

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)

**RESULTS ANNOUNCEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

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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

- Turnover increased by about 12% over the previous year to approximately HK\$193,398,000.
- China originated business increased by about 285% to HK\$94,803,000 (2001: HK\$24,629,000), which is 49% of the total turnover.
- Maintenance service income, which is recurring revenue on Excel enterprise software products, increased by 53% to HK\$9,362,000.
- The Group incurred a loss from operations of about HK\$53,437,000.
- Loss attributable to shareholders is narrowed by 19% to about HK\$68,821,000.
- Loss per share is 6.99 cents.

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 2002, together with the comparative figures for the corresponding period in 2001, as follows:

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	2	193,398	173,111
Cost of computer hardware and software		<u>(111,251)</u>	<u>(72,058)</u>
		82,147	101,053
Other revenue	3	1,477	9,606
Other net loss	3	(1,427)	(354)
Staff costs		(83,674)	(84,794)
Depreciation		(9,609)	(6,580)
Other operating expenses		<u>(33,854)</u>	<u>(27,913)</u>
Loss from operations before amortisation		(44,940)	(8,982)
Amortisation of goodwill		(2,029)	(2,173)
Amortisation of development costs		<u>(6,468)</u>	<u>(4,299)</u>
Loss from operations		(53,437)	(15,454)
Finance costs	4	(3,239)	(5,949)
Impairment loss on fixed assets	5	(900)	(3,123)
Impairment loss on development costs	6	(2,579)	—
Impairment loss on goodwill	7	(10,000)	(30,000)
Impairment loss on investments		—	(25,462)
Loss on convertible notes		—	(3,525)
Share of profits less losses of associates		<u>1,236</u>	<u>(2,003)</u>
Loss from ordinary activities before taxation		(68,919)	(85,516)
Taxation	8	<u>(565)</u>	<u>(284)</u>
Loss after taxation		(69,484)	(85,800)
Minority interests		<u>663</u>	<u>1,024</u>
Loss attributable to shareholders		<u>(68,821)</u>	<u>(84,776)</u>
Loss per share			
Basic	9	<u>(6.99 cents)</u>	<u>(8.42 cents)</u>
Diluted	9	<u>(6.99 cents)</u>	<u>(8.42 cents)</u>
Loss for the year is attributable as follows:			
The company and its subsidiaries		(69,604)	(82,620)
The associates		<u>783</u>	<u>(2,156)</u>
		<u>(68,821)</u>	<u>(84,776)</u>

Notes:

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 Society of Accountants, 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 Turnover

The principal activities of the Group are the development, sales and implementation of enterprise software.

Turnover represents income from complementary computer hardware and software sales and IT services (including the ASP business) rendered to customers during the year, net of returns and discounts allowed, after eliminating intra-group transactions. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<i>Principal activities</i>		
Sale of enterprise software products and custom development	40,282	68,521
Complementary hardware and software resale	122,237	78,263
Consulting and systems integration services	15,817	19,065
Maintenance services	9,362	6,135
Revenue from ASP business	5,700	1,127
	<u>193,398</u>	<u>173,111</u>

3 Other revenue and other net loss

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(a) Other revenue		
Interest income from bank deposits	338	1,145
Interest income from deposits placed with other financial institutions	154	7,077
Interest income from convertible notes	—	189
Management fee income and services charges from a related company	464	424
Sundry income	521	771
	<u>1,477</u>	<u>9,606</u>

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(b) Other net loss		
Loss on partial disposal of interest in subsidiaries	(584)	—
Realised gain/(loss) on current investments	583	(270)
Realised loss on other financial assets	(1,159)	—
Unrealised loss on trading securities	(764)	(108)
Gain on disposal of fixed assets	497	24
	<u>(1,427)</u>	<u>(354)</u>

4 Finance costs

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans, overdrafts, and other borrowings repayable within five years	301	16
Finance costs on convertible notes	2,938	5,933
	<u>3,239</u>	<u>5,949</u>

5 Impairment loss on fixed assets

At 31 December 2002, the directors of the Company considered that there is an impairment in the value of certain land & buildings having considered their recoverable amounts which were based on net selling price. An impairment loss of HK\$900,000 (2001: HK\$3,123,000) was recorded at 31 December 2002.

6 Impairment loss on development costs

At 31 December 2002, the directors of the Company considered that there is an impairment in the value of the development costs, having considered the market demands of the software products in the foreseeable future. Based on this assessment, the carrying amount of the development costs was written down by HK\$2,579,000 (2001: HK\$Nil). The estimates of the recoverable amounts were based on the estimated future discounted cashflows at a discount rate of 9% applied to the software products.

7 Impairment loss on goodwill

At 31 December 2002, the directors of the Company considered that there is an impairment in the value of the goodwill which arose on the acquisition of i21 Limited (“i21”), having considered the market demands and financial viability of the application service provider business in the foreseeable future. Based on this assessment, the carrying amount of the goodwill was written down by HK\$10,000,000 (2001: HK\$30,000,000). The estimate of the recoverable amount was based on the estimated future discounted cashflows at a discount rate of 9% (2001: 9%) applied to the business of i21.

8 Taxation

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Under provision in respect of prior years	—	71
Overseas taxation	<u>112</u>	<u>60</u>
	112	131
Share of an associate's taxation	<u>453</u>	<u>153</u>
	<u>565</u>	<u>284</u>

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong Profits Tax has been made in the financial statements of the Group and the Company as the Group and the Company incurred taxable losses during the years ended 31 December 2002 and 2001.

9 Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$68,821,000 (2001: loss of HK\$84,776,000) and the weighted average of 985,050,000 shares (2001: 1,007,435,135).

Diluted loss per share for the years ended 31 December 2002 and 2001 is the same as the basic loss per share because there was no dilutive effect in existence during the respective years.

10 Movements in reserves of the Group for the years ended 31 December 2002 and 2001 are as follows:

	Share premium <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	185,475	24,747	210,222
Share premium arising from			
— (1) Acquisition of a subsidiary	40,359	—	40,359
— (2) Acquisition of an associate	1,622	—	1,622
Purchase of own shares	(47,806)	—	(47,806)
Loss for the year	<u>—</u>	<u>(84,776)</u>	<u>(84,776)</u>
At 31 December 2001	<u>179,650</u>	<u>(60,029)</u>	<u>119,621</u>
At 1 January 2002	179,650	(60,029)	119,621
Loss for the year	<u>—</u>	<u>(68,821)</u>	<u>(68,821)</u>
At 31 December 2002	<u>179,650</u>	<u>(128,850)</u>	<u>50,800</u>

At 31 December 2002, there are no reserves available for distribution to shareholders of the Company (2001: HK\$Nil).

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

Included in the figure for accumulated losses of the Group is an amount of HK\$1,373,000 (2001: HK\$2,156,000), being the net loss attributable to the associates.

11 Segment reporting

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of the provision of development of computer software, systems integration and maintenance and related services rendered to customers is chosen as the reporting format because this is considered by management to be more relevant to the Group in making operating and financial decisions.

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

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

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

(b) Business segments

The Group comprises the following main business segments:

(i) Enterprise software development and distribution

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

(ii) IT consulting and e-business solution

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

(iii) ASP services

The services performed in respect of the ASP business.

(c) Geographical segments

	Year ended 31 December									
	Hong Kong		PRC		Other		Inter-segment elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
By location of assets										
Turnover	<u>97,417</u>	<u>169,317</u>	<u>94,803</u>	<u>3,408</u>	<u>1,178</u>	<u>386</u>	<u>—</u>	<u>—</u>	<u>193,398</u>	<u>173,111</u>
Segment result	<u>(43,088)</u>	<u>(6,549)</u>	<u>(6,888)</u>	<u>(6,153)</u>	<u>(3,461)</u>	<u>(2,752)</u>	<u>—</u>	<u>—</u>	<u>(53,437)</u>	<u>(15,454)</u>
Finance costs	(2,938)	(5,935)	(301)	(14)	—	—	—	—	(3,239)	(5,949)
Impairment loss on fixed assets	(900)	(3,123)	—	—	—	—	—	—	(900)	(3,123)
Impairment loss on development costs	(2,579)	—	—	—	—	—	—	—	(2,579)	—
Impairment loss on goodwill	(10,000)	(30,000)	—	—	—	—	—	—	(10,000)	(30,000)
Impairment loss on investments	—	(25,462)	—	—	—	—	—	—	—	(25,462)
Loss on convertible notes	—	(3,525)	—	—	—	—	—	—	—	(3,525)
Share of profits less losses of associates	(568)	(2,474)	1,804	471	—	—	—	—	1,236	(2,003)
Loss before taxation	(60,073)	(77,068)	(5,385)	(5,696)	(3,461)	(2,752)	—	—	(68,919)	(85,516)
Taxation	—	(70)	(565)	(213)	—	(1)	—	—	(565)	(284)
Loss after taxation	(60,073)	(77,138)	(5,950)	(5,909)	(3,461)	(2,753)	—	—	(69,484)	(85,800)
Minority interests	—	(171)	663	1,195	—	—	—	—	663	1,024
Loss attributable to shareholders	<u>(60,073)</u>	<u>(77,309)</u>	<u>(5,287)</u>	<u>(4,714)</u>	<u>(3,461)</u>	<u>(2,753)</u>	<u>—</u>	<u>—</u>	<u>(68,821)</u>	<u>(84,776)</u>
Depreciation and amortisation	<u>(17,029)</u>	<u>(12,836)</u>	<u>(895)</u>	<u>(90)</u>	<u>(182)</u>	<u>(126)</u>	<u>—</u>	<u>—</u>	<u>(18,106)</u>	<u>(13,052)</u>
Capital expenditure incurred during the year	<u>431</u>	<u>3,116</u>	<u>2,239</u>	<u>1,959</u>	<u>293</u>	<u>293</u>	<u>—</u>	<u>—</u>	<u>2,963</u>	<u>5,368</u>
Segment assets #	190,267	291,727	41,533	5,478	356	2,163	(39,390)	—	192,766	299,368
Interest in associates	7,750	8,318	16,700	13,669	—	—	—	—	24,450	21,987
Total assets	<u>198,017</u>	<u>300,045</u>	<u>58,233</u>	<u>19,147</u>	<u>356</u>	<u>2,163</u>	<u>(39,390)</u>	<u>—</u>	<u>217,216</u>	<u>321,355</u>

Year ended 31 December

	Hong Kong		PRC		Other		Inter-segment elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment liabilities #	<u>(45,039)</u>	<u>(96,943)</u>	<u>(54,068)</u>	<u>(4,828)</u>	<u>(5,003)</u>	<u>(3,452)</u>	<u>39,390</u>	<u>3,232</u>	<u>(64,720)</u>	<u>(101,991)</u>
Total liabilities	<u>(45,039)</u>	<u>(96,943)</u>	<u>(54,068)</u>	<u>(4,828)</u>	<u>(5,003)</u>	<u>(3,452)</u>	<u>39,390</u>	<u>3,232</u>	<u>(64,720)</u>	<u>(101,991)</u>
Minority interests									<u>(3,191)</u>	<u>(1,238)</u>

**Additional information
concerning
geographical
segments:**

Revenue from external customers by the location of customers	<u>95,749</u>	<u>148,096</u>	<u>94,803</u>	<u>24,629</u>	<u>2,846</u>	<u>386</u>	<u>—</u>	<u>—</u>	<u>193,398</u>	<u>173,111</u>
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Segment assets and liabilities are before elimination of inter-segment balances.

* Inter-segment elimination of HK\$39,390,000 represents inter-segment current accounts at 31 December 2002 (2001: HK\$3,232,000).

(d) Business segments

	Enterprise Software									
	Development and Distribution		IT Consulting and e-Business Solution		ASP Services		Unallocated Assets		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	171,881	152,919	15,817	19,065	5,700	1,127	—	—	193,398	173,111
Segment assets	125,162	170,357	31,519	36,524	6,271	7,392	# 54,264	# 107,082	217,216	321,355
Capital expenditure incurred during the year	2,248	5,368	356	—	359	—	—	—	2,963	5,368

Unallocated assets of HK\$54,264,000 (2001: HK\$107,082,000) mainly comprise of other financial assets, current investments and cash and cash equivalents.

FINAL DIVIDEND

The Directors have resolved not to recommend the payment of a final dividend by the Company for the financial year ended 31 December 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

During the year ended 31 December 2002, the Group achieved a growth of 12% in its turnover. Total turnover for 2002 was HK\$193,398,000 (2001: HK\$173,111,000). Loss from operations amounted to HK\$53,437,000 (2001: HK\$15,454,000). The Group reduced its loss attributable to shareholders to HK\$68,821,000 (2001: HK\$84,776,000).

The growth in turnover was mainly attributable to the Group's strategic expansion into the China market which resulted in a healthy growth in the sale of enterprise software products and computer hardware products. In 2002, businesses originated from China substantially increased to HK\$94,803,000 (2001: HK\$24,629,000). Turnover originated from China constituted 49% of the total turnover (2001: 14%).

Maintenance service income in 2002 increased steadily at a growth of 53% to HK\$9,362,000 (2001: HK\$6,135,000). Revenue derived from the ASP services, mainly iStock21, iHR21 and systems hosting, increased by 406% to HK\$5,700,000 (2001: HK\$1,127,000).

The loss from operation to HK\$53,437,000 was mainly attributable the following factors:—

- reduction in gross profit margin due to the decrease in the sale of Excel enterprise software products and computer hardware in Hong Kong;
- increase in the operating expenses due to additional investment in product localization, development of new infrastructure technology and geographical expansion in the mainland China and Singapore; and
- decrease in the interest income.

Operations

Conscious efforts were put in the restructure of non-profitable business units and staff costs. Albeit Hong Kong staff cost decreased by 13%, the overall staff cost decreased slightly by 1% due to growth in China and a transitional period in transferring skills from Hong Kong to China. Staff cost constituted 66% of the Group's total operating expenses (2001: 71%).

Total operating expenses of the Group in 2002 increased by 7% to HK\$127,137,000 (2001: HK\$119,287,000). While the expenses in Hong Kong and Singapore had been reduced, China recorded a substantial increase to meet business growth. The management expects the level of operating expenses to stabilize in 2003.

The Group had made provisions of impairment losses on fixed assets, development cost, goodwill and value of the shares of a listed company for a total amount of HK\$13,479,000 (2001: HK\$58,585,000). These provisions are expected to be one-off and non-recurring.

As a result, the Group recorded a loss attributable to shareholders of HK\$68,821,000 (2001: HK\$84,776,000). The loss was narrowed by 19% as compared with that of 2001.

Liquidity and Financial Resources

As at 31 December 2002, the Group held cash and cash equivalents of HK\$24,514,000 (2001: HK\$65,937,000). The decrease was largely due to repayment of the Group's convertible notes of HK\$56,088,000 and the increase in trade and bills receivables to HK\$49,896,000 and HK\$19,520,000 respectively, as several large transactions were concluded in December 2002 (2001: HK\$12,483,000 and HK\$nil respectively).

Decrease in the current investments is mainly due to the Group's disposal of its investments in a money market fund of HK\$63,601,000. The realized proceeds had been applied for working capital use and various capital budget items including the acquisitions of Excel Shanghai and Excel Force.

As at 31 December 2002, the computer hardware inventory level was reduced to HK\$23,090,000 (2001: HK\$39,245,000).

As of 31 December 2002, the Group had an outstanding capital commitment to a private equity investment fund for US\$500,000. Total capital commitment related to this fund amounted to US\$1,000,000 and US\$500,000 of which has been injected to this fund as of 31 December 2002. The investment is carried at cost as at 31 December 2002.

Camelot Information Systems Inc. (a 21.5% associate) recorded another good year of turnover increase. It is expanding into the manufacturing and pharmaceuticals sectors and is engaged in e-Government projects in the mainland China.

As of 31 December 2002, the gearing ratio of the Group was 3.9% (2001: 0.4%) on the basis of bank borrowing dividend by shareholders' funds.

Management and control of the Group's financing and treasury activities were centralized at the corporate level.

Capital Structure

As at 31 December 2002, the Group's outstanding issued shares were 985,050,000, which was the same as last year.

New Products/Services

During the year, the Group continued to develop the Wealth Management System (WMS) and Modular Banking System (MBS). WMS was sold to and went live with a major state-owned bank in China and is expected to be a major product for Hong Kong and Singapore in 2003. MBS is expected to go live and with new prospects in 2003.

Localization of InterTrade China (the centralized securities trading system) and Loans China (the loans origination and processing) is largely completed and implementations were scheduled to be carried out in client sites in early and mid 2003.

The Group signed contracts with two major local banks to launch the new EZPay service, which is a payroll service running on Excel's ASP platform, for the banks' corporate clients. Thousands of new clients will be acquired for the EZPay service which has just been launched in February 2003. At the same time, the iHR21 service in Hong Kong has been renamed as EZPay Online. All these new and existing EZPay clients will form a good customer base for cross-sell and will constitute a base of recurring revenue for the Group.

Significant Investments/Acquisitions and Performances

The Group entered into an agreement in June 2002 with Xinyi Technology Group Limited to acquire 40% interest in Excel Force Limited. Excel Force Limited indirectly holds a 100% subsidiary, 浩天信息科技(深圳)有限公司 (“Haotian”). Incorporated in China as a wholly owned foreign enterprise (“WOFE”), Haotian is engaged in developing and providing a web-based application software for the electronic submission of customs declaration in the PRC on an ASP basis.

In November 2002, the Group entered into an agreement to acquire 100% interest in 安利科技(上海)有限公司 (“Excel Technology (Shanghai) Co., Ltd.”) from its Singapore holding company. The Company and its business scope will be expanded from logistics and ERP developer to distributing and supporting the Group’s banking and financial enterprise software products.

Segmental Performances

Hong Kong’s turnover (included sale of enterprise software products, provision for customization, consulting & systems integration services, complementary computer hardware and software resale and maintenance services and ASP services) was HK\$95,749,000.

The China operations (included the two equity joint ventures in Shenzhen and Beijing) recorded a total turnover of HK\$94,803,000.

Singapore recorded a turnover of HK\$2,846,000.

Employees

As of 31 December 2002, the number of employees in Hong Kong was reduced to 201 (2001: 257), whereas the size of the PRC employees grew to 183 (2001: 103). Singapore’s staff size registered a slight increase. Overall, the Group recorded a net increase in the staff strength but with the decrease in Hong Kong as the strength has been largely shifted to China.

Exposure to Foreign Exchange Risk

The Group received renminbi income from sales in China. The renminbi income was fully applied to working capital needs of the China operations.

Prospects in 2003

Most of our regional expansion and product localisation were in place.

Although the Group had sustained an operating loss in 2002, our China operation experienced high growth. We remain optimistic of the China performance in 2003 and expect further growth in the sale of Excel enterprise software products. With a new presