

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)

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

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

This announcement, for which the directors (the “Directors”) of Excel Technology International Holdings Limited (the “Company”), collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this 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

- Turnover amounted to HK\$80,590,000, representing a 13.7% increase over the corresponding period in 2000.
- Profit from operation was HK\$11,677,000, which is 14.5 % of the turnover.
- Profit attributable to shareholders amounted to HK\$7,899,000, representing 26.2% more than the corresponding period in 2000.
- The Group signed a conditional agreement to acquire 21.5% in Camelot Information System Inc. for a total consideration of US\$2.91 million.
- i21 Limited, started to have positive contribution to the Group with a profit of HK\$841,000 for the three months ended 30th June, 2001.
- Starting from 24th July, 2001, i21 becomes a subsidiary of the Group subsequent to the purchase of 42.6% issued shares of i21 from iBusiness.

INTERIM RESULTS ENDED 30TH JUNE, 2001

The Directors of the Company are pleased to present the unaudited consolidated results of the Group and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30th June, 2001, together with comparative figures for the corresponding period in 2000, as follows:

	Notes	For the three months ended 30th June		For the six months ended 30th June	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	39,321	41,983	80,590	70,870
Profit from Operation		6,960	8,973	11,677	9,458
Finance cost	3	(1,180)	—	(2,363)	(251)
Share of profit/(loss) of an associated company		841	(2,956)	(1,350)	(2,956)
Profit before taxation		6,621	6,017	7,964	6,251
Taxation	4	(120)	—	(155)	—
Profit before minority interests		6,501	6,017	7,809	6,251
Minority interests		90	9	90	9
Profits attributable to shareholders		6,591	6,026	7,899	6,260
Earnings per share					
— Basic and diluted	5	0.66 cents	0.83 cents	0.79 cents	0.88 cents

Notes:

1. Basis of presentation

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

The principal accounting policies adopted in preparing the unaudited consolidated results of the Group conform with accounting principles generally accepted in Hong Kong.

Pursuant to a group reorganization (the “Reorganization”) in preparation for the listing of the Company’s share on the GEM, the Company became the ultimate holding company of the Group. Details of the Reorganization, which was completed in June 2000, are set out in the prospectus dated 20th June, 2000. The unaudited consolidated results of the Group have been prepared on a merger basis as if the Company had always been the holding company of the respective subsidiaries now comprising the Group.

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

2. Turnover

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

3. Finance costs

	For the three months ended 30th June		For the six months ended 30th June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans, overdraft, and other borrowings repayable within five years	—	—	3	251
Finance costs on convertible notes	<u>1,180</u>	<u>—</u>	<u>2,360</u>	<u>—</u>
	<u>1,180</u>	<u>—</u>	<u>2,363</u>	<u>251</u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the three months ended 30th June, 2001 and six months ended 30th June, 2001 is HK\$120,000 and HK\$155,000. No provision for Hong Kong profits tax has been made for the corresponding periods of previous year as there were sufficient tax losses of the Group brought forward to set off against the assessable profit in the previous period.

No provision for Hong Kong profits tax has been made for the Group’s associated company as the associated company incurred a tax loss since its commencement of business activities in 2000.

5. Earnings per share

The calculation of basic earnings per share for the six months ended 30th June, 2001 is based on the profit attributable to shareholders of approximately HK\$7,899,000 (2000: HK\$6,260,000) and the weighted average number of 1,000,000,000 shares (2000: 714,737,515 shares) in issue during the period.

The calculation of basic earnings per share for the three months ended 30th June, 2001 is based on the profit attributable to shareholders of approximately HK\$6,591,000 (2000: HK\$6,026,000) and the weighted average number of 1,000,000,000 shares (2000: 727,774,749 shares) in issue during the period.

Diluted earnings per share for the periods ended 30th June, 2001 and 2000 is not presented because there was no dilutive effect in existence during the respective periods.

