

Excel

TECHNOLOGY

EXCEL TECHNOLOGY INTERNATIONAL HOLDINGS LIMITED

(志鴻科技國際控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8048)

**RESULTS ANNOUNCEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004**

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This announcement, for which the directors (the “Directors”) of Excel Technology International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

Highlights

- For the year ended 31 December 2004, the Group recorded total turnover of HK\$162,888,000, representing a slight decrease of 12% when compared with year 2003.
- Revenue from Enterprise Software Products amounted to HK\$50,748,000 for the year, which was 31% of the total turnover.
- Revenue from Systems Integration amounted to HK\$94,824,000 for the year, which was 58% of the total turnover.
- Revenue from Professional Services amounted to HK\$12,450,000 for the year, which was 8% of the total turnover.
- Loss attributable to shareholders for the year ended 31 December 2004 was HK\$20,962,000, an improvement of 21% over the previous year.
- Loss per share is 2.13 cents for the year ended 31 December 2004.

RESULTS

The Directors of the Company present herewith the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2004, together with the comparative figures for the corresponding period in 2003, as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	<i>NOTES</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	3	162,888	184,713
Other operating income	4	2,333	11,054
Cost of sales		(96,280)	(109,456)
Staff costs		(66,999)	(68,761)
Depreciation and amortisation		(8,746)	(14,469)
Other operating expenses		(20,041)	(28,483)
Impairment losses recognised		—	(1,883)
Loss from operations	5	(26,845)	(27,285)
Finance costs	6	(382)	(417)
Share of results of associates		4,727	2,107
Loss before taxation		(22,500)	(25,595)
Taxation	7	(550)	529
Loss before minority interests		(23,050)	(25,066)
Minority interests		2,088	(1,463)
Net loss attributable to shareholders		<u>(20,962)</u>	<u>(26,529)</u>
Loss per share — Basic	8	<u>(2.13 cents)</u>	<u>(2.69 cents)</u>

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2004

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	13,999	14,531
Interests in associates	31,848	25,614
Goodwill	5,302	6,398
Development costs	8,121	6,260
Investments in securities	8,744	8,203
	<u>68,014</u>	<u>61,006</u>
Current assets		
Inventories — at cost	7,036	6,615
Work in progress	5,230	7,085
Trade receivables	20,042	35,143
Other receivables, deposits and prepayments	6,429	10,942
Investments in securities	1,672	1,606
Amount due from an associate	103	—
Pledged bank deposits	11,622	9,200
Bank balances and cash	20,196	24,390
	<u>72,330</u>	<u>94,981</u>
Current liabilities		
Trade payables	10,362	7,707
Other payables and accrued charges	6,090	7,052
Deferred income	14,084	9,310
Government grants	—	470
Bank loans — secured	5,358	3,948
	<u>35,894</u>	<u>28,487</u>
Net current assets	<u>36,436</u>	<u>66,494</u>
Total assets less current liabilities	104,450	127,500
Minority interests	2,636	4,724
Net assets	<u>101,814</u>	<u>122,776</u>
Capital and reserves		
Share capital	98,505	98,505
Reserves	3,309	24,271
Shareholders' funds	<u>101,814</u>	<u>122,776</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	98,505	179,650	(128,850)	149,305
Net loss for the year	—	—	(26,529)	(26,529)
At 31 December 2003 and 1 January 2004	98,505	179,650	(155,379)	122,776
Net loss for the year	—	—	(20,962)	(20,962)
At 31 December 2004	<u>98,505</u>	<u>179,650</u>	<u>(176,341)</u>	<u>101,814</u>

1 Basis of presentation

The financial information has been prepared in accordance with all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

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

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

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

2 Potential impact arising from the recently issued accounting standards

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

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

3 Turnover

	2004	2003
	<i>HK\$’000</i>	<i>HK\$’000</i>

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

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

4 Other operating income

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

5 Loss from operations

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Directors' remuneration	4,882	5,871
Other staff costs	64,225	67,078
Retirement benefit costs	2,942	1,707
	<u>72,049</u>	<u>74,656</u>
Total staff costs	72,049	74,656
Less: Staff costs capitalised in development costs	(5,050)	(5,895)
	<u>66,999</u>	<u>68,761</u>
Depreciation and amortisation of property, plant and equipment	4,461	8,423
Amortisation of development costs	3,189	4,950
Amortisation of goodwill	1,096	1,096
	<u>8,746</u>	<u>14,469</u>
Total depreciation and amortisation	8,746	14,469
Impairment loss recognised in respect of property, plant and equipment	—	1,760
Impairment loss recognised in respect of development costs	—	123
	<u>—</u>	<u>1,883</u>
Total impairment loss recognised	—	1,883
Auditors' remuneration	793	624
Cost of inventories consumed	88,518	99,982
Loss on disposal of property, plant and equipment	—	728
Minimum lease payments in respect of land and buildings	4,391	10,223
Unrealised loss on other investments	—	281
	<u>93,702</u>	<u>111,838</u>
For disclosure purpose only:		
Research and development expenditure (including staff costs of HK\$16,894,000; 2003: HK\$18,746,000)	17,797	21,202
Less: Amount capitalised in development costs	(5,050)	(6,239)
	<u>12,747</u>	<u>14,963</u>

