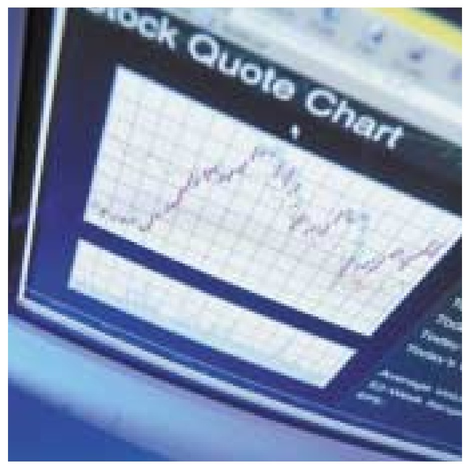
(Incorporated in Bermuda with limited liability)

Enterprise Software Solution

IT Strategy Consulting



Banking & Finance Focus



Systems & Infrastructure Integration

Annual Report 2001

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

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

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
ZEE CHAN Mei Chu, Peggy
FUNG Din Chung, Rickie
LEUNG Lucy, Michele
NG Wai King, Steve
IP Kim Kuen

NON-EXECUTIVE DIRECTORS
IP Tak Chuen, Edmond
LAU LAW Siu Hung, Monique

INDEPENDENT NON-EXECUTIVE DIRECTORS
CHEONG Ying Chew, Henry
CHANG Ka Mun
PETRO A. Frank

COMPLIANCE OFFICER
IP Kim Kuen

QUALIFIED ACCOUNTANT
CHAN Yee Wah, *AHKSA, ACCA, ACIS, ACS*

COMPANY SECRETARY
CHAN Yee Wah, *AHKSA, ACCA, ACIS, ACS*

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FUNG Din Chung, Rickie
IP Kim Kuen

BERMUDA RESIDENT REPRESENTATIVES
COLLIS John Charles Ross
WHALEY Anthony Devon (Deputy)

AUDIT COMMITTEE
CHEONG Ying Chew, Henry
CHANG Ka Mun

SPONSOR
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS
KPMG

LEGAL ADVISER
Baker & McKenzie

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited
Dao Heng Bank Limited

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WEBSITE ADDRESS
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FINANCIAL HIGHLIGHTS

SUMMARY OF PROFIT AND LOSS

(Expressed in Hong Kong dollars)

	2001 $'000	2000 $'000
Turnover	173,111	155,425
(Loss)/profit from operations	(15,643)	31,013
(Loss)/profit before taxation	(85,516)	23,260
Taxation	(284)	(540)
(Loss)/profit attributable to shareholders	(84,776)	22,720
Dividends	—	—
Basic and diluted (loss)/earnings per share	(8.42 cents)	2.65 cents

CHAIRMAN'S STATEMENT

INVESTING IN THE FUTURE

Year 2001 was focused on **Investing in the Future** and taking Excel to a new horizon. We made significant progress in many initiatives, including:

- Geographic expansion
- Building a repeatable revenue stream
- Forging strong alliance through partnership, merger and acquisition
- Establishing the Excel brand name across the region.

The Asian IT market is fragmented and has few dominant local players. Excel aspires to be the dominant player and undertakes to do this within five years.

We seek to accomplish this by leveraging our in-depth experience and client base in the banking and finance sector, and by maximizing synergy between our three core businesses — enterprise software, ASP service and IT/e-solutions consultancy to the multinationals and large enterprises that operate in the region.

We established offices with solid local support in Beijing, Shenzhen and Singapore, and a representation in Malaysia. We populated the Excel brand name among top multinational and local banks in China and Singapore.

EMBRACING CHINA

In 2001, Excel was intensely active in China, a market that we believe will be the key growth driver for the Group.

China is adopting new technology with enthusiasm, welcoming the change it brings to facilitate the nation's growth. While innovation has its value, it must be pragmatic. It must be localized to meet China's specific industry, regulatory, language, and cultural requirements.

Applying technology to the local environment requires proper consultancy, implementation support, training and maintenance, all complemented by a complete suite of services, products, systems and procedures.

Excel is in a unique position to realize the new opportunities presented by China.

Excel differentiates itself in China's essentially hardware-driven market by offering systems integration services and software products as a total solution. We use our strengths as a software development company with the expertise and substantial domain knowledge to help clients solve their problems. Our strategy is built on consultancy and solution mapping.

Excel's close link to foreign banks is another critical success factor. When these banks enter China, we know the solutions they require. We understand their culture and mindset. We offer them a unique combination of local knowledge and world-class service capability with products that are already localized for China.

Excel entered China in a cost effective manner. We built two equity joint ventures, one in Beijing and another in Shenzhen. As the marketing and sales arm of Excel in China, they pioneer our market penetration with local expertise and connections. Start-up cost was low and outperformed our business prospect.

Through these equity joint ventures, we acquired seasoned local IT teams as our partners. Comprising highly energetic and western-trained entrepreneurs who had already worked together for several years and built a business network, these teams were ready to jump start our China business at a low premium.

CHAIRMAN'S STATEMENT

In Shenzhen (Shekou), we built a software center with a dual role: to provide low cost development support and to become an outsourcing business. Our Hong Kong team trained up the Chinese engineers by actively involving them in complex projects with interesting business applications, an exposure that is not commonly available to local IT engineers.

We acquired 21.5% of Camelot Information Systems Inc. ("Camelot"), an established Beijing-based IT company. The Group can tap into its sales and support network in Beijing, Nanjing, Shanghai, Chengdu and Guangzhou as well as its dominant client base comprising foreign and large local enterprises.

ENTERING THE SOUTHEAST ASIAN MARKET

We replicate the success of our iHR21 ASP service (an online human resources management system) by launching similar services in Southeast Asia. The iHR21 ASP Service will be launched in Singapore and Malaysia via two major banks in the first half of 2002.

Our Wealth Management System — a product designed for banks and independent financial advisors seeking to offer premium-banking services to their customers has drawn a strong pipeline of potential contracts with the banks in the region, some of which are under contract negotiation.

HONG KONG

Operations in Hong Kong remain stable albeit current market conditions. 2001 growth in the enterprise software sales in Hong Kong was hampered due to longer than expected bank mergers and the overall sharp economic downturn in the last quarter — thus delaying purchasing decisions.

The full consolidation of i21 Limited ("i21") brought a streamlined business operation for the license and the ASP sales even though it placed a temporary financial demand to the Group.

The Hong Kong office also undertook significant investments in providing key management, product specialists and engineers to support our geographic expansion.

Looking forward, we expect Hong Kong to achieve steady growth and reduce operating expenses. We are optimistic that there are additional opportunities to grow our customer base among larger banks and multinationals.

2001 PERFORMANCE

The Group incurred a loss of HK$84,776,000 attributable to shareholders in 2001, largely due to some one-time, non-recurring provisions and write-offs which do not affect the liquidity position of the Group. Other factors affecting earnings are investments for the future, including geographical expansion, our ASP business for recurring income, and new product development.

Management is confident that the Group will continue to expand its market share, achieve positive revenue growth and, more importantly, reap the benefits of our investments made in 2001. We expect high growth in our market shares in China and Singapore, and see positive returns from our ASP operation.

NOTES OF THANKS

I would like to conclude by taking this opportunity to express my sincere thanks to our management team, our Hong Kong staff, and our China and Singapore offices for their dedication, support and patience. They have all played a critical role in ensuring the Excel footprint is deeply imprinted in these new territories.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

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

Despite the economic downturn in 2001, the Group achieved a growth of 11% in its turnover. Total turnover recorded for 2001 was HK$173,111,000 (2000: HK$155,425,000). This growth was mainly attributable to the Group's expansion strategy to Mainland China and SE Asia.

Sales in enterprise software products and provision of related services decreased when compared with that in the last year. Prolonged bank mergers directly affected sales and delayed project implementation and buying decisions. The biggest impact was in the fourth quarter with further economy deterioration and the September-11 incident. In our industry, the fourth quarter was traditionally the best season for new purchase.

Consulting & systems integration services, complementary computer hardware and software resale and maintenance services all see increase in sales when compared with that of the last year.

Revenue from ASP subscription was included in the Group's turnover starting from end of July 2001 when i21 became a subsidiary of the Group. The ASP business is growing steadily and had already paved its expansion into SE Asia in 2002.

Gross profit margin reduced to 58.4% (2000: 64.4%) as a result of increase of hardware and software resale and decrease in revenue from enterprise software products.

The total operating expenses of the Group increased by 46.6% as a result of consolidating the operating expenses of i21, the subsidiaries in Singapore and Mainland China. The operations in Hong Kong has been maintained at a healthy level with further cost reduction measures to be implemented.

The Group began to amortize goodwill arisen from acquisition of a majority shareholding in i21 and 21.5% interests in Camelot. After the amortisation, the Group recorded an operating loss of HK$15,643,000 (2000: Operating profit $31,013,000).

Although the subsidiaries in Mainland China and Singapore incurred losses, the management is confident that they will have positive contribution to both the turnover and net profit of the Group in the coming years.

The Group had provided a total of HK$8,868,000 finance cost to prepare for the redemption of the convertible note issued to Alps Mountain Agent Limited ("Alps"), due to mature on 31 May 2002. The total accrued liability under the convertible note as at 31 December 2001 amounted to HK$56,088,000. The management considers that the Group has sufficient financial resources to meet redemption demand, if any.

At 31 December 2001, the Group made provisions on the:

(1) Impairment loss on fixed assets, amounted to HK$3,123,000;

(2) Impairment loss on goodwill related to i21, amounted to HK$30,000,000; and

(3) Impairment loss on the ehealthcareAsia ("EHA") shares, amounted to HK$25,462,000

MANAGEMENT DISCUSSION AND ANALYSIS

The management believes that these provisions were one-off and non-recurring.

The Group had also incurred a loss of HK$3,525,000 on the early redemption of the convertible note issued by EHA. The redemption was completed in December 2001.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to be in a strong financial position with HK$218,126,000 shareholders' fund as at 31 December 2001 (2000: HK$310,222,000). As at 31 December 2001, the Group had a total of HK$65,937,000 (2000: HK$292,642,000) cash and cash equivalents, HK$63,601,000 (2000: HK$Nil) in a global liquidity fund which invests in a diversified portfolio of short term market securities with investment grade credit ratings and a time deposit of HK$8,100,000 (2000: HK$Nil) were pledged to bank as guarantee to certain banking facilities of the Group.

At 31 December 2001, the Group had banking facilities of HK$7,520,000 which was secured by deposits with banks at 31 December 2001. Such banking facilities were utilized to the extent of HK$940,000 as at 31 December, 2001. The bank loans of HK$940,000 are repayable within one year on demand.

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds, was 0.43% as at 31 December 2001.

The bank loans of HK$13,000 as at 31 December 2000 were unsecured and repaid during the year ended 31 December, 2001.

The accrued liability under the convertible notes issued to Alps amounted to HK$56,088,000. The principal amount of the convertible notes is HK$47,220,000 and the accrued finance cost amounts to HK$8,868,000. The finance cost is equivalent to a yield-to-maturity of approximately 10% per annum to the noteholder.