RESERVES

Movement in reserves for the period ended 30th June, 2001 and 2000 were as follows:-

	Share Premium <i>HK\$'000</i>	Retained Profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2000	—	1,488	1,488
Reserves arising from the Reorganisation	—	539	539
Premium on shares issued upon			
Conversion of convertible notes	106,038	—	106,038
Capitalisation issue	(84,758)	—	(84,758)
Share premium arising on issue of IPO shares	192,000	—	192,000
Share issue expenses	(27,805)	—	(27,805)
Profit for the period	—	6,260	6,260
At 30th June, 2000	<u>185,475</u>	<u>8,287</u>	<u>193,762</u>
At 1st January, 2001	185,475	24,747	210,222
Profit for the period	—	7,899	7,899
At 30th June, 2001	<u>185,475</u>	<u>32,646</u>	<u>218,121</u>

INTERIM DIVIDEND

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

BUSINESS REVIEW AND OUTLOOK

For the six months ended 30th June, 2001, the unaudited turnover of the Group was HK\$80,590,000, representing an increase of 13.7% over the same period in 2000. The Group achieved a profit from operation of HK\$11,677,000 for the same period, which represents an increase of about 23.5% when comparing with the same period in 2000. The profit attributable to shareholders was HK\$7,899,000. As compared to a profit of HK\$6,260,000 in same period in 2000, this represents an increase of 26.2%.

The first half period of the year was closed with a sluggish IT market. Global slow down in IT spending and consolidation in banking in Hong Kong have negative impacts on the revenue side of the Group. License sales slowed down as IT budget was trimmed and decisions on major purchasing were delayed. The sales in software product licenses and complimentary services had not picked up as expected. The banking clients are concentrating on devising tiered deposit products in face of the deregulation starting from July 2001. Some of the banking clients were busy in realigning internal business processes with newly acquired operations as part of the ongoing consolidation play.

The positive side is that the Group had received encouraging response on some of its software products from markets outside Hong Kong, including the mainland China, Singapore and Malaysia. The Group was deploying resources to localize these products for the respective markets. The appetite for banking and non-banking products was good. Our sales offices in the regional market had secured genuine interest in these products. The Group expected to complete the localization of some of these software products within the third quarter of the year.

The Group continues its efforts in opening up the mainland China market. The latest effort was the acquisition of 21.5% equity interest in Camelot Information Systems Inc. (“Camelot”). Camelot provides IT consultation and implementation services for local enterprises and multinational corporations operating in the mainland China in the sectors of finance, distribution, retailing and manufacturing. Some of the clients are major Chinese enterprises and Fortune 500 companies including, Bank of China, Agricultural Bank of China, Industrial and Commercial Bank of China, Haier, IBM, Sony, Pepsico, Wal-Mart, P&G, Kimberly-Clark. Camelot has much synergies with the Group in its expansion strategy in the mainland China and can work closely with the Beijing subsidiary of the Group in business development. Details of the acquisition have been provided in the announcement dated 7th August, 2001.

The Group has also resolved to strengthen the business position of its Beijing based Sino-foreign joint venture, named ExcelSoft, in which it owns 85%. The registered capital and the business scope of ExcelSoft will be increased to take into account the potential of the local market and additional scope of business to be conducted in the mainland China. The local partner will contribute to the additional registered capital in proportion to its shareholding. After the increase in registered capital and granting of certain equity to the management, the Group will hold 71% in ExcelSoft.

The joint venture in Shenzhen, named ExcelSolution, obtained its business license in May 2001 and has already making positive debut on its business development. The Group has an effective interest of 66% in ExcelSolution.

As a further step to establish its presence in the SE Asia market, the Group has appointed a Malaysian company to be a reseller for the Malaysia market. This local reseller will provide sales leads and marketing network for distributing the Group’s software products.

