

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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Exchange takes no responsibility for the contents of this 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 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 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 six months ended 30 June 2004, turnover amounted to HK\$61,961,000, representing a decrease of 36% when compared with the same period of 2003 due to a conscious effort in the reduction of the systems integration business.
- Loss from operations was HK\$8,125,000 for the first half of 2004.
- Loss attributable to shareholders was narrowed by 57% to HK\$6,097,000 for the six months ended 30 June 2004.
- Loss attributable to shareholders for the second quarter of 2004 was HK\$928,000, an improvement of 82% over the first quarter of 2004.
- Loss per share was 0.62 cents for the six months ended 30 June 2004.

INTERIM RESULTS ENDED 30 JUNE 2004

The Directors of the Company are pleased to present the condensed unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 June 2004) (“Condensed Financial Statements”), together with the comparative figures for the corresponding periods in 2003, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2004

| | NOTES | (Unaudited) Three months ended 30 June | | (Unaudited) Six months ended 30 June | |
|---------------------------------------|-------|--|------------------|--|------------------|
| | | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Turnover | 3 | 25,613 | 36,234 | 61,961 | 96,218 |
| Other operating income | | 398 | 221 | 844 | 906 |
| Cost of sales | | (9,259) | (14,891) | (27,759) | (56,117) |
| Staff costs | | (12,062) | (17,518) | (27,943) | (35,096) |
| Depreciation and amortisation | | (2,552) | (3,618) | (5,478) | (7,127) |
| Other operating expenses | | (5,047) | (5,957) | (9,750) | (13,007) |
| Loss from operations | 5 | (2,909) | (5,529) | (8,125) | (14,223) |
| Finance costs | | (87) | (96) | (136) | (278) |
| Share of results of associates | | 1,457 | 120 | 1,627 | 389 |
| Loss before taxation | | (1,539) | (5,505) | (6,634) | (14,112) |
| Taxation | 6 | (51) | 126 | (51) | 71 |
| Loss before minority interests | | (1,590) | (5,379) | (6,685) | (14,041) |
| Minority interests | | 662 | (835) | 588 | (273) |
| Net loss attributable to shareholders | | (928) | (6,214) | (6,097) | (14,314) |
| Loss per share — basic | 8 | (0.09) cents | (0.63) cents | (0.62) cents | (1.45) cents |

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2004

| | <i>NOTES</i> | (Unaudited) 30 June 2004 <i>HK\$'000</i> | (Audited) 31 December 2003 <i>HK\$'000</i> |
|---|--------------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 13,603 | 14,531 |
| Interests in associates | | 27,613 | 25,614 |
| Goodwill | | 5,850 | 6,398 |
| Development costs | 10 | 9,933 | 6,260 |
| Investments in securities | | 8,203 | 8,203 |
| | | <u>65,202</u> | <u>61,006</u> |
| Current assets | | | |
| Inventories — at cost | | 8,034 | 6,615 |
| Work in progress | | 11,198 | 7,085 |
| Trade receivables | 11 | 20,883 | 35,143 |
| Other receivables, deposits and prepayments | | 10,772 | 10,942 |
| Investments in securities | | 1,307 | 1,606 |
| Pledged bank deposits | 15 | 14,118 | 9,200 |
| Bank balances and cash | | 20,173 | 24,390 |
| | | <u>86,485</u> | <u>94,981</u> |
| Current liabilities | | | |
| Trade payables | 12 | 8,835 | 7,707 |
| Other payables and accrued charges | | 7,640 | 7,052 |
| Deferred income | | 6,614 | 9,310 |
| Government grants | | 75 | 470 |
| Bank loans | | 7,708 | 3,948 |
| | | <u>30,872</u> | <u>28,487</u> |
| Net current assets | | <u>55,613</u> | <u>66,494</u> |
| Total assets less current liabilities | | 120,815 | 127,500 |
| Minority interests | | 4,136 | 4,724 |
| Net assets | | <u>116,679</u> | <u>122,776</u> |
| Capital and reserves | | | |
| Share capital | 13 | 98,505 | 98,505 |
| Reserves | | 18,174 | 24,271 |
| Shareholders' funds | | <u>116,679</u> | <u>122,776</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*FOR THE SIX MONTHS ENDED 30 JUNE 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 period | — | — | (6,097) | (6,097) |
| At 30 June 2004 | <u>98,505</u> | <u>179,650</u> | <u>(161,476)</u> | <u>116,679</u> |
| At 1 January 2003 | 98,505 | 179,650 | (128,850) | 149,305 |
| Net loss for the period | — | — | (14,314) | (14,314) |
| At 30 June 2003 | <u>98,505</u> | <u>179,650</u> | <u>(143,164)</u> | <u>134,991</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