As at 31 December 2001, the Group has an outstanding capital commitment to a private equity investment fund of US$500,000 and a further investment in the amount of RMB4,500,000 (HK$4,230,118) into a subsidiary.

CAPITAL STRUCTURE

The Company issued 67,264,000 and 3,120,000 new shares respectively to iBusiness Corporation Limited for the acquisition of 42.6% in i21 and to two majority shareholders of Camelot as partial consideration on the acquisition of 21.5% in Camelot.

During the year, the Company repurchased in the market a total of 85,334,000 shares at an aggregate price of HK$56,326,119. The average purchase price was HK$0.66 per share. The repurchased shares were cancelled and the issued share capital of the Company was correspondingly reduced. The repurchase were made with a view to enhancing the net asset and earnings per share of the Company.

After the new issue of shares and repurchase, the net effect was a reduction of 14,950,000 issued shares. As at 31 December 2001, the Company's issued shares were 985,050,000 shares (2000: 1,000,000,000 shares).

NEW PRODUCTS/SERVICES

In 2001, the Group commenced the development of an integrated stock trading system for Mainland China centralized stock trading. The Group is in discussion with a few major securities firms on the implementation of the trading system. The *MBS* product development is progressing well and marketing will commence in 2002. A new privilege

MANAGEMENT DISCUSSION AND ANALYSIS

banking software product called *Wealth Management System* is in its final phase of development and marketing of the same had already been carried out in Hong Kong, SE Asia and in Mainland China.

The management had taken steps to consolidate the ASP and enterprise software products aiming at creating greater synergies and streamlining support between the two. To this end, the Group had set up a specialist company called *HR21 Holdings Limited* with a view to combining the resources and businesses of its HRMS (enterprise software product) and iHR21 (ASP service). The new vehicle will focus on providing human resources management services, including software products, ASP services, consulting, training and placement, to SME clients.

SIGNIFICANT INVESTMENTS/ACQUISITION AND PERFORMANCES

The two joint ventures in Mainland China made inroad to sell to major Chinese banks and brokerages with healthy sales pipeline. The Beijing joint venture will further expand its team to meet with stronger sales growth. The Shenzhen joint venture is teaming up with our Shekou software center to develop local products and outsourcing business.

The Group and EHA entered into a solution agreement during the year by which the Group would grant a worldwide license of iPolicy21 (Group Medical Software) together with customisation work to EHA. As a result of this transaction, the Group received a total of 115,250,000 shares in EHA. In addition, upon the acquisition of i21, the 28,000,000 EHA shares carried by i21 increased the Group's total holding of EHA shares to 143,250,000 shares (this is later consolidated by 10:1). The 28,000,000 EHA shares held by i21 was resulted from the settlement of the consideration on disposal of iClaims21 Limited. Since the share price of EHA dropped substantially subsequent to receipt of those shares, the Group had made a provision on impairment loss on the EHA shares for HK$25,462,000.

During the year, i21 received a convertible note of HK$40,000,000. The convertible note was carried at a fair value of HK$35,000,000. In July, part of the convertible note was transferred to a wholly-owned subsidiary of the Group at the fair value of HK$13,125,000 and the remaining was transferred to the other shareholder of i21. EHA and the Group agreed to an early redemption of the convertible note by payment of HK$9,600,000, resulted in a loss on early redemption of HK$3,525,000. Completion of early redemption took place in December 2001.

In July 2001, the Group acquired 42.6% in i21 and became the major shareholder of i21.

During the year, the Group acquired 21.5% in an associate, Camelot, for a consideration of HK$21,668,000, which was satisfied by the issuance of a total of 3,120,000 shares of HK$0.10 each of the Company together with a cash payment of HK$19,734,000. Camelot is a technology services company targeting mainly foreign enterprises in Mainland China. The Group's share of profits amounted to HK$660,000 during the year ended 31 December 2001. Management is optimistic that Camelot can sustain healthy growth and profitability for the coming years.

As at 31 December 2001, the Group also held a portfolio of current investments, comprising of HK$63,601,000 of funds placed in a global liquidity fund and HK$2,924,000 of trading securities listed in Hong Kong.

SEGMENTAL PERFORMANCES

Segment information is presented in respect of the Group's geographical segments. 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 the management to be more relevant to the Group in making operating and financial decisions.

MANAGEMENT DISCUSSION AND ANALYSIS

Hong Kong segment recorded a turnover of HK$169,317,000 for the year ended 31 December 2001. Singapore recorded a turnover of HK$386,000.

The Mainland China operations (included Shekou software center and the two equity joint ventures) recorded a total turnover of HK$3,408,000.

EMPLOYEES

The Group employed a total of 367 staff as at 31 December 2001, of which 257, 7 and 103 were located in Hong Kong, Singapore and Mainland China respectively.

The Group replaced the Chinese New Year Bonus for Hong Kong staff with a performance based incentive compensation scheme.

All the employees in Hong Kong are entitled to participate in the Stock Option Scheme. As at 31 December 2001, share options with 78,038,500 shares to be issued upon the exercise of the share option had been granted pursuant to this scheme. None had been exercised during the year.

The Group provided trainings to employees on technical skills, sales and presentation skills, languages (English and Mandarin) and run management development workshops for all managers and directors. In 2002, training will be given on soft skills such as supervisory and interpersonal skills.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group received renminbi income from sales in Mainland China. The renminbi income was used to meet working capital commitments in Mainland China.

PROSPECTS IN 2002

The Director believes that 2002 will be a challenging year. With the solid fundamental already paved in geographical expansion and rationalization of the ASP business, the Group is well positioned to capitalize on the benefits of a diversified portfolio of markets, operations and business mix.

The economy in Hong Kong is recovering slowly. Banks will continue their merger and consolidation through to the first half of the year but are starting to reactivate systems purchasing activities. We believe that the market conditions will be improved in the second half of the year.

The management targeted to turn the Group to profitability by implementing further cost containment measures and aggressive selling strategy. Management expects the two Mainland China joint ventures and the Singapore operation to achieve substantial sales growth and profitability in 2002.

The Group continues to look at merger and acquisition targets to expand its market share in the region with an aim to becoming a dominant regional player in the IT market.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. ZEE CHAN Mei Chu, Peggy (徐陳美珠)
Aged 47, the Founder, Chairman and Chief Executive Officer, is responsible for setting and implementing the corporate strategic directions of the Excel Group. She has over 18 years of experience in business re-engineering, strategy studies, technology planning and systems development, serving major multi-national corporations and government agencies. Starting her career as a manager in Arthur Young & Company in Washington D.C., United States, Ms. Chan returned to Hong Kong in 1988 to establish the local office of an Australian software house, and later the Excel Group. She received the Hong Kong 1990 Young Entrepreneur Award. Ms. Chan is a founding member of the Cyber Youth Services, a non-profit organization dedicated to provide community services to young people through innovative usage of information technology. She is one of the founding members of ISIA (Information and Software Industry Association), a trade organization dedicated to promoting the software industry in Hong Kong. Ms. Chan serves on the Internet Banking Committee and 21st Banking Initiatives Committee of several major U.S. banks and a monetary authority.

Ms. LEUNG Lucy, Michele (梁樂瑤)
Aged 49, is the Chief Operating Officer of the Group responsible for the sales, implementation and continuous improvement of the various software applications developed by the Group. She is also in charge of the Singapore operation. She has over 19 years of experience in the development, conversion and migration of various computer systems in the credit card, retail banking, and insurance industries. Prior to joining the Group in 1989, Ms. Leung worked for Mervyn's, United Grocers, Tymshare Transaction Services, Visa and the Bank of Montreal in the United States and Canada.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. FUNG Din Chung, Rickie (馮典聰)

Aged 46, is the Executive Vice President responsible for developing the Group's networking and systems integration business. Prior to joining the Group in 1996, Mr. Fung worked for IBM Hong Kong for 18 years, going holding various positions in different business areas, including technical support, training, marketing, and management. Mr. Fung was the manager in the Imaging Solution Centre, a unit dedicated to the application of workflow and imaging technology in business usage. Mr. Fung is a frequent speaker on various information technology subjects. Mr. Fung was appointed as the Chief Executive Officer of i21 Limited in 2000.

Dr. NG Wai King, Steve (吳偉經)

Aged 43, is the Executive Vice President and Chief Technology Officer of the Group. He leads the Group's software technology and implementation methodology, and the development of the Group's software infrastructure and building blocks. Besides his strong technical capabilities, Dr. Ng also has extensive knowledge in banking, stock brokerage, portfolio management and treasury business. Prior to joining the Group in 1996, Dr. Ng was the technology head for Citibank's Hong Kong Private Banking Group, in which, he managed the client/server development projects of the region for both local and global implementation.

Mr. IP Kim Kuen (葉劍權)

Aged 39, is the Executive Vice President and Chief Investment Officer of the Group. He is responsible for strategic acquisition and investment of the Group. Mr. Ip has over 12 years of experience in financial management and investments. He was the vice president in ChinaVest Limited, a leading US venture capital firm, director and general manager of Kleinwort Benson's China Direct Investment Fund, the head of investment of a public company in Hong Kong. He worked for Spectrum Mutual Fund and Richarson Greenshields in Canada, and Jardine Fleming in Hong Kong. Mr. Ip has extensive experience in investing in technology companies in Greater China and was heavily involved in cross-pacific venture deals between US and China. Mr. Ip is a certified Management Consultant of the International Council of Management Consulting Institutes.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. IP Tak Chuen, Edmond (葉德銓)

Aged 49, is a non-executive Director of the Group. He has been an executive director of Cheung Kong (Holdings) Limited since 1993. Mr. Ip is also an executive director of Cheung Kong Infrastructure Holdings Limited and a non-executive director of TOM.COM LIMITED. He was appointed as a non-executive Director of the Group on 21 February 2000.

Ms. LAU LAW Siu Hung, Monique (劉羅少紅)

Aged 45, is a non-executive Director of the Group. Ms. Lau is a partner of ChinaVest Limited, and is responsible for development and implementation of investment strategies and corporate marketing activities in Greater China. In 1997, Ms. Lau joined ChinaVest from Citibank Hong Kong where she was the head of the Corporate Banking Group. Her 19-year banking career includes four years at Bankers Trust Company as the Head of the Hong Kong Credit Function. She was appointed as a non-executive Director of the Group on 21 February 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEONG Ying Chew, Henry (張英潮)

Aged 54, is an independent non-executive Director of the Group. He holds a Bachelor of Science degree in Mathematics and a Master of Science degree in Operational Research and Management. He is a director of certain other listed companies in Hong Kong. Mr. Cheong is a member of the Process Review Panel for the Securities and Futures Commission and a member of the Derivative Market Consultative Panel of the Hong Kong Exchange and Clearing Limited.