One significant development during the period being the acquisition of majority ownership in i21 Limited (“i21”), the Group’s associated company which operates mainly ASP services in Hong Kong. After the acquisition in July, the Group increased its holding in i21 from 37.5% to 80.1%, whereas iBusiness Corporation’s interest is reduced from 62.5% to 19.9%. With the acquisition of i21, the Group strives to build an earning base with recurring and predictable income sources and at the same time brings a key strategic shareholder to the Group level. The Group will also be able to better utilize the management and support structure across both the enterprise software and the ASP model to serve a broad spectrum of clients using the same infrastructure to realize additional market potentials and achieve cost savings. The Group plans to rationalize product dominance

by combining its enterprise software and the ASP model under i21 for each product line. Details of the acquisition have been provided in the announcement dated 10th July, 2001. During the period, i21 had disposed of the entire system platform of iClaims21 to ehealthcareAsia (0835) (EHA).

Expansion of the Group's software development center in China has completed and the number of engineers will be increased to about 100 in total within the year. At the same time, the Group has taken measures to contain staff size and cost in Hong Kong and to strengthen the technical and industry know-how of the China staff. As more development work is shifted into China, the management anticipates further rationalization in operating cost.

FUTURE PROSPECTS

The business outlook of Hong Kong for the second half of the year remains uncertain. We anticipate the IT sector in Hong Kong would be moving slowly as attention is predominantly on further industry consolidation. New e-Commerce initiatives in this sector would be overshadowed by the need to re-engineer internal business process.

In contrast, the mainland China market would exhibit more activities as the domestic economy remains strong and the banking and financial sectors have keen interest in implementing new e-Commerce solutions. On the stock trading side, demand for centralized trading platform is seen to be emerging. The Group's software development team has embarked on localizing its InterTrade product for the mainland China market. Besides banking products, there are enquiries from certain local authorities for the launch of non-banking products in the mainland China for small and medium sized enterprises. The Group will set aside more resources for developing the mainland China market both via its joint ventures and further acquisition.

The ASP business has also witnessing encouraging results as the revenue from the two services, notably iStock21 and iHR21, continues to increase as registered users are transacting their businesses online via these ASP platforms. For the local market in Hong Kong, the ASP team will focus on service quality and acquiring new customers. The Group expects to set up overseas offices for the ASP business very soon toward the end of the year. The ASP operations, after the consolidation, will become an increasingly significant contributor to the overall profitability of the Group.

The Group strives to build a steady stream of recurring income to ease out cyclical effects of specific industry and project based earnings. We shall adopt two measures to achieve this result. One is by building a sustainable ASP operation in Asia. The second is to adopt a charging scheme on its software licenses based upon usage, number of users, period of use or any combination of these arrangements.

In view of the uncertainties in the IT sector for the rest of the year, the Group would concentrate on solidifying its positions in the overseas and the mainland China markets. It will implement a disciplined methodology for distributed software development by the various software centers in both Hong Kong and the mainland China. Skills transfer to the mainland China software center topped the list of regional expansion strategies. We also expect the local software center and the joint ventures in the mainland China to develop its own product roadmap with coordinated support from Hong Kong.

The Group will continue to invest in marketing efforts in the region to gain awareness of its core competence and product offerings. The management has resolved to concentrate development and marketing efforts on the products which would offer long term potential. This is a deliberate measure to better deploy resources. Notwithstanding a global drift in the interest of technology investment, our investment specialists have kept their eyes on making sensible approach in the conduct of acquisitions to accelerate growth.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 20th June, 2000 **Actual business progress from January to June 2001**

Key Business Initiatives

Further developing the ASP Business by launching other enterprise software as an ASP service

Focus was put on, in the past period, starting the iHR21 business in locations outside of Hong Kong.

A Letter of Intent was received from a major bank in Singapore to launch a local version of iHR21 to serve its banking customers in Singapore, and the final agreement is expected to be signed in the third quarter this year. The current version of iHR21 is being adapted to comply with Singapore HR practices and regulations. The localized version is scheduled for launch toward the end of this year by this local bank.

A similar iHR21 deal is being explored with a leading bank in Malaysia. Initial contacts were met with very positive reception.

iStock21 continues to contribute with more transaction being processed by the system. More brokers had signed up and are going through the standard preparatory procedure of connecting to AMS/3 of the Hong Kong Stock Exchange.

The sale of the iClaims21 business to ehealthcareAsia (0835) was completed together with other transaction between ehealthcareAsia, Excel and iBusiness.

Commencing the marketing of Insurance21 upon completion of the second phase development

Development of Insurance21 (renamed as “@surance”) has been completed by 70% and the first live implementation is scheduled to be November 2001. One license of @surance has already been sold to ehealthcareAsia (0835) and renamed as iPolicy21 under its branding. The Group is actively showing the product prototype to other insurance companies in Hong Kong.

Commencing the marketing of MBS upon completion of the first phase of development

As the user requirements are being refined, the first phase development of MBS is still in progress and will be extended into 2002. Marketing of MBS will be commenced upon completion of the first phase development.

Continuing the Group's geographical expansion, including through acquisitions

The Group had entered into a conditional agreement with Camelot Information System Inc., a well established IT company based in Beijing of China, to acquire 21.5% of the enlarged share capital of Camelot. Details of the transaction were announced on 7th August, 2001. It is in line with the overall business strategies of the Company to expand its business through acquisitions of and investments in companies which fits into the Group's strategies.

Sales and Marketing

Enlarging the sales force of the ASP Business to capture a larger share of the market

The sales force of i21 Hong Kong is now made up of an experienced team of five which remains unchanged from the end of Year 2000. i21 will leverage on business partners in its geographical expansion to enlarge its market share rather than building its own direct sales force. The likely approach would be a franchising model.

Recruiting local distributors and/or resellers of the Group's enterprise software in the PRC and other Asian countries

Hong Kong appointed a reseller in Malaysia to sell its HRMS enterprise software product in June 2001. A company in Malaysia has agreed to act as reseller for Excel's solutions. We are in the stage of contract negotiation with this Malaysian company. The same company will also represent i21 in Malaysia to distribute the ASP services. The Group is carefully considering the proposal.

Product and service development

Commencing the third phase of development (general insurance) of Insurance21

Phase II development had completed and customization and implementation support for our pilot user is targeted to complete for production live run by December 2001.

Completing the first phase development (covering loans, deposits etc.) of MBS

Phase I development is in the final stage and is expected to be completed in early 2002. Application architecture and initial infrastructure design has been completed. Product prototype was developed and shown to a couple of potential users. Feedback from the users was incorporated into the development.

Commencing and completing the second phase development of the iTreasury product

The second phase development of iTreasury has been commenced and completed.

Geographical expansion

Establishing the second PRC office (in Shenzhen or Beijing)

The second PRC office is established. We have agreed with the local partner of the Beijing joint venture, in which the Group holds 85% equity, to increase its registered capital and to expand the scope of business of the license to include a fuller range of service offering. The local partner will contribute to the additional registered capital in proportion to its shareholding. After the increase in registered capital and granting of shares to the management, the Group will hold 71% in this joint venture.

The joint venture in Shenzhen has received its business license by May. The joint venture employs about 20 staffs, including sales and software engineers. The Group has an effective interest of 66% in this joint venture.

The Group is in discussion with another major IT company in China with a view to establishing a close working relationship to co-develop the China market. The management is discussing with this company as to the structure of cooperation.

The software center in Shenzhen has completed the second phase expansion work. With the newly added space, the center can house up to 100 engineers.

Establishing the second Southeast Asia office in Malaysia

As there will be a reseller appointed for the Malaysia market and that this reseller has expressed the intention to form a joint venture with the Group eventually, the Group has decided to postpone the set up of an office in Malaysia pending discussion with this reseller.

Localization for some of the Group software solutions to adapt to the SE Asia markets was completed and skills transfer to the local sales and technical team is underway.

Use of Proceeds

The net proceeds from the public listing was about HK\$180 million. The proceeds had been applied in the following areas:—

January to June 2001	Estimated (HK\$mn)	Actual (HK\$mn)
Development of the ASP Business	10	9
Research & development cost	10	11
Geographical expansion	7	6
Setting up the e-Centre	4	—
Marketing and promotional Activities	2	1
Acquisitions and investments	—	—
Total	<u>33</u>	<u>27</u>

Use of proceeds is almost same as the estimation made in the Prospectus dated 20th June, 2000 except the setting up of e-Centre. Progress on the further development of this business initiatives have slowed down as the Group is still identifying a suitable Promotor which is the operator to manage and maintain the e-Centre and provide consultancy services to its participants in relation to store-front management. Not until such Promotor is identified, the Group will withhold expenses on this business initiatives. On the other hand, as more development effort was put in the software infrastructure, the actual research and development cost incurred for the six months ended 30th June, 2001 was HK\$11 million, which is HK\$1 million more than the estimation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th June, 2001, the interests of the Directors and chief executive in the share capital of the Company and its associated corporations (as defined under the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)), as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance were as follows:

I. Shares in the Company:

Name of Director	Number of shares held			
	Personal	Family	Corporate	Other
Zee Chan Mei Chu, Peggy	—	—	579,938,044*	—
Fung Din Chung, Rickie	24,559,498	—	—	—
Leung Lucy, Michele	—	—	24,559,498#	—
Ng Wai King, Steve	21,050,998	—	—	—
Ip Kim Kuen	1,403,400	—	—	—

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

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

II. Options to subscribe for shares in the Company:

Pursuant to the share option scheme for employees which was adopted on 16th June, 2000, the Directors may at their discretion grant options to full-time employees and executive directors of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the share option scheme. The maximum number of ordinary shares in respect of which options may be granted under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time.

On 1st September, 2000, options comprising a total of 59,531,000 underlying shares were granted to employees (including executive directors) of the Group at an exercise price of HK\$0.90 per share with the option period from 1st September, 2000 to 31st August, 2005 (both dates inclusive) (1st tranche of 20% from 1st March, 2001, 2nd tranche of 20% from 1st September, 2001, 3rd tranche of 15% from 1st March, 2002, 4th tranche of 15% from 1st September, 2002, 5th tranche of 15% from 1st March, 2003 and the remaining tranche of 15% from 1st September, 2003). The following are details of the option granted to directors:

Name of Directors	Number of Share Options
Fung Din Chung, Rickie	8,000,000
Leung Lucy, Michele	8,000,000
Ng Wai King, Steve	8,000,000
Ip Kim Kuen	8,000,000

Save as disclosed above and other than certain nominee shares in subsidiaries held by a director in trust for the Group, as at 30th June, 2001, none of the directors or chief executive or their respective spouses or children under 18 years of age had any right to subscribe for the shares of the Company or its associated corporations.

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

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2001, according to the register of substantial shareholders maintained pursuant to Section 16(1) of the SDI Ordinance and so far as is known to the Directors, Passion Investment (BVI) Limited had an interest of 579,938,044 Shares* in the Company and was the only shareholder who had an interest of 10% or more in the issued share capital of the Company.

* These shares have been disclosed as the corporate interest of the director in the Paragraph “Directors and chief executive’s interests in securities”.

Other than disclosed above, the Company has not been notified of any other interest representing 10% or more of the Company’s issued share capital as at 30th June, 2001.

SPONSOR’S INTERESTS

As notified by the Company’s retained sponsor, The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), five employees of corporate finance and advisory department of HSBC (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) who were involved in providing advice to the Company were interested in a total of 48,000 shares of HK\$0.10 each in the issued share capital of the Company as at 30th June, 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 71,969,151 shares and HK\$47,220,278 convertible notes in the Company held by a CKH subsidiary.

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

Save as the above, neither HSBC nor any of its directors or employees of corporate finance and advisory department or associates (as referred to in rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company including options or rights to subscribe for such securities as at 30th June, 2001.

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.

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

AUDIT COMMITTEE

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

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

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

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

Hong Kong, 13th August, 2001

This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the day of its posting and on the Company's website www.excel.com.hk.