| | (Unaudited) | |
|--|-------------------------|-----------------|
| | Six months ended | |
| | 30 June | |
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash from operating activities | 5,025 | 12,709 |
| Net cash used in investing activities | (12,866) | (7,110) |
| Net cash from (used in) financing activities | 3,624 | (278) |
| | <hr/> | <hr/> |
| Net (decrease) increase in cash and cash equivalents | (4,217) | 5,321 |
| Cash and cash equivalents at beginning of the period | 24,390 | 24,514 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of the period, representing bank balances and cash | 20,173 | 29,835 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the valuation of certain investments in securities.

The accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31 December 2003.

3. TURNOVER

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

| | Three months ended | | Six months ended | |
|------------------------------|--------------------|---------------|------------------|---------------|
| | 30 June | | 30 June | |
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$’000 | HK\$’000 | HK\$’000 | HK\$’000 |
| Enterprise software products | 13,353 | 20,380 | 28,486 | 35,213 |
| Systems integration | 8,456 | 12,337 | 26,613 | 54,608 |
| Professional services | 2,551 | 2,126 | 4,388 | 3,860 |
| ASP services | 1,253 | 1,391 | 2,474 | 2,537 |
| | <u>25,613</u> | <u>36,234</u> | <u>61,961</u> | <u>96,218</u> |

4. SEGMENT INFORMATION

Geographical segments

Information relating to geographical segments based on the location of 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 businesses can be subdivided into Hong Kong, other regions in the People’s Republic of China (the “PRC”) and other markets.

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

| | Hong Kong | | PRC | | Others | | Consolidated | |
|---------------------------------------|------------------|-----------------|------------------|----------------|------------------|----------------|------------------|-----------------|
| | Six months ended | | Six months ended | | Six months ended | | Six months ended | |
| | 30 June | | 30 June | | 30 June | | 30 June | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | <u>40,983</u> | <u>40,110</u> | <u>19,209</u> | <u>54,631</u> | <u>1,769</u> | <u>1,477</u> | <u>61,961</u> | <u>96,218</u> |
| Segment result | (3,901) | (10,292) | (3,478) | (2,786) | (746) | (1,145) | (8,125) | (14,223) |
| Finance costs | — | (4) | (136) | (274) | — | — | (136) | (278) |
| Share of results of associates | — | — | <u>1,627</u> | <u>389</u> | — | — | <u>1,627</u> | <u>389</u> |
| Loss before taxation | (3,901) | (10,296) | (1,987) | (2,671) | (746) | (1,145) | (6,634) | (14,112) |
| Taxation | — | — | (51) | 71 | — | — | (51) | 71 |
| Loss before minority interests | (3,901) | (10,296) | (2,038) | (2,600) | (746) | (1,145) | (6,685) | (14,041) |
| Minority interests | — | — | <u>588</u> | <u>(273)</u> | — | — | <u>588</u> | <u>(273)</u> |
| Net loss attributable to shareholders | <u>(3,901)</u> | <u>(10,296)</u> | <u>(1,450)</u> | <u>(2,873)</u> | <u>(746)</u> | <u>(1,145)</u> | <u>(6,097)</u> | <u>(14,314)</u> |

Business segments

An analysis of the Group's turnover by business segments is as follows:

| | Six months ended 30 June | |
|------------------------------|--------------------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Enterprise software products | 28,486 | 35,213 |
| Systems integration | 26,613 | 54,608 |
| Professional services | 4,388 | 3,860 |
| ASP services | <u>2,474</u> | <u>2,537</u> |
| | <u>61,961</u> | <u>96,218</u> |

5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging (crediting):

| | Three months ended | | Six months ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | 30 June | | 30 June | |
| | 2004 | 2003 | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Depreciation and amortisation of property, plant and equipment | 1,265 | 2,207 | 2,599 | 4,345 |
| Amortisation of development costs | 1,013 | 1,137 | 2,331 | 2,234 |
| Amortisation of goodwill | 274 | 274 | 548 | 548 |
| Total depreciation and amortisation | 2,552 | 3,618 | 5,478 | 7,127 |
| Interest income | (39) | (37) | (75) | (89) |
| Dividend income from investments in securities | (24) | (53) | (24) | (53) |
| Unrealised loss (gain) on investments in securities | 182 | (105) | 299 | (531) |

6. TAXATION

| | Three months ended | | Six months ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | 30 June | | 30 June | |
| | 2004 | 2003 | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The charge (credit) comprises: | | | | |
| Taxation in other jurisdictions | | | | |
| Current year | — | — | — | — |
| Overprovision in prior years | — | (151) | — | (139) |
| Taxation attributable to the Company and its subsidiaries | — | (151) | — | (139) |
| Share of taxation attributable to associates | 51 | 25 | 51 | 68 |
| | 51 | (126) | 51 | (71) |

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profit for the respective periods.

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

The Group has not recognised any deferred tax assets arising from unused tax losses as it is not probable that they can be utilised in the future.

7. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: nil).

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

| | Three months ended 30 June | | Six months ended 30 June | |
|---|-------------------------------|----------------------|-----------------------------|-----------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net loss attributable to shareholders | <u>HK\$928,000</u> | <u>HK\$6,214,000</u> | <u>HK\$6,097,000</u> | <u>HK\$14,314,000</u> |
| Number of shares for the purposes of calculating basic loss per share | <u>985,050,000</u> | <u>985,050,000</u> | <u>985,050,000</u> | <u>985,050,000</u> |

No diluted loss per share for the respective periods has been presented as the exercise price of the options was higher than the average market price per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2004, the Group spent HK\$1,671,000 (six months ended 30 June 2003: HK\$424,000) on acquisition of property, plant and equipment.

10. DEVELOPMENT COSTS

During the six months ended 30 June 2004, the Group incurred development costs of HK\$6,004,000 (six months ended 30 June 2003: HK\$3,183,000).

11. TRADE RECEIVABLES

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.

The following is an aged analysis of the Group's trade receivables at the reporting date:

| | 30 June 2004 HK\$'000 | 31 December 2003 HK\$'000 |
|--|-----------------------------|---------------------------------|
| Current | 9,220 | 26,654 |
| Overdue for 1 to 3 months | 5,245 | 3,893 |
| Overdue more than 3 months but less than 12 months | <u>6,418</u> | <u>4,596</u> |
| | <u>20,883</u> | <u>35,143</u> |

12. TRADE PAYABLES

The following is an aged analysis of the Group's trade payables at the reporting date:

| | 30 June 2004 HK\$'000 | 31 December 2003 HK\$'000 |
|---------------------------------|--------------------------------------|---------------------------------|
| Due within 1 month or on demand | <u>8,835</u> | <u>7,707</u> |

13. SHARE CAPITAL

| | 30 June 2004 & 31 December 2003 | |
|-------------------------|--|----------------------------|
| | Number of shares | Amount HK\$'000 |
| Authorised: | | |
| Shares of HK\$0.10 each | <u>5,000,000,000</u> | <u>500,000</u> |
| Issued and fully paid: | | |
| Shares of HK\$0.10 each | <u>985,050,000</u> | <u>98,505</u> |

14. CONTINGENT LIABILITIES

At 30 June 2004, the Company has given corporate guarantees of HK\$21,450,000 (31 December 2003: HK\$21,450,000) to suppliers to secure the credit facilities granted to its subsidiaries. At 30 June 2004, the amount of facilities utilised by the subsidiaries amounted to HK\$3,468,000 (31 December 2003: HK\$2,638,000).

At 31 December 2003, the Company had also given a guarantee to a customer in respect of the quality of services provided by a subsidiary to the extent of HK\$8,500,000 (30 June 2004: nil).

15. PLEDGE OF ASSETS

At 30 June 2004, bank deposits of HK\$14,118,000 (31 December 2003: HK\$9,200,000) were pledged to a bank and a financial institution to secure the credit facilities granted to the Group.

16. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

| | Six months ended 30 June | |
|--|--------------------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Sales of hardware to a minority shareholder of a subsidiary | 1,653 | — |
| Sales of enterprise software to a minority shareholder of a subsidiary | 517 | — |
| Management fee and service income from a related company | 120 | 90 |
| Design fee paid to a related company | 120 | 96 |
| Purchases of hardware from a minority shareholder of a subsidiary | — | 14,866 |
| Rental income from a related company | — | 192 |

Ms. Zee Chan Mei Chu, Peggy, a director of the Company, has beneficial interests in the related company.

The sales and purchase transactions were carried out at market price.

The rental income was calculated based on the percentage of floor space occupied by the related company at market rate.

The management fee and service income is calculated with reference to the estimated staff costs and overheads incurred by the Group.

The design fee is calculated based on agreements entered into between the related company and the Group on 1 June 2003 and 27 December 2003.

CHAIRMAN'S STATEMENT

I am delighted to report that, despite a slower than expected recovery in the technology sector, we are moving in the right direction by further reducing our loss to HK\$6.09 million for the six-month period ending 30 June 2004. This compares favorably with the HK\$14.31 million loss in the same period of last year, and with the HK\$5.17 million loss in first quarter of 2004.

While we were working towards regaining our profitability earlier this year, we came across a number of business opportunities which require some upfront investments. Weighing in the long term strategic values of these business opportunities, we have decided to put in the investments, which were mainly staff costs spent in research and development prior to contract. We believe these investments will give us a good start towards building longer term financial returns to the Group.

While we are investing in the future, we have not lost sight of the cost controls and measures we had put in place to restore the profitability of the Group. This is reflected in the reduction in loss despite a significantly lower turnover of HK\$61.96 million in the first 6 months of 2004, comparing to HK\$96.21 million in the same six-month period of 2003. These controls and measures effectively lowered our operating costs by a significant amount.

In Hong Kong, the Closer Economic Partnership Agreement (“CEPA”) with China has yet to demonstrate positive effect on the IT industry as well as the banking and securities industry, of which most of our customers belong to. This translates into only a 2% growth of business for Hong Kong comparing to 2003. We anticipate the economic outlook in Hong Kong will not impose any drastic difference on our business outlook in the coming months of 2004.

Many of our new business opportunities come from China. Apart from the ASP potential we are actively pursuing, our enterprise software business there is showing healthy growth. Our retail lending package (LOANS), wealth management package (WMS) and our treasury package (REAPS, formerly MBS) have made their ways into the final selection lists of many local banks in China. We are quite confident that some of these potentials will turn into signed contracts in the second half of 2004.

In addition to the positive development in China, our regional footprint in Southeast Asia has been more secured by landing a major contract using our wealth management software — the WMS — with a leading bank in Malaysia. This deal highly raised our profile in the banking community there as well as in other Association of South East Asian Nations (ASEAN) countries, and since then we have received many inquiries from the banks in that region.

Trying to find a balance between investing for the future and restoring profitability, we have been very selective in taking up new projects which require investment, large and small. While we put much attention into China, we still manage to maintaining, and slightly growing, our business portfolio in Hong Kong and in the Southeast Asia countries. We believe that this regional platform will make us less susceptible to the economic impact of a particular country and will also provide us a stronger foundation of sustainable growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six-month period ended 30 June 2004, the Group recorded a turnover of HK\$61,961,000, representing a decrease of 36% compared with HK\$96,218,000 in the same period of last year. Loss attributable to shareholders in the first half of 2004 was HK\$6,097,000, 57% lower than the Group’s attributable loss of HK\$14,314,000 for the same period in 2003, a significant improvement of HK\$8,217,000.

The major factor of the turnover drop was the reduction of the systems integration business, which dropped by 51% to HK\$26,613,000 (2003: HK\$54,608,000). This was due to a conscious effort in controlling the computer hardware inventory required to support this business in China.

Enterprise software product also decreased by 19% in turnover to HK\$28,486,000 (2003: HK\$35,213,000). The delays in getting contract signed with customers have pushed some income in this category into the next quarter.

Professional service grew by 13%, which was largely attributed to the growth of the IT outsourcing business, to HK\$4,388,000 (2003: HK\$3,860,000). The ASP business in Hong Kong remained relatively small and stable.

Operation Review

Total operating expenses for the first six months decreased by 22% from HK\$48,103,000 to HK\$37,693,000 when compared with the same period of last year. This reduction was largely attributed to the saving of two major expense items: staff costs and rental expenses. Overall staff costs were reduced significantly, mainly from Hong Kong as result of shifting more software development work to our software center in Shenzhen, China. Rental expenses dropped by 60%, also from Hong Kong as we have relocated our headquarter office out of the Central business district of Hong Kong.