Mr. CHANG Ka Mun (張家敏)

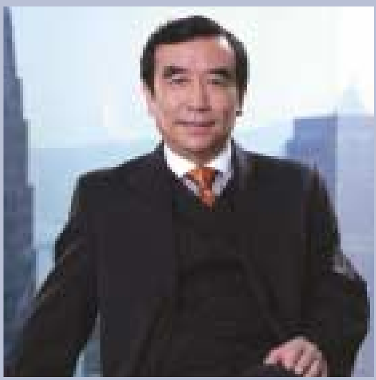
Aged 42, is a director of Li & Fung Development (China) Limited. He is also a member of the National Committee of Chinese People's Political Consultative Conference and a member of Transport Advisory Committee of Hong Kong Special Administrative Region. He was a member of the Preparatory Committee of Hong Kong Special Administrative Region as well as the Basic Law Consultative Committee of the National People's Congress of the PRC. He was appointed as an independent non-executive Director of the Group on 30 May 2000.

Mr. PETRO A. Frank

Aged 59, is an independent non-executive Director of the Group. Recently, Mr. Petro was the Chairman and Chief Executive Officer of InnoVentry, which is an e-commerce company specializing in financial services applications with its headquarter in San Francisco, California, the United States of America. Prior to his appointment to Innoventry, Mr. Petro was an executive vice president at Wells Fargo Bank and was also President, Asia Pacific for CSC Index, responsible for the firm's activity in Hong Kong, Japan and Korea. Mr. Petro is a certified practising accountant, licensed in New York and California. He was appointed as an independent non-executive Director of the Group on 30 May 2000. Mr. Petro is now serving as interim CEO and Board Member of Clear Stream, a telecommunications company based in California.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS



Mr. WEN Pei Sung, Dennis (文北崧)

Aged 54, is the Director of Greater China of the Group. He is responsible for developing the China market for the Group. Mr. Wen has over 30 years of IT marketing and services experience. Mr. Wen previously worked for Oracle Greater China Region as Oracle Greater China Consulting Head and IBM Greater China Region in various senior management positions. Mr. Wen has completed the Management Development Program at ASIA Institute of Management. Mr. Wen joined the Group in April 2000.

Mr. CHEONG Ho Sang, Alfred (莊濠生)

Aged 45, is the Director of Banking Products (MBS) of the Group responsible for the development and implementation of the new banking software application products of the Group. Mr. Cheong has over 21 years of working experience in IT especially in the banking industry where he has in-depth knowledge of corporate, investment and private banking products, accounting & MIS functions, and process management. Mr. Cheong previously worked for UBS AG and Citibank in various senior management positions. At Citibank, Mr. Cheong was in-charge of investment banking technology department for the Asia Pacific region. Prior to joining the Group in 2000, Mr. Cheong was the technology head for Private Banking in Hong Kong and Singapore of UBS AG. Mr. Cheong is also a Certified Management Accountant (CMA) in Canada.

Ms. CHAN Yee Wah, Eva (陳綺華)

Aged 36, is the group financial controller and company secretary of the Company. Prior to joining the Group in November 2000, Ms. Chan has been the group financial controller and company secretary of various listed companies in Hong Kong. Ms. Chan has over 16 years' experience in accounting and company secretarial matters. Ms. Chan is an Associate of the Hong Kong Society of Accountants and the Hong Kong Institute of Company Secretaries. Ms. Chan graduated from the City University of Hong Kong with her first degree in Accountancy and then obtained her Master of Business Administration from the University of Nottingham, United Kingdom.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Key Business Initiatives	Actual business progress up to the end of December 2001
Further developing the ASP business by including software developed by third party software vendors as part of the services offered	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 using third party software was postponed to the second half of 2002.
Marketing the MBS and Insurance21 aggressively	The development of the MBS product is expected to complete around mid-2002. Intensive pre-marketing activities will start in the first quarter of 2002 with the key focus in Singapore and Hong Kong.
	Marketing of Insurance21 (renamed "@surance") was started in the fourth quarter of 2001. A potential insurance client in Hong Kong had been identified,and we are in the process of contract negotiation with this client.
Continuing the Group's geographical expansion, including through acquisitions	Mainland China subsidiaries in both Beijing and Shenzhen had increased their staff force to promote and market the Group's enterprise software products, solutions and services. The sales and marketing activities in Singapore had significantly picked up in the last quarter of 2001.
	Acquisition activities were restricted mainly to company visits for potential targets. We are still actively identifying target companies for acquisition and cooperation.
Sales and Marketing	
Recruiting additional local distributors and/or resellers in Mainland China and other Asian countries	Mainland China was leveraging on local business partners in exploring both channels and customers.
Product and Service Development	
Completing the third phase development of Insurance21	The development of Insurance21 (renamed "@surance") was completed as scheduled.
Completing the second phase development (covering swaps, equities, futures etc.) of MBS	90% of the infrastructure components were developed and tested. Phase II development is in its full swing and expect to be completed in second half of 2002.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Geographical Expansion

Establishing the third Mainland China office

Establishment of the third office was postponed to the first half of 2002 and the priority was given to Shanghai.

Establishing the third Southeast Asia office in the Philippines or Thailand

The Group intends to leverage on local business partners to make a presence in the other SE Asia countries rather than building its own offices. We have signed a mutual reseller agreement with a Singapore technology company in November 2001, under which we shall assist each other in reselling its respective suite of enterprise software products in the domestic markets.

Use of Proceeds

The net proceeds from the public listing was about HK$180,000,000. During the period from 30 June 2000 (date of listing) to 31 December 2001, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus:

	As stated in the Prospectus (HK$ million)	**Actual** (HK$ million)
For the development of the ASP business	40	29
For the research & development of new enterprise software	20	17
For the geographical expansion of the Group	20	15
For setting up the e-Center	10	1
For marketing and promotional activities	10	3
For acquisitions of and investments in companies and businesses which fit into the Group's business strategy	50	27
Total	150	92

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 20 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.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Excel Technology International Holdings Limited (the "Company") will be held at 46/F., The Center, 99 Queen's Road Central, Hong Kong on 23 April 2002 (Tuesday) at 3:30 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements of the Company and the Reports of the Directors and Auditors for the year ended 31 December 2001;

2. To re-elect retiring Directors;

3. To authorise the Board of Directors to fix their remuneration;

4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration; and

5. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined in this Resolution) of all the powers of the Company to allot, issue or deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined in this Resolution); or (ii) any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company in force from time to time; or (iv) the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities which are convertible into shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of passing this Resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (as amended) or any other applicable law to be held; and

(iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution;

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrant, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares in the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of shares as at that date (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong)."

6. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined in this Resolution) of all powers of the Company to purchase its own shares, subject to paragraph (b) below, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be purchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(c) for the purpose of this Resolution, "Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (as amended) or any other applicable law to be held; and

(iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution."

7. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT** the general mandate granted to the Directors of the Company pursuant to the Resolution 5 above and for the time being in force to exercise the powers of the Company to allot, issue or deal with unissued shares of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power, be and is hereby extended by the aggregate nominal amount of shares in the share capital of the Company repurchased by the Company since the granting of such general mandate pursuant to the exercise by the Directors of the Company of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution."

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

Hong Kong, 18 March 2002

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
46th Floor, The Center
99 Queen's Road Central
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Central Registration Hong Kong Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

3. In relation to proposed Resolution 5 above, approval is being sought from the members for the grant to the Directors of a general mandate to authorise the allotment and issue of shares pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The directors have no immediate plans to issue any new securities of the Company pursuant to the said general mandate other than shares which may fall to be issued upon the exercise of any options granted under the share option scheme of the Company or any scrip dividend scheme.

4. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

REPORT OF THE DIRECTORS

The directors submit herewith their annual report together with the audited financial statements for the financial year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 14 on the financial statements.

The Group's turnover and contribution to the operating result for the year is principally attributable to its development, sale and implementation of enterprise software (including ASP business) and complementary computer hardware and software resale in Hong Kong. An analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 12 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	**Purchases**
The largest customer	18.3%	
Five largest customers in aggregate	59.9%	
The largest supplier		53.6%
Five largest suppliers in aggregate		90.2%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 30 to 79.

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2001.

REPORT OF THE DIRECTORS

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$500 (2000: HK$Nil).

FIXED ASSETS

Movements in fixed assets of the Company and the Group are set out in note 13 on the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 on the financial statements.

DIRECTORS

The directors during the financial year were:

Executive directors

Zee Chan Mei Chu, Peggy
Fung Din Chung, Rickie
Leung Lucy, Michele
Ng Wai King, Steve
Ip Kim Kuen

Non-executive directors

Ip Tak Chuen, Edmond
Lau Law Siu Hung, Monique

Independent non-executive directors

Cheong Ying Chew, Henry
Chang Ka Mun
Petro A Frank

In accordance with the Company's bye-laws, Leung Lucy, Michele, Ng Wai King, Steve and Ip Kim Kuen retire from the board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

The directors of the Company who held office at 31 December 2001 had the following interests in the issued share capital of the Company and its subsidiaries and other associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance) at that date as recorded in the register of directors' share interests:

	Shares of HK$0.10 each			
Beneficial interests	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**
Zee Chan Mei Chu, Peggy	214,000	—	*574,831,044	—
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 which 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 which is wholly-owned by Leung Lucy, Michele.

Share option scheme

The Company operates a share option scheme under which the directors may, at their discretion, invite employees of the Company or its wholly owned subsidiaries, including directors, to take up options to subscribe for shares in the Company at a price which is the higher of the closing price of the Company's shares and the average closing price of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the share option scheme may not exceed 30% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options pursuant to the share option scheme. An option may be exercised within an option period, and shall not be less than three years and not more than ten years from the date upon which the option is granted and accepted.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(continued)*

Share option scheme *(continued)*

At 31 December 2001, the directors of the Company had the following personal interests in options to subscribe for shares of the Company (market value per share is HK$0.50 at the balance sheet date) granted at nominal consideration under the share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

Name of director	No. of options outstanding at the year end	Date granted	Period during which option exercisable *(Note)*	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options	Market value per share at date of grant of options	Market value per share on exercise of options
Fung Din Chung, Rickie	8,000,000	1 September 2000	1 September 2000 to 31 August 2005	—	HK$0.90	HK$0.90	—
Leung Lucy, Michele	8,000,000	1 September 2000	1 September 2000 to 31 August 2005	—	HK$0.90	HK$0.90	—
Ng Wai King, Steve	8,000,000	1 September 2000	1 September 2000 to 31 August 2005	—	HK$0.90	HK$0.90	—
Ip Kim Kuen	8,000,000	1 September 2000	1 September 2000 to 31 August 2005	—	HK$0.90	HK$0.90	—

Note: The option period commences from 1 September 2000 to 31 August 2005 (both dates inclusive) (vesting period with 1st tranche of 20% from 1 March 2001, 2nd tranche of 20% from 1 September 2001, 3rd tranche of 15% from 1 March 2002, 4th tranche of 15% from 1 September 2002, 5th tranche of 15% from 1 March 2003 and the remaining tranche of 15% from 1 September 2003).