6 Finance costs

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

7 Taxation

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
The charge (credit) comprises:		
The Company and its subsidiaries:		
Hong Kong Profits Tax		
— current year	—	—
— overprovision in prior years	—	(650)
	—	(650)
Taxation in other jurisdictions	113	—
	113	(650)
Share of taxation of associates		
Taxation in other jurisdictions	437	121
	<u>550</u>	<u>(529)</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries incurred tax losses during both years.

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

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

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

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

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

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

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

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

8 Loss per share

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

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

9 Segment information

(a) Geographical segments

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

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

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

(ii) Other information:

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

Inter-segment sales are charged at similar terms as outsiders.

(iii) An analysis of the Group's balance sheet by geographical segments is as follows:

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

(b) Business segments

The Group is organised into four operating divisions, namely enterprise software products, systems integration, professional services and ASP services:

Principal activities of the operating divisions are as follows:

Enterprise software products	—	sale of enterprise software products and provision of maintenance services
Systems integration	—	provision of systems integration services and resale of complementary hardware and software products
Professional services	—	provision of consultancy services
ASP services	—	provision of services in respect of ASP business

As analysis of the revenue from external customers, the carrying amount of segment assets and capital additions by business segments is as follows:

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

10 Dividends

The Directors have resolved not to recommend the payment of a final dividend by the Company for the financial year ended 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

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

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

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

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

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

OPERATION REVIEW

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

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

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

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

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

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

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

NEW PRODUCTS / SERVICES

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

During the year, the Group sold down the remaining 19.5% shareholding in Excel Force Ltd. at cost to the other shareholder. At present, the Group has no shareholding in Excel Force Ltd. The sell down was the result of an amicable agreement between the shareholders, as the coming business direction of Excel Force Ltd. will differ from its original objectives.

As of 31 December 2004, the gearing ratio of the Group was 5.3% (2003: 3.2%) on the basis of bank borrowing divided by shareholders' fund.

CAPITAL STRUCTURE

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

SIGNIFICANT INVESTMENTS / ACQUISITIONS AND PERFORMANCES

During the year, the Group had not made any significant investment or acquisition.

SEGMENTAL PERFORMANCES

Hong Kong's turnover (included sale of enterprise software products, systems integration, professional services and ASP services) was HK\$75,924,000 (2003: HK\$81,944,000).

The China operations (included Shenzhen software center, Excel Shanghai and the two equity joint ventures in Shenzhen and Beijing respectively) recorded a total turnover of HK\$89,587,000 (2003: HK\$100,639,000).

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

EMPLOYEES

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

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group received renminbi from sales in China. The renminbi receipts, as usual, had been applied to internal use within China.

PROSPECTS IN 2005

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

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

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

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

CORPORATE GOVERNANCE

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

The Company has complied throughout the period under review with the provisions on board practice and procedures in the GEM Listing Rules, which was substantially revised with effect from 1 January 2005. Subject to the transitional arrangements, the Company will comply with the revised GEM Listing Rules, in particular, the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, from the financial year commencing on 1 January 2005.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rule 5.28 of the GEM Listing Rules. The audit committee comprises three members — Cheong Ying Chew, Henry, Chang Ka Mun and Wong Mee Chun, all of whom are independent non-executive directors. Its principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee met on a quarterly basis during the year ended 31 December 2004.

The Company's financial statements for the year ended 31 December 2004 have been reviewed by the audit committee. The audit committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange, and disclosures have been fully made.

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

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the year ended 31 December 2004.

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

The Board comprises of:

Zee Chan Mei Chu, Peggy (*Executive Director*)

Leung Lucy, Michele (*Executive Director*)

Fung Din Chung, Rickie (*Executive Director*)

Wen Pei Sung (*Executive Director*)

Ip Tak Chuen, Edmond (*Non-executive Director*)

Cheong Ying Chew, Henry (*Independent non-executive Director*)

Chang Ka Mun (*Independent non-executive Director*)

Wong Mee Chun (*Independent non-executive Director*)

Hong Kong, 21 March 2005

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least seven days from the date of its posting and on the website of the Company at www.excel.com.hk.