The loss from operations for the period is HK\$8,125,000, down from HK\$14,223,000 or 43% in the same period of last year. Adding the effect of share of excellent results of associated companies, finance cost and minority interests in the joint venture companies, the loss attributable to shareholder for the six-month ended 30 June 2004 was significantly reduced by 57% to HK\$6,097,000 (period ended 30 June 2003: Loss of HK\$14,314,000).

Liquidity and Financial Resources

As of 30 June 2004, the Group had cash and cash equivalents amounted to HK\$20,173,000, plus pledged deposit of HK\$14,118,000.

The Group has maintained a bank borrowing of HK\$7,708,000 for funding the working capital needs of the operations in Mainland China.

Trade receivables and bills receivable were significantly reduced to HK\$20,883,000 (31 December 2003: HK\$35,143,000).

As of 30 June 2004, the gearing ratio of the Group was 6.6% (31 December 2003: 3.2%) on the basis of bank borrowing divided by shareholders' fund.

Capital Structure

As at 30 June 2004, the Group's outstanding issued shares were 985,050,000. There has not been any change to the capital structure of the Company during the reporting period.

Significant Investments

During the period, the Group had not performed any significant investment or acquisition.

Segmental Performances

Excel Hong Kong recorded a slight increase of 2% in turnover to HK\$40,983,000 (2003: HK\$40,110,000) with attributable loss of HK\$3,901,000. (2003: Loss of HK\$10,296,000)

Excel China recorded a drop of 65% in turnover to HK\$19,209,000 (2003: HK\$54,631,000), mainly due to a conscious effort to tighten the control of the computer hardware inventory in supporting the systems integration business and directly more effort in enterprise software sales and professional services. The attributable loss was HK\$1,450,000, improved from the loss of HK\$2,873,000 for the same period of last year.

Excel Singapore achieved satisfactory growth of 20% in turnover to HK\$1,769,000 (2003: HK\$1,477,000). This includes receiving a new contract to provide our wealth management software and related services in both Singapore and Malaysia with a leading bank in Malaysia. The attributable loss was reduced to HK\$746,000 from HK\$1,145,000 compared with the same period of last year.

Employees

As of 30 June 2004, the Group has a total of 359 employees, with an allocation of 41%, 57% and 2% in Hong Kong, China and Singapore respectively. This represents a slight increase of 11 employees in the past six months, mainly in China.

Exposure to Foreign Exchange Risk

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

Outlook for the Second Half of 2004

The management team is cautiously optimistic for the second half of 2004. Restoring profitability while maintaining growth and investing in the future is still a strong target for us to achieve.

Enterprise software and systems integration business in Hong Kong will be steady, but the IT outsourcing business will be growing fast. The business model is, using Hong Kong as a “window”, to offer computer programming service to Hong Kong and multi-national companies using resources from both our Hong Kong and China software centers. Our presence in both sides of the China/Hong Kong border gives us the advantage of having both project management skills and technical capacity at an attractive price to these companies. Negotiation has been underway with a number of potential customers in this area.

On the China front, our enterprise software has been gaining acceptance by the local banking community there. Our loans management system (LOANS) will continue to be our flagship product there, while our treasury system (REAPS) is likely to land its first contract in China in the next few months with contract negotiation already underway. Our other enterprise software, such as the wealth management system (WMS), will also find a more receptive market there.

The third leg of our geography focus is Southeast Asia, anchoring from Singapore. Following the signing of a wealth management software contract in Malaysia, we have received many inquiries about our enterprise software from banks in the region. There is a general desire to upgrade the technology used in the banks, and coupled with the overall improvement of economic situation in many of these Southeast Asia countries, we believe the potentials for our enterprise software in this geography could be significant for the years to come.

Overall, the management team is positive about the coming period. With careful and cautious execution of our plans and strategies, we believe the Group is on the right and steady track of restoring profitability.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

At 30 June 2004, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

Long positions

(a) Ordinary shares of HK\$0.10 each of the Company

| Name of director | Number of ordinary shares held | | |
|-------------------------|--------------------------------|----------------|--------------------------------|
| | Beneficial owner | Held by family | Held by controlled corporation |
| Zee Chan Mei Chu, Peggy | 1,580,000 | — | 563,679,197 (note 1) |
| Fung Din Chung, Rickie | 24,559,498 | — | — |
| Leung Lucy, Michele | — | — | 24,559,498 (note 2) |
| Wen Pei Sung | 2,328,847 | — | — |
| Wong Mee Chun | 40,000 | 382,000 | — |

Notes:

- (1) 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.
- (2) These shares were held by Mossell Green Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Leung Lucy, Michele.