Apart from the foregoing, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangement to enable the directors of the Company or any their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 31 December 2001 amounting to 10% or more of the shares in issue:

Name	Shares held	Percentage of total issued shares
Ms Zee Chan Mei Chu, Peggy	575,045,044	58.37%#
Passion Investment (BVI) Limited	574,831,044	58.36%#
Cheung Kong (Holdings) Limited	143,233,151	14.54%*
Li Ka-Shing Unity Trustee Corporation Limited (as trustee of The Li Ka-Shing Unity Discretionary Trust)	143,233,151	14.54%*
Li Ka-Shing Unity Trustee Company Limited (as trustee of The Li Ka-Shing Unity Trust)	143,233,151	14.54%*
Li Ka-Shing Unity Holdings Limited	143,233,151	14.54%*
Mr Li Ka Shing	143,233,151	14.54%*

These shares have been disclosed as the corporate interest of the director in the paragraph "Directors' interests in shares".

* 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 as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2001.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

On 3 May 2000, a subsidiary of the Group (the "subsidiary") and Net Fun Limited entered into a sub-tenancy agreement pursuant to which Net Fun Limited sub-leased office premises from the subsidiary for a fixed term of 23 months and 24 days from 1 June 2000 to 24 May 2002. Rentals payable by Net Fun Limited amounted to HK$399,600 during the year ended 31 December 2001 (2000: HK$226,250).

On 1 June 2000, the subsidiary and Net Fun Limited entered into an administrative services agreement pursuant to which the subsidiary agreed to provide accounting, general office administrative and company secretarial services as may be requested by Net Fun Limited from time to time. Management fee income receivable by the Group from Net Fun Limited amounted to HK$424,000 during the year ended 31 December 2001 (2000: HK$540,000).

Zee Chan Mei Chu, Peggy was interested in the above contracts as a director and shareholder of Net Fun Limited.

Apart from the foregoing, no contract of significance to which the Company, its holding company or any of its subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Each of Zee Chan Mei Chu, Peggy, Fung Din Chung, Rickie, Leung Lucy, Michele and Ng Wai King, Steve has entered into a service contract with the Company for a term of three years commencing on 1 March 2000, which will continue thereafter until terminated by not less than six months' notice in writing by either party to the other.

Ip Kim Kuen has entered into a service contract with the Company for a term of three years commencing on 20 March 2000, which will continue thereafter until terminated by not less than six months' notice in writing by either party to the other.

Except for the above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

COMPETING INTERESTS

Mr Ip Tak 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.

REPORT OF THE DIRECTORS

COMPETING INTERESTS *(continued)*

Mr 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, as at 31 December 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.

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

During the year ended 31 December 2001, the Company repurchased on the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited a total of 85,334,000 shares of HK$0.10 each in the share capital of the Company at an aggregate price of HK$56,326,119, details of which are as follows:

Month of repurchase	No. of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid
		HK$	HK$	HK$
September 2001	70,452,000	0.71	0.60	46,537,514
October 2001	12,888,000	0.69	0.67	8,746,105
November 2001	1,994,000	0.58	0.485	1,042,500
	85,334,000			56,326,119

The directors of the Company considered that the above repurchases were made with a view to enhance 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, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws and the law in Bermuda.

REPORT OF THE DIRECTORS

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 31 December 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$47,220,278 convertible notes in the Company held by a CKH's subsidiary.

Pursuant to the sponsor agreement dated 19 June 2000 ("Sponsor Agreement") entered into between the Company and HSBC Investment Bank Asia Limited ("HIBA") and the novation agreement dated 29 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 30 June 2000 to 31 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 31 December 2001.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2001 are set out in note 24 on the financial statements.

CONVERTIBLE NOTES

Details of the principal terms of the convertible notes are set out in note 28 on the financial statements.

RESERVES

Details of movements in reserves during the year are set out in note 30 on the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 80 of the annual report.

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

As from 1 December 2000, the Group operates a Mandatory Provident Fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the year ended 31 December 2001.

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 comprises the two independent non-executive directors, Mr Cheong Ying Chew, Henry and Mr Chang Ka Mun. The audit committee met on a quarterly basis during the year ended 31 December 2001.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Zee Chan Mei Chu, Peggy
Chairman

Hong Kong, 18 March 2002

REPORT OF THE AUDITORS

Auditors' report to the shareholders of
Excel Technology International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 30 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 18 March 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Turnover	3	**173,111**	155,425
Cost of computer hardware and software		**(72,058)**	(55,285)
		101,053	100,140
Other revenue	4(a)	**9,606**	11,815
Other net (loss)/income	4(b)	**(354)**	1,804
Staff costs		**(84,794)**	(63,215)
Depreciation	13	**(6,580)**	(2,027)
Other operating expenses		**(27,913)**	(16,148)
(Loss)/profit from operations before amortisation		**(8,982)**	32,369
Amortisation of goodwill	16	**(2,362)**	—
Amortisation of development costs	17	**(4,299)**	(1,356)
(Loss)/profit from operations		**(15,643)**	31,013
Finance costs	5(a)	**(5,949)**	(3,158)
Impairment loss on fixed assets	13	**(3,123)**	—
Impairment loss on goodwill	16	**(30,000)**	—
Impairment loss on investments	18(b)	**(25,462)**	—
Loss on convertible note	33	**(3,525)**	—
Profit on disposal of a subsidiary	33(iv)	**—**	1,243
Share of profits less losses of associates	15(a) & (b)	**(1,814)**	(5,838)
(Loss)/profit before taxation	5	**(85,516)**	23,260
Taxation	6(a)	**(284)**	(540)
(Loss)/profit after taxation		**(85,800)**	22,720
Minority interests		**1,024**	—
(Loss)/profit attributable to shareholders	30	**(84,776)**	22,720
(Loss)/earnings per share			
Basic	11	**(8.42 cents)**	2.65 cents
Diluted	11	**(8.42 cents)**	2.65 cents
(Loss)/profit for the year is attributable as follows:			
The Company and its subsidiaries		**(82,809)**	28,558
The associates		**(1,967)**	(5,838)
		(84,776)	22,720

No separate statement of recognised gains and losses has been prepared as the loss attributable to shareholders for the year would be the only component of this statement.

The notes on pages 36 to 79 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Non-current assets			
Fixed assets	*13*	**30,280**	15,819
Interest in an associate	*15*	**13,669**	4,166
Goodwill	*16*	**25,831**	—
Development costs	*17*	**11,038**	4,722
Other financial assets	*18*	**6,195**	3,903
		87,013	28,610
Current assets			
Current investments	*19*	**66,525**	—
Inventories	*20*	**39,245**	—
Work in progress	*21*	**33,648**	26,269
Trade receivables	*22*	**12,483**	28,808
Deposits, prepayments and other receivables	*22*	**8,274**	7,687
Amount due from an associate	*15*	**—**	11,256
Taxation recoverable	*6(b)*	**130**	—
Pledged deposits	*23*	**8,100**	—
Cash and cash equivalents	*23*	**65,937**	292,642
		234,342	366,662
Current liabilities			
Bank loans	*24*	**940**	13
Trade payables	*25*	**3,865**	10,534
Other payables and accrued expenses	*25*	**12,865**	13,531
Deferred income	*26*	**28,233**	10,167
Convertible notes	*28*	**56,088**	—
Taxation payable	*6(b)*	**—**	650
		101,991	34,895
Net current assets		**132,351**	331,767
Total assets less current liabilities		**219,364**	360,377
Non-current liabilities			
Convertible notes	*28*	**—**	50,155
Minority interests		**1,238**	—
NET ASSETS		**218,126**	310,222

CONSOLIDATED BALANCE SHEET *(continued)*

at 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
CAPITAL AND RESERVES			
Share capital	*29*	**98,505**	100,000
Reserves	*30*	**119,621**	210,222
		218,126	310,222

Approved and authorised for issue by the board of directors on 18 March 2002

Zee Chan Mei Chu, Peggy	)	
	)	
	)	*Directors*
	)	
Ip Kim Kuen	)	

The notes on pages 36 to 79 form part of these financial statements.

BALANCE SHEET

at 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Non-current assets			
Investments in subsidiaries	14	—	—
Current assets			
Amounts due from subsidiaries	14	**338,268**	337,838
Prepayments and other receivables		**150**	470
Cash and cash equivalents	23	**2,013**	2,605
		340,431	340,913
Current liabilities			
Trade and other payables		**870**	2,776
Amounts due to subsidiaries	14	**55,543**	55
Convertible notes	28	**56,088**	—
		112,501	2,831
Net current assets		**227,930**	338,082
Total assets less current liabilities		**227,930**	338,082
Non-current liabilities			
Convertible notes	28	—	50,155
NET ASSETS		**227,930**	287,927
CAPITAL AND RESERVES			
Share capital	29	**98,505**	100,000
Reserves	30	**129,425**	187,927
		227,930	287,927

Approved and authorised for issue by the board of directors on 18 March 2002

Zee Chan Mei Chu, Peggy)
)
) *Directors*
)
Ip Kim Kuen)

The notes on pages 36 to 79 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001		2000	
		$'000	$'000	$'000	$'000
Net cash (outflow)/inflow from operating activities	31(a)		(162,034)		5,907
Returns on investments and servicing of finance					
Interest received		8,222		10,731	
Interest paid		(16)		(223)	
Dividends paid		—		(5,000)	
Net cash inflow from returns on investments and servicing of finance			8,206		5,508
Taxation					
Hong Kong profits tax (paid)/refund		(851)		165	
PRC tax paid		(60)		—	
Tax (paid)/refund			(911)		165
Investing activities					
Increase in pledged deposits		(8,100)		—	
Payment for purchase of an associate		(19,735)		—	
Repayment from/(advances to) associate		1,383		(21,260)	
Payment for purchase of other financial assets		—		(3,903)	
Payment for purchase of fixed assets		(5,368)		(9,483)	
Proceeds from disposal of fixed assets		95		—	
Proceeds from disposal of convertible note		9,600		—	
Development costs capitalised		(10,615)		(6,078)	
Net cash inflow from purchase of a subsidiary	31(d)	13,924		—	
Net cash outflow from disposal of subsidiary	31(e)	—		(737)	
Reserves arising from the Reorganisation		—		539	
Net cash outflow from investing activities			(18,816)		(40,922)
Net cash outflow before financing carried forward			(173,555)		(29,342)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	Note	**2001**		2000	
		$'000	**$'000**	$'000	$'000
Net cash outflow before financing brought forward			**(173,555)**		(29,342)
Financing					
Proceeds from other loans	*31(b)*	**–**		(2,539)	
Repayment of bank loans	*31(b)*	**(13)**		(7,086)	
New bank loan	*31(b)*	**940**		—	
Proceeds from shares issued	*31(b)*	**–**		284,965	
Nominal value of shares repurchased	*31(b)*	**(8,533)**		—	
Premium paid on repurchase of shares	*31(b)*	**(47,806)**		—	
Contributions from minority interests		**2,262**		—	
Proceeds from issuance of convertible notes	*31(b)*	**–**		47,220	
Repayment from a director	*31(b)*	**–**		(5,845)	
Net cash (outflow)/inflow from financing			**(53,150)**		316,715
(Decrease)/increase in cash and cash equivalents			**(226,705)**		287,373
Cash and cash equivalents at 1 January			**292,642**		5,269
Cash and cash equivalents at 31 December			**65,937**		292,642
Analysis of the balances of cash and cash equivalents					
Deposits with banks and other financial institutions			**20,699**		281,169
Cash at bank and in hand			**45,238**		11,473
			65,937		292,642

The notes on pages 36 to 79 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

(a) Group reorganisation

The Company was incorporated on 21 January 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited ("GEM"), the Company became the holding company of the subsidiaries now comprising the Group.

Further details of the Reorganisation are set out in the Company's prospectus dated 20 June 2000.

All entities which took part in the Reorganisation were wholly owned directly or indirectly by Zee Chan Mei Chu, Peggy before and immediately after the Reorganisation and consequently there was a continuation of the risks and benefits to the ultimate shareholder that existed prior to the Reorganisation.

(b) Basis of presentation of the financial statements

The Reorganisation has been accounted for as a reorganisation of businesses under common control under merger accounting. Accordingly, the consolidated financial statements have been prepared on the basis of historical costs and as if the subsidiaries had been part of the Group throughout the periods presented, except for any acquisitions or disposals subsequent to the Reorganisation, which are accounted for under the acquisition basis of accounting.

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure requirements of GEM. A summary of the significant accounting policies adopted by the Group is set out below.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss accounts from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

As explained in note 1, on 21 January 2000, the Company became the holding company of the Group. The Group has been treated as a continuing entity and accordingly the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for the whole of the year 2000, rather than from 21 January 2000. Accordingly, the results and cashflows of the Group for the year ended 31 December 2000 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, where this is a shorter period.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see accounting policy 2(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 2(e).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 2(j)), unless the associate is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less accumulated amortisation and any impairment losses (see note 2(j)).

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit or loss on disposal.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Income from sale of enterprise software products and custom development

The Group enters into contracts with customers whereby a number of elements are bundled together in one contract — for example, resale of complementary hardware and software products, sale of software licences and the development of customised software including completion of services provided for post delivery service support. The contract price is fixed prior to the commencement of the contract and the Group refers to these as "fixed price contracts".

In instances where the contract price can be allocated on a reasonable basis into elements of resale of complementary hardware and software products, sale of software licences and development of customised software, revenue is recognised in accordance with accounting policies as described in Section 2(f)(ii), (iii) and (iv) below.

Where the contract price cannot be allocated into individual elements of the sale of enterprise software products and custom development, revenue is recognised by reference to the stage of completion of the sale of enterprise software products and custom development, including post delivery service support, at the balance sheet date.

Work in progress is recorded in the balance sheet at the amount of contract costs incurred plus attributable profit less progress billings.

Amounts received before the related work is performed are included as deferred income in the balance sheet.

(ii) Income from complementary hardware and software resale

Revenue is recognised when goods are delivered at the customers' premises, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is stated after deduction of any trade discounts.

(iii) Sale of software licences

Revenue from the sale of software licences to end-users is recognised upon delivery of the software products to the customer when there are no significant post-delivery obligations.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Revenue recognition *(continued)*

(iv) Development of customised software

Revenue from the development of customised software is recognised in the profit and loss account by reference to the stage of completion of the customisation work, including post delivery service support, at the balance sheet date.

(v) Income from consulting and systems integration services

Consulting and systems integration services generally call for the company to provide technical support to customers.

Revenue from consulting and systems integration services is recognised in the profit and loss account upon the provision of services.

(vi) Income from maintenance services

Revenue from maintenance service contracts, which is received or receivable from customers once the maintenance service contracts are signed, is amortised and credited as revenue to the profit and loss account on a straight-line basis over the terms of the maintenance service contracts.

Where maintenance revenue is not separately invoiced, it is unbundled from licence fees and deferred and credited as revenue to the profit and loss account on a straight-line basis over the life of the maintenance service contract.

Other service revenue, primarily training and consulting, is recognised at the time when the service is performed.

(vii) Income from Application Service Provider ("ASP") business

Revenue from ASP business is recognised at the time when the service is performed.

(viii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(ix) Dividends

Dividend income from unlisted investments other than associates is recognised when the shareholder's right to receive the payment is established.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Other investments in securities

Investment securities which are held on a continuing basis for an identified long term purpose are classified as "investment securities" and are stated in the balance sheet at cost less provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(h) Fixed assets and depreciation

(i) Fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 2(j)). Depreciation is calculated to write off the cost of such assets on a straight-line basis at the following rates per annum:

Land	Over the unexpired term of the lease
Leasehold improvements	25%
Buildings	2.5%
Computer and office equipment	20% to $33^1/_3$%
ASP software (see note 2(h)(ii))	20%
Furniture and fixtures	25%
Motor vehicles	30%

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account.

Gains or losses arising from the disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Fixed assets and depreciation *(continued)*

(ii) ASP software represents all direct costs incurred by the Group in the development of the software. Such costs are capitalised if the software is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised software costs are stated at cost less accumulated amortisation and impairment losses (see note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation is calculated to write off the software on a straight line basis over its estimated useful live.

(i) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation is calculated to write off the development costs on a straight line basis over the estimated useful lives of the developed software.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— investments in subsidiaries and associates;

— development costs; and

— positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

(m) Deferred taxation

Deferred taxation is provided under the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(p) Translation of foreign currencies

The functional currency of the Group's operations is the Hong Kong dollar.

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Differences arising on foreign currency translation are dealt with in the profit and loss account.

The results of overseas subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(q) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Retirement costs

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 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 year, net of returns and discounts allowed, after eliminating intra-group transactions. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	Group turnover	
	2001	2000
	$'000	$'000
Principal activities		
Sale of enterprise software products and custom development	**68,521**	77,498
Complementary hardware and software resale	**78,263**	64,211
Consulting and systems integration services	**19,065**	9,409
Maintenance services	**6,135**	4,307
Revenue from ASP business	**1,127**	—
	173,111	155,425

4 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	2001	2000
	$'000	$'000
(a) Other revenue		
Interest income from bank deposits	**1,145**	5,678
Interest income from deposits placed with other financial institutions	**7,077**	5,053
Interest income from convertible note	**189**	—
Management fee income from a related company	**424**	540
Sundry income	**771**	544
	9,606	11,815
(b) Other net (loss)/income		
Realised (loss)/gain on current investments	**(270)**	1,804
Unrealised loss on trading securities	**(108)**	—
Gain on disposal of fixed assets	**24**	—
	(354)	1,804

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 (LOSS)/PROFIT BEFORE TAXATION

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

		2001	2000
		$'000	$'000
(a)	Finance costs:		
	Interest on bank loans, overdrafts, and other borrowings repayable within five years	**16**	223
	Finance costs on convertible notes	**5,933**	2,935
		5,949	3,158
(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	**31,728**	10,318
	— direct overheads	**4,386**	2,337
		36,114	12,655
	Less: Costs capitalised *(Note 17)*	**(10,615)**	(6,078)
		25,499	6,577
	Other costs such as depreciation of fixed assets and indirect overheads have not been included in the above analysis.		
(c)	Other items:		
	Auditors' remuneration	**882**	433
	Rentals payable under operating leases in respect of land and buildings	**9,207**	6,358
	Retirement contributions	**4,814**	6

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	The Group	
	2001	2000
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**—**	650
Under/(over) provision in respect of prior years	**71**	(110)
	71	540
Overseas taxation	**60**	—
	131	540
Share of associate's taxation	**153**	—
	284	540

The provision for Hong Kong Profits Tax is calculated at 16% (2000: 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 Company as the Company incurred taxable losses during the year ended 31 December 2001.

(b) Taxation in the consolidated balance sheet represents:

	The Group	
	2001	2000
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**—**	650
Provisional Profits Tax paid	**(130)**	—
	(130)	650
Balance of Profits Tax provision relating to prior years	**—**	—
Taxation (recoverable)/payable	**(130)**	650

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2001	2000
	$'000	$'000
Fees	**200**	—
Salaries and other emoluments	**6,720**	6,452
Retirement scheme contributions	**60**	—
	6,980	6,452

During the year ended 31 December 2001, directors' fees of $200,000 were paid or payable to independent non-executive directors (2000: $Nil).

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "directors' interests in shares" in the Report of the Directors.

In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

The remuneration of the executive directors is within the following bands:

	Number	
	2001	2000
Not more than $1,000,000	**—**	—
$1,000,001 - $1,500,000	**4**	5
$1,500,001 - $2,000,000	**1**	—
	5	5

The executive directors received emoluments of approximately $1,200,000, $1,200,000, $1,200,000, $1,320,000 and $1,800,000 for the year ended 31 December 2001 and approximately $1,300,000, $1,200,000, $1,224,167, $1,320,000 and $1,408,065 for the year ended 31 December 2000.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION *(continued)*

Each of Zee Chan Mei Chu, Peggy, Fung Din Chung, Rickie, Leung Lucy, Michele and Ng Wai King, Steve has entered into a service contract with the Company for a term of three years commencing on 1 March 2000.

Ip Kim Kuen has entered into a service contract with the Company for a term of three years commencing on 20 March 2000.

Based on the terms of these service contracts, each of the directors are entitled to a monthly salary, housing and other allowances.

During the years ended 31 December 2000 and 2001, there were no amounts paid as an inducement to join or upon joining the Group and no director waived any emoluments.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, five (2000: five) are directors whose emoluments are disclosed in note 7 on the financial statements.

No amounts were paid or payable to senior management as an inducement to join the Group or as compensation for loss of office during the years ended 31 December 2000 and 2001.

9 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $52,677,000 (2000: profit of $2,452,000) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

No dividends has been paid or declared by the Company since its incorporation.

11 (LOSS)/EARNINGS PER SHARE

Basic and diluted (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to shareholders of $84,776,000 (2000: profit of $22,720,000) and the weighted average number of 1,007,425,135 shares (2000: 858,557,892 shares).

Diluted (loss)/earnings per share for the years ended 31 December 2001 and 2000 is the same as the basic (loss)/earnings per share because there was no dilutive effect in existence during the respective years.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING

Segment information is presented in respect of the Group's geographical segments. 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.

(a) Geographical segments by the location of customers and by the location of assets

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

The Group's geographical segments are classified according to the location of the provision of development of computer software, systems integration and maintenance and related services rendered to customers.

(b) Business segments

The Group comprises the following main business segments:

(i) Enterprise software development and distribution

The development, sale and implementation of enterprise software and sale of computer hardware and software.

(ii) IT consulting and e-business solution

The consulting and systems integration services performed to provide technical support to customers.

(iii) ASP services

The services performed in respect of the ASP business.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING *(continued)*

(c) Geographical segments

	Year ended 31 December									
	Hong Kong		PRC		Other		Inter-segment elimination		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Segment revenue										
By location of assets										
Turnover	**169,317**	155,425	**3,408**	—	**386**	—	**–**	—	**173,111**	155,425
Segment result	**(6,549)**	31,601	**(6,342)**	(588)	**(2,752)**	—	**–**	—	**(15,643)**	31,013
Finance costs	**(5,935)**	(3,158)	**(14)**	—	**–**	—	**–**	—	**(5,949)**	(3,158)
Impairment loss on fixed assets	**(3,123)**	—	**–**	—	**–**	—	**–**	—	**(3,123)**	—
Impairment loss on goodwill	**(30,000)**	—	**–**	—	**–**	—	**–**	—	**(30,000)**	—
Impairment loss on investments	**(25,462)**	—	**–**	—	**–**	—	**–**	—	**(25,462)**	—
Loss on convertible note	**(3,525)**	—	**–**	—	**–**	—	**–**	—	**(3,525)**	—
Profit on disposal of a subsidiary	**–**	1,243	**–**	—	**–**	—	**–**	—	**–**	1,243
Share of profits less losses of associates	**(2,474)**	(5,838)	**660**	—	**–**	—	**–**	—	**(1,814)**	(5,838)
(Loss)/profit before taxation	**(77,068)**	23,848	**(5,696)**	(588)	**(2,752)**	—	**–**	—	**(85,516)**	23,260
Taxation	**(70)**	(540)	**(213)**	—	**(1)**	—	**–**	—	**(284)**	(540)
(Loss)/profit after taxation	**(77,138)**	23,308	**(5,909)**	(588)	**(2,753)**	—	**–**	—	**(85,800)**	22,720
Minority interests	**(171)**	—	**1,195**	—	**–**	—	**–**	—	**1,024**	—
(Loss)/profit attributable to shareholders	**(77,309)**	23,308	**(4,714)**	(588)	**(2,753)**	—	**–**	—	**(84,776)**	22,720
Depreciation and amortisation	**(12,836)**	(3,383)	**(279)**	—	**(126)**	—	**–**	—	**(13,241)**	(3,383)
Capital expenditure incurred during year	**3,116**	8,568	**1,959**	714	**293**	201	**–**	—	**5,368**	9,483
Segment assets#	**300,045**	389,538	**5,478**	1,568	**2,163**	—	**–**	—	**307,686**	391,106
Interest in an associate	**–**	4,166	**13,669**	—	**–**	—	**–**	—	**13,669**	4,166
Total assets	**300,045**	393,704	**19,147**	1,568	**2,163**	—	**–**	—	**321,355**	395,272
Segment liabilities#	**(96,943)**	(84,939)	**(4,828)**	(1,183)	**(3,452)**	—	**3,232**	1,072	**(101,991)**	(85,050)
Total liabilities	**(96,943)**	(84,939)	**(4,828)**	(1,183)	**(3,452)**	—	**3,232**	1,072	**(101,991)**	(85,050)
Minority interests									**(1,238)**	—
Additional information concerning geographical segments:										
Revenue from external customers by the location of customers	**148,096**	155,425	**24,629**	—	**386**	—	**–**	—	**173,111**	155,425

\# Segment assets and liabilities are before elimination of inter-segment balances.

* Inter-segment elimination of $3,232,000 represents inter-segment current accounts at 31 December 2001 (2000: $1,072,000).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING *(continued)*

(d) Business segments

	Enterprise software development and distribution		IT consulting and e-Business solution		ASP Services		Unallocated assets		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**152,919**	146,016	**19,065**	9,409	**1,127**	—	**–**	—	**173,111**	155,425
Segment assets	**170,357**	138,202	**36,524**	—	**7,392**	4,166	**# 107,082**	# 252,904	**321,355**	395,272
Capital expenditure incurred during the year	**5,368**	9,483	**–**	—	**–**	—	**–**	—	**5,368**	9,483

Unallocated assets of $107,082,000 (2000: $252,904,000) mainly comprise of other financial assets, current investments and cash and cash equivalents.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS

The Group

	Land and buildings $'000	Leasehold improvements $'000	Computer and office equipment $'000	ASP software $'000	Furniture and fixtures $'000	Motor vehicles $'000	Total $'000
Cost:							
At 1 January 2001	7,856	2,370	10,956	—	5,890	416	27,488
Additions							
— through acquisition of a subsidiary	—	878	13,747	7,187	391	—	22,203
— others	—	878	4,098	—	392	—	5,368
Disposals	—	—	(82)	—	—	—	(82)
At 31 December 2001	**7,856**	**4,126**	**28,719**	**7,187**	**6,673**	**416**	**54,977**
Aggregate depreciation:							
At 1 January 2001	815	348	5,630	—	4,626	250	11,669
Through acquisition of a subsidiary	—	267	2,434	525	110	—	3,336
Charge for the year	102	950	4,383	599	453	93	6,580
Impairment loss	—	—	3,123	—	—	—	3,123
Written back on disposals	—	—	(11)	—	—	—	(11)
At 31 December 2001	**917**	**1,565**	**15,559**	**1,124**	**5,189**	**343**	**24,697**
Net book value:							
At 31 December 2001	**6,939**	**2,561**	**13,160**	**6,063**	**1,484**	**73**	**30,280**
At 31 December 2000	7,041	2,022	5,326	—	1,264	166	15,819

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS *(continued)*

The analysis of the net book value of land and buildings is as follows:

	The Group	
	2001	2000
	$'000	$'000
In Hong Kong under long leases	**6,939**	7,041

At 31 December 2001, the directors of the Company considered that there is an impairment in the value of certain computer equipment having considered their recoverable amounts which were based on their value in use. An impairment loss of $3,123,000 (2000: $Nil) was recorded at 31 December 2001.

14 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2001	2000
	$'000	$'000
Investments in subsidiaries (cost of US$1)	**—**	—
Amounts due from subsidiaries	**387,896**	337,838
Less: Provision	**(49,628)**	—
	338,268	337,838
Amounts due to subsidiaries	**(55,543)**	(55)
	282,725	337,783

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 2(c) and have been consolidated into the financial statements of the Group.

			Percentage of equity			
Name of company	**Place of incorporation**	**Particulars of issued and paid up capital**	**Group's effective holding**	**Held by the Company**	**Held by subsidiary**	**Principal activities and place of operation**
Excel (BVI) Limited	British Virgin Islands	5,000 shares of US$1 each	100.0%	100.0%	—	Investment holding in Hong Kong
Excel Technology International (Hong Kong) Limited	Hong Kong	1,000 shares of HK$1 each	100.0%	—	100.0%	Development of computer software, systems integration and maintenance in Hong Kong
Guangzhou Excel Technology Company Limited	The People's Republic of China	HK$1,000,000	100.0%	—	100.0%	Operation of IT software centre in Shekou in the PRC
Excelink Technology Pte Limited (formerly known as Xena Trading Pte Limited)	Singapore	500,000 shares of S$1 each	100.0%	—	100.0%	Provision for sale and marketing services on Excel's enterprise software in Singapore
Excel Systems Limited	Hong Kong	1,000,000 shares of HK$1 each	100.0%	—	100.0%	Development of computer software, systems integration and maintenance in Hong Kong
Excel Technology International (BVI) Limited	British Virgin Islands	1 share of US$1 each	100.0%	—	100.0%	Investment holding in Hong Kong
New Crest Technology Corp.	British Virgin Islands	1 share of US$1 each	100.0%	—	100.0%	Investment holding in Hong Kong
Wise Success Ltd.	British Virgin Islands	5,000 share of US$1 each	100.0%	—	100.0%	Investment holding in Hong Kong
Grandful Star Ltd.	British Virgin Islands	1 share of US$1 each	100.0%	—	100.0%	Investment holding in Hong Kong

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) *(continued)*

Name of company	Place of incorporation	Particulars of issued and paid up capital	Percentage of equity: Group's effective holding	Percentage of equity: Held by the Company	Percentage of equity: Held by subsidiary	Principal activities and place of operation
Infostar Ltd.	British Virgin Islands	1 share of US$1 each	100.0%	—	100.0%	Investment holding in Hong Kong
Excel China Investment (BVI) Limited	British Virgin Islands	5,000 shares of US$1 each	100.0%	—	100.0%	Investment holding in Hong Kong
ExcelSolution Technology Limited	The People's Republic of China	Rmb4,426,593	70.0%	—	70.0%	Provision of sale and marketing services and Excel's enterprise software in the PRC
ExcelSoft Technology Solutions Limited	The People's Republic of China	US$480,000	85.0%	—	85.0%	Resale of hardware and software in the PRC
Excel System Limited	British Virgin Islands	1 share of US$1	100.0%	—	100.0%	Resale of hardware and software in Hong Kong
i21 Limited	Hong Kong	14,000 shares of HK$1 each	80.1%	—	80.1%	ASP services provider in Hong Kong
HR21 Holdings Limited	British Virgin Islands	50,000 shares of US$1 each	93.0%	—	93.0%	Investment holding in Hong Kong
HR21 Limited	Hong Kong	2 shares of HK$1 each	93.0%	—	93.0%	Computer software development, system integration and maintenance in Hong Kong
HR21 Singapore Holdings Pte Limited	Singapore	2 shares of S$1 each	93.0%	—	93.0%	Investment holdings in Singapore
HR21 Singapore Pte Limited	Singapore	2 shares of S$1 each	93.0%	—	93.0%	Computer software development and marketing in Singapore

(b) The amounts due from/(to) subsidiaries are unsecured, interest free and recoverable/repayable within one year.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 INTEREST IN AN ASSOCIATE

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Unlisted shares, at cost	**–**	–	**–**	–
Share of net assets/(losses) other than goodwill	**13,669**	(5,838)	**–**	–
Amount due from associate	**–**	10,004	**–**	–
	13,669	4,166	**–**	–

Details of the associate at 31 December 2001 are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity: Group's effective holding	Percentage of equity: Held by the Company	Percentage of equity: Held by a subsidiary	Principal activities and operation
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

(a) At 31 December 2000, the Group had a 37.5% interest in an associated company, i21. On 24 July 2001, the Group increased its equity interest in i21 from 37.5% to 80.1% by acquiring shares thereof from the other shareholders of i21 for a consideration of $47,085,000, which was satisfied by the issuance of a total of 67,264,000 shares of $0.10 each of the Company. Accordingly, the financial results of i21 from 24 July 2001 are consolidated in the financial statements of the Group. Prior to the acquisition, i21 was an associate of the Group and the Group's share of loss for the period from 1 January 2001 to 23 July 2001, amounting to $2,474,000, was included in the consolidated profit and loss account of the Group on the equity accounting basis. Particulars of i21 are set out in note 14(a).

(b) On 28 August 2001, the Group acquired a 21.5% interest in Camelot for a consideration of $21,668,000, which was satisfied by the issuance of a total of 3,120,000 shares of $0.10 each of the Company together with cash payment of $19,734,000. The Group's share of profit for the period from 28 August 2001 to 31 December 2001 amounted to $660,000.

(c) The amount due from an associate of $10,004,000 at 31 December 2000 was unsecured and interest free.

(d) The amount due from an associate of $11,256,000 included in current assets at 31 December 2000 was unsecured, interest free and repayable on demand.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 GOODWILL

	The Group	
	2001	2000
	$'000	$'000
Cost:		
At 1 January	**—**	31,422
Addition on acquisition of a subsidiary	**49,686**	—
Addition on acquisition of an associate	**8,507**	—
Written back upon disposal of a subsidiary *(note 33(iv))*	**—**	(31,422)
At 31 December	**58,193**	—
Accumulated amortisation:		
At 1 January	**—**	1,687
Charge for the year	**2,362**	—
Impairment loss	**30,000**	—
Written back upon disposal of a subsidiary *(note 33(iv))*	**—**	(1,687)
At 31 December	**32,362**	—
Carrying value:		
At 31 December	**25,831**	—

Goodwill arose from the acquisition of a subsidiary and an associate, and is amortised on a straight line basis over ten and fifteen years respectively.

At 31 December 2001, the directors of the Company considered that there is an impairment in the value of the goodwill which arose on the acquisition of i21, having considered the market demands and financial viability of the application service provider business in the foreseeable future. Based on this assessment, the carrying amount of the goodwill was written down by $30,000,000. The estimates of recoverable amount were based on the estimated future discounted cashflows of the business of i21.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 DEVELOPMENT COSTS

	The Group	
	2001	2000
	$'000	$'000
Cost:		
At 1 January	**6,078**	—
Additions through internal development	**10,615**	6,078
At 31 December	**16,693**	6,078
Accumulated amortisation:		
At 1 January	**1,356**	—
Charge for the year	**4,299**	1,356
At 31 December	**5,655**	1,356
Net book value:		
At 31 December	**11,038**	4,722

Development costs of $16,693,000 capitalised as at 31 December 2001 (2000: $6,078,000) are amortised to the consolidated profit and loss account on a straight-line basis over the estimated useful lives of the developed software of 3 years.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 OTHER FINANCIAL ASSETS

	The Group	
	2001	2000
	$'000	$'000
Investment securities		
Unlisted private equity fund *(note (a))*	**3,903**	3,903
Equity securities listed in Hong Kong *(note (b))*	**2,292**	—
	6,195	3,903
Market value of listed securities	**3,581**	—

Notes:

(a) The investment in the private equity fund is stated at cost. The private equity fund principally invests in unquoted companies in high growth technology industries. One of the directors of the Group is an executive director of the unlisted private equity fund at 31 December 2001.

(b) The Group held equity securities listed in Hong Kong with a carrying value of $2,292,000, after a provision for impairment in value of $25,462,000 was made at 31 December 2001.

19 CURRENT INVESTMENTS

	The Group	
	2001	2000
	$'000	$'000
Global liquidity fund (see below)	**63,601**	—
Trading securities listed in Hong Kong (at market value)	**2,924**	—
Current investments at 31 December 2001	**66,525**	—

At 31 December 2001, the Group had placed funds in a global liquidity fund which invests in a diversified portfolio of short term market securities with investment grade credit ratings.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 INVENTORIES

	The Group	
	2001	2000
	$'000	$'000
Computer hardware acquired for resale	**39,245**	—

21 WORK IN PROGRESS

Work in progress represents the amount of contract costs incurred plus attributable profit less progress billings. All the amounts are expected to be recovered within one year.

22 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Trade receivables	**12,483**	28,808	**—**	—
Utilities and rental deposits	**3,762**	3,445	**—**	—
Prepayments and other receivables	**4,512**	4,242	**150**	470
	8,274	7,687	**150**	470
	20,757	36,495	**150**	470

All of the trade and other receivables are expected to be recovered within one year.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

Trade receivables (net of specific allowances for bad and doubtful debts) have the following ageing analysis:

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Current	**7,860**	16,628	**—**	—
1 to 3 months overdue	**3,205**	8,334	**—**	—
More than 3 months overdue but less than 12 months overdue	**1,418**	3,846	**—**	—
	12,483	28,808	**—**	—

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.

23 PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Pledged deposits	**8,100**	—	**—**	—
Deposits with banks and other financial institutions	**20,950**	281,169	**—**	—
Cash at bank and in hand	**44,987**	11,473	**2,013**	2,605
Cash and cash equivalents	**65,937**	292,642	**2,013**	2,605

Pledged deposits of $8,100,000 was placed with banks as security for banking facilities made available to the Group (note 24).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 BANK LOANS

The banking facilities of certain subsidiaries of the Group are secured by certain deposits with banks at 31 December 2001. Such banking facilities amounting to $7,520,000 (2000: $Nil), were utilised to the extent of $940,000 at 31 December 2001 (2000: $Nil).

The bank loans of $13,000 at 31 December 2000 were unsecured and repaid during the year ended 31 December 2001.

All bank loans are repayable within one year or on demand.

25 TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Trade payables	**3,865**	10,534	**—**	—
Other payables and accrued expenses	**12,865**	13,531	**870**	2,776
	16,730	24,065	**870**	2,776

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade payables with the following ageing analysis:

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Due within 1 month or on demand	**3,865**	10,534	**—**	—

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 DEFERRED INCOME

	The Group	
	2001	2000
	$'000	$'000
At 1 January	**10,167**	4,458
Released to profit and loss account	**(10,167)**	(4,458)
Income deferred during the year	**28,233**	10,167
At 31 December	**28,233**	10,167

Deferred income represents amounts received from customers before the related services have been rendered. All the amounts included in the deferred income are expected to be credited to the profit and loss account within one year.

27 DEFERRED TAXATION

At 31 December 2001, the Group had net deferred tax assets which have not been recognised in the financial statements as their realisation is not assured beyond reasonable doubt.

The major components of the deferred tax (assets)/liabilities of the Group are set out below:

	2001		2000	
	Provided	**Potential assets unprovided**	Provided	Potential liabilities unprovided
	$'000	**$'000**	$'000	$'000
Depreciation allowances in excess of related depreciation	**—**	**1,279**	—	1,466
Future benefit of tax losses	**—**	**(3,689)**	—	—
	—	**(2,410)**	—	1,466

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 CONVERTIBLE NOTES

	The Group and the Company		
	Principal amount	**Finance costs**	**Carrying value**
	$'000	$'000	$'000
At 1 January 2001	47,220	2,935	50,155
Finance costs for the year	—	5,933	5,933
At 31 December 2001	**47,220**	**8,868**	**56,088**

On 15 June 2000, the Company entered into an agreement with Alps Mountain Agent Limited, a wholly owned subsidiary of Cheung Kong (Holdings) Limited, to issue the convertible notes with a principal amount of $47,220,278.

The convertible notes or any part thereof is convertible into the Company's shares at a price of $0.88 per share (subject to adjustments), at the option of the noteholder at any time during the period commencing from 1 April 2001 and up to and including 31 May 2002 (i.e. maturity date).

Unless previously converted, the convertible notes will be redeemed by the Company on the maturity date at redemption amounts equal to 125% of the principal amount, which implies a yield-to-maturity of approximately 10% per annum to the noteholder.

The finance costs represent the difference between the yield to maturity and the principal amount and is accrued and charged to the profit and loss account.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 SHARE CAPITAL

	The Company			
	2001		2000	
	Number of shares	**$'000**	Number of shares	$'000
Authorised:				
Shares of $0.10 each	**5,000,000,000**	**500,000**	5,000,000,000	500,000
Issued and fully paid:				
At 1 January	**1,000,000,000**	**100,000**	—	—
Shares issued upon incorporation	**—**	**—**	1,000,000	100
Shares issued on 31 January 2000	**—**	**—**	1,000,000	100
Shares issued upon conversion of convertible notes	**—**	**—**	422,688	42
Capitalisation issue	**—**	**—**	847,577,312	84,758
Shares issued pursuant to the initial public offering of the Company	**—**	**—**	150,000,000	15,000
Shares issued upon acquisition of a subsidiary	**67,264,000**	**6,726**	—	—
Shares issued upon acquisition of an associate	**3,120,000**	**312**	—	—
Shares repurchased	**(85,334,000)**	**(8,533)**	—	—
At 31 December	**985,050,000**	**98,505**	1,000,000,000	100,000

The following changes in the share capital of the Company took place during the years ended 31 December 2001 and 2000:

The Company was incorporated on 21 January 2000 with an authorised share capital of $100,000 represented by 1,000,000 shares of $0.10 each, all of which were allotted and issued.

On 31 January 2000, the authorised share capital of the Company was increased from $100,000 to $400,000 by the creation of an additional 3,000,000 shares each ranking pari passu with the then existing shares in all respects and 1,000,000 shares were issued for cash at par.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 SHARE CAPITAL *(continued)*

On 15 June 2000, 422,688 shares were allotted and issued pursuant to the exercise of the rights of conversion under the convertible notes issued in January 2000.

On 16 June 2000, the Company increased its authorised share capital from $400,000 to $500,000,000 by the creation of an additional 4,996,000,000 shares each ranking pari passu with the then existing shares in all respects.

On 27 June 2000, a capitalisation issue of 847,577,312 shares of $0.10 each was made by the capitalisation of $84,757,731 from the share premium account of the Company. The purpose of this issue was to broaden the capital base of the Company.

Pursuant to the initial public offering by the Company in June 2000, the Company issued a total of 150,000,000 shares for cash of an aggregate consideration of $179,195,000 after deducting underwriting and other expenses.

On 24 July 2001, the Company issued a total of 67,264,000 shares of $0.10 each at a fair value of $0.70 per share to the former majority shareholders of i21 as consideration for the acquisition of a further 42.6% interest in i21. These shares rank pari passu in all respects with the existing shares.

On 28 August 2001, the Company issued a total of 3,120,000 shares of $0.10 each at a fair value of $0.62 per share to the existing shareholders of Camelot as part of the consideration for the acquisition of a 21.5% interest in Camelot. These shares rank pari passu in all respects with the existing shares.

During the year, the company has repurchased a total of 85,334,000 shares of $0.10 each of the Company on The Stock Exchange of Hong Kong Limited, all of which were cancelled and particulars of which are as follows:

Month of repurchase	No. of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid
		$	$	$
September 2001	70,452,000	0.71	0.60	46,537,514
October 2001	12,888,000	0.69	0.67	8,746,105
November 2001	1,994,000	0.58	0.485	1,042,500
	85,334,000			56,326,119

These shares were cancelled upon repurchase and the issued share capital of the Company correspondingly reduced.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 SHARE CAPITAL *(continued)*

Pursuant to the share option scheme for employees which was adopted on 16 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. On 1 September 2000, the Company granted to employees of the Group options to subscribe for shares in the Company. The subscription price of the option shares is $0.90 per share with the option period from 1 September 2000 to 31 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 11 October 2001, the Company further granted to employees of the Group options to subscribe for shares in the Company, 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 option. 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 shares on 11 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.

No options were exercised during the year ended 31 December 2001.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the share option scheme may not exceed 30% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options pursuant to the share option scheme. An option may be exercised within an option period, and shall not be less than three years and not more than ten years from the date upon which the option is granted and accepted.

As at 31 December 2001, 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
1 September 2000	$0.90	49,774,500
11 October 2001	$0.70	28,264,000

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 RESERVES

(a) The Group

	Share premium $'000	Retained profits $'000	Total $'000
At 1 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 year	—	22,720	22,720
At 31 December 2000	185,475	24,747	210,222
At 1 January 2001	185,475	24,747	210,222
Share premium arising from			
— (1) Acquisition of a subsidiary	40,359	—	40,359
— (2) Acquisition of an associate	1,622	—	1,622
Purchase of own shares	(47,806)	—	(47,806)
Loss for the year	—	(84,776)	(84,776)
At 31 December 2001	**179,650**	**(60,029)**	**119,621**

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 RESERVES *(continued)*

(b) The Company

	Share premium $'000	Retained profits $'000	Total $'000
At 1 January 2000	—	—	—
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 year	—	2,452	2,452
At 31 December 2000	185,475	2,452	187,927
At 1 January 2001	185,475	2,452	187,927
Share premium arising from			
— (1) Acquisition of a subsidiary	40,359	—	40,359
— (2) Acquisition of an associate	1,622	—	1,622
Purchase of own shares	(47,806)	—	(47,806)
Loss for the year	—	(52,677)	(52,677)
At 31 December 2001	**179,650**	**(50,225)**	**129,425**

At 31 December 2001, the aggregate amount of reserves available for distribution to shareholders of the Company was $Nil (2000: $2,452,000).

The application of the share premium account is governed by section 42A under the Companies Act 1981 of Bermuda.

Included in the figure for retained profits of the Group is an amount of $1,967,000 (2000: $5,838,000), being the net loss attributable to the associates.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit from operations to net cash (outflow)/inflow from operating activities

	2001 $'000	2000 $'000
(Loss)/profit from operations	**(15,643)**	31,013
Interest income from bank deposits	**(1,145)**	(5,678)
Interest income from cash equivalents	**(7,077)**	(5,053)
Depreciation	**6,580**	2,027
Amortisation of development costs	**4,299**	1,356
Amortisation of goodwill	**2,362**	—
Profit on disposal of fixed assets	**(24)**	—
Increase in current investments	**(66,525)**	—
Increase in inventories	**(39,245)**	—
Increase in work in progress	**(6,379)**	(19,367)
Decrease/(increase) in trade receivables, deposits, prepayments and other receivables	**20,208**	(15,026)
(Decrease)/increase in trade payables	**(6,669)**	1,442
(Decrease)/increase in other payables and accrued expenses	**(20,042)**	9,349
(Decrease)/increase in deferred income	**(32,734)**	5,844
Net cash (outflow)/inflow from operating activities	**(162,034)**	5,907

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing

	Share capital (including share premium) $'000	Bank loans $'000	Convertible notes $'000	Other loan $'000	Amount due to a director $'000
At 1 January 2000	510	7,099	—	2,539	37,949
Eliminated during the course of the Reorganisation	(510)	—	—	—	—
Cash inflows from issue of shares net of expenses	285,475	—	—	—	—
Cash inflows from issue of convertible notes	—	—	47,220	—	—
Cash outflows from financing	—	(7,086)	—	(2,539)	(5,845)
Cash outflow from disposal of a subsidiary	—	—	—	—	(32,104)
Finance costs for the year	—	—	2,935	—	—
At 31 December 2000	285,475	13	50,155	—	—
At 1 January 2001	285,475	13	50,155	—	—
Nominal value of shares repurchased	(8,533)	—	—	—	—
Premium paid on repurchase of shares	(47,806)	—	—	—	—
Shares issued upon acquisition of a subsidiary	47,085	—	—	—	—
Shares issued upon acquisition of an associate	1,934	—	—	—	—
Cash outflows from financing	—	(13)	—	—	—
Cash inflows from financing	—	940	—	—	—
Finance costs for the year	—	—	5,933	—	—
At 31 December 2001	**278,155**	**940**	**56,088**	**—**	**—**

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Purchase of a subsidiary

	2001 $'000
Net assets acquired:	
Fixed assets	18,867
Other financial assets	4,704
Work in progress	1,000
Trade receivables, deposits, prepayments and other receivables	4,470
Cash and cash equivalents	13,924
Other payables and accrued expenses	(19,376)
Deferred income	(27,750)
	(4,161)
Goodwill arising on consolidation	49,686
	45,525
Satisfied by: Issuance of shares of the Company	47,085
Decrease in interest in an associate	(1,560)
	45,525

The subsidiary acquired during the year contributed $7,743,000 to the Group's net operating cash outflows.

(d) Analysis of net inflow of cash and cash equivalents in respect of the purchase of a subsidiary

	$'000
Cash consideration	—
Cash at bank and in hand acquired	13,924
Net inflow of cash and cash equivalents in respect of the purchase of a subsidiary	13,924

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(e) Disposal of a subsidiary

	2001 **$'000**	2000 $'000
Net liabilities disposed of:		
Fixed assets	–	341
Trade and other receivables	–	229
Cash and bank balance	–	737
Trade payables and accrued charges	–	(46)
Deferred income	–	(135)
Amounts due to a director	–	(32,104)
	–	(30,978)
Goodwill written back upon disposal of a subsidiary (Note 16)	–	29,735
Gain on disposal of a subsidiary	–	1,243
Consideration of $1	–	—

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2001 **$'000**	2000 $'000
Cash consideration received of $1	–	—
Cash and cash equivalents disposed of	–	(737)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	(737)

The subsidiary disposed of during the year ended 31 December 2000 contributed $180,000 to the Group's net operating cash flows.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(f) Major non-cash transactions

(i) During the year ended 31 December 2001, the Group disposed of its interest in an associate held indirectly by the Group for a consideration of $4,704,000 to a third party ("the acquiree"). The consideration was settled by the issuance to the Group of 28,000,000 shares in the acquiree.

(ii) On 24 July 2001, the Group acquired a further 42.6% interest in i21 for a consideration of $47,085,000, which was satisfied by the issuance of a total of 67,264,000 shares of $0.10 each of the Company to the former majority shareholders of the subsidiary.

(iii) On 28 August 2001, the Group acquired a 21.5% interest in an associate for a consideration of $21,668,000, which was satisfied by the issuance of a total of 3,120,000 shares of $0.10 each of the Company together with a cash payment of $19,734,000.

(iv) During the year ended 31 December 2001, i21, an associate of the Group where the Group held 37.5% up to 23 July 2001, provided customer referral and consultancy services to a listed company, which were satisfied by the issuance by the listed company of a convertible note with a nominal value of $40,000,000. The fair value of the convertible note was stated at $35,000,000. In July 2001, prior to becoming a subsidiary of the Company, the associate transferred the title of the convertible note to its shareholders, in the amounts proportionate to their respective shareholdings. As a result, the Group received a convertible note with a fair value of $13,125,000. On 21 December 2001, the Group agreed with the listed company to pursue an early redemption of the convertible note for a consideration of $9,600,000. The early redemption resulted in a loss to the Group on disposal of $3,525,000.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 COMMITMENTS AND CONTINGENCIES

(a) Commitments under operating leases

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	The Group	
	2001	2000
	$'000	$'000
Within 1 year	**11,746**	9,185
After 1 year but within 5 years	**35,243**	46,082
After 5 years	**—**	906
	46,989	56,173

(b) Capital commitments

At 31 December 2001, 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 7 June 2001, the Group has commitment to make a further investment in the amount of RMB4,500,000 ($4,230,118) into the subsidiary. Such capital investment was outstanding at 31 December 2001.

33 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.

		The Group	
	Note	**2001**	2000
		$'000	$'000
Sale of enterprise software products and custom development	*(i)*	**—**	8,500
Rental receivable on land and buildings	*(ii)*	**2,622**	2,993
Management fee receivable	*(iii)*	**424**	540
Gain on disposal of a subsidiary	*(iv)*	**—**	1,243

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

Notes:

(i) This represents the sale of enterprise software products and custom development to i21 for the year ended 31 December 2000. i21 became a subsidiary of the Group with effect from 24 July 2001.

(ii) This represents office rental receivable from i21 and Net Fun Limited for the years ended 31 December 2000 and 2001. Rentals have been calculated based on the percentage of floor space occupied by i21 and Net Fun Limited. With effect from 24 July 2001, i21 became a subsidiary of the Group.

(iii) This represents management fees receivable from Net Fun Limited. The amount is based on estimated staff costs and overheads incurred by the Group.

(iv) The gain on disposal of $1,243,000 arose from the Group's disposal of 8,500 shares in Net Fun Limited during the year ended 31 December 2000.

Staff quarters have been provided to two directors during the years ended 31 December 2000 and 31 December 2001. The related benefits in kind have been included in the emoluments of directors and senior management detailed in note 7 on the financial statements.

On 24 July 2001, the Group acquired a further 42.6% interest in i21 for a consideration of $47,085,000, which was satisfied by the issuance of a total of 67,264,000 shares of $0.10 each of the Company to the former majority shareholders of the subsidiary.

During the year ended 31 December 2001, i21, an associate of the Group where the Group held 37.5% up to 23 July 2001, provided customer referral and consultancy services to a listed company, which were satisfied by the issuance of a convertible note with a nominal value of $40,000,000. The fair value of the convertible note was stated at $35,000,000. In July 2001, prior to becoming a subsidiary of the Company, the associate transferred the title of the convertible note to its shareholders, in the amounts proportionate to their respective shareholdings. As a result, the Group received convertible note with a fair value of $13,125,000. On 21 December 2001, the Group agreed with the listed company to pursue an early redemption of the convertible note for a consideration of $9,600,000. The early redemption resulted in a loss to the Group on disposal of $3,525,000.

34 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2001 to be Passion Investment (BVI) Limited, which is incorporated in the British Virgin Islands.

FIVE-YEAR SUMMARY

(Expressed in Hong Kong dollars)

COMPARATIVE TABLES OF RESULTS, ASSETS AND LIABILITIES

The following table summaries the results, assets and liabilities of the Group for each of the last five financial years:

	2001	2000	1999	1998	1997
	$'000	$'000	$'000	$'000	$'000
		(Note)	*(Note)*	*(Note)*	*(Note)*
Turnover	**173,111**	155,425	98,071	74,984	77,126
(Loss)/profit before taxation	**(85,516)**	23,260	(11,799)	2,083	1,562
Taxation	**(284)**	(540)	227	(764)	(382)
(Loss)/profit after taxation	**(85,800)**	22,720	(11,572)	1,319	1,180
Minority interests	**1,024**	—	—	—	—
(Loss)/profit attributable to shareholders	**(84,776)**	22,720	(11,572)	1,319	1,180
Total assets	**321,355**	395,272	74,062	60,745	29,901
Total liabilities	**(103,229)**	(85,050)	(72,064)	(42,175)	(12,650)
Net asset	**218,126**	310,222	1,998	18,570	17,251

Note: In the preparation of the accountants' report included in the Prospectus (the "Accountants' Report"), as is the usual practice in respect of accountants' reports included in prospectuses, the financial results of the Group represented the combined results of the Group during the three years ended 31 December 1999 as if the Group structure set out on page 73 of the Prospectus had been in existence during the relevant period covered by the Accountants' Report. As a result, the Group accounted for its investment in Net Fun Limited ("Net Fun") as investment securities to the extent of dividend income in respect of the relevant period in the Accountants' Report. This basis of preparation was disclosed in the Accountants' Report.

In accordance with Hong Kong Statements of Standard Accounting Practice applicable to statutory financial statements, the financial results of the Group for the years ended 31 December 1998, 31 December 1999 and 31 December 2000 included the financial results of Net Fun from its acquisition in 1998 up to the Group's disposal of Net Fun on 29 January 2000. Since the date of disposal, the Group accounted for its remaining investment in Net Fun as investment securities to the extent of dividend income attributable to each financial period.