(b) Share options

Details of the share options granted to and held by the directors under the Company's share option scheme adopted on 16 June 2000 and amended on 18 April 2001 (the "Old Scheme") are as follows:

| Name of director | Date of grant | Exercise price HK\$ | Number of options held | Number of underlying shares |
|------------------------|---------------------------|------------------------|------------------------|-----------------------------|
| Fung Din Chung, Rickie | 1 September 2000 (note 1) | 0.90 | 8,000,000 | 8,000,000 |
| Leung Lucy, Michele | 1 September 2000 (note 1) | 0.90 | 8,000,000 | 8,000,000 |
| Wen Pei Sung | 11 October 2001 (note 2) | 0.70 | 2,000,000 | 2,000,000 |

Notes:

- (1) The option period is 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).

- (2) The option period is from 11 October 2001 to 10 October 2006 (both dates inclusive) (vesting period with 1st tranche of 20% from 11 April 2002, 2nd tranche of 20% from 11 October 2002, 3rd tranche of 15% from 11 April 2003, 4th tranche of 15% from 11 October 2003, 5th tranche of 15% from 11 April 2004 and the remaining tranche of 15% from 11 October 2004).

Save as disclosed above and other than certain nominee shares in subsidiaries held by a director in trust for the Company or its subsidiaries, at 30 June 2004, none of the directors or chief executive or any of their spouses or children under the age of 18 had any right to subscribe for the shares of the Company, or had exercised any such right.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2004.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Long position in the ordinary shares of HK\$0.10 each of the Company

| Name of shareholders | No. of issued ordinary shares held | Percentage of the issued share capital of the Company |
|--|---|--|
| Zee Chan Mei Chu, Peggy (<i>Note 1</i>) | 565,259,197 | 57.38% |
| Passion Investment (BVI) Limited (<i>Note 1</i>) | 563,679,197 | 57.22% |
| Cheung Kong (Holdings) Limited (<i>Note 2</i>) | 143,233,151 | 14.54% |
| Li Ka-Shing Unity Trustee Company Limited (<i>Note 2</i>) (as trustee of The Li Ka-Shing Unity Trust) | 143,233,151 | 14.54% |
| Li Ka-Shing Unity Trustcorp Limited (<i>Note 2</i>) (as trustee of another discretionary trust) | 143,233,151 | 14.54% |
| Li Ka-Shing Unity Trustee Corporation Limited (<i>Note 2</i>) (as trustee of The Li Ka-Shing Unity Discretionary Trust) | 143,233,151 | 14.54% |
| Li Ka-shing (<i>Note 2</i>) | 143,233,151 | 14.54% |
| Alps Mountain Agent Limited (<i>Note 2</i>) | 71,969,151 | 7.31% |
| iBusiness Corporation Limited (<i>Note 2</i>) | 67,264,000 | 6.83% |

Notes:

1. These shares have been disclosed as the corporate interest of the director in the paragraph “Directors’ and chief executive’s interests and short positions in securities”.
2. Mr. Li Ka-shing is the settlor of each of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and another discretionary trust (“DT2”). Each of Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”, which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”, which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust (“UT1”) but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT1 and DT2 are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children and Mr. Li Tzar Kai, Richard. Li Ka-Shing Unity Trustee Company Limited (“TUT1”) as trustee of UT1 together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited (“CKH”). CKH is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Alps Mountain Agent Limited (“Alps”) and iBusiness Corporation Limited (“iBusiness”).

The entire issued share capital of each of TUT1, TDT1 and TDT2 are owned by Li Ka-Shing Unity Holdings Limited (“Unity Holdco”). Each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1, TDT2 and CKH is deemed to be interested in the 143,233,151 shares of the Company of which 71,969,151 shares are held by Alps and 67,264,000 shares are held by iBusiness.

Save as disclosed above, the Company has not been notified of any other interests and short positions in the issued share capital of the Company at 30 June 2004.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 June 2004, the Company was compliance with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

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

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

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

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, 9 August 2004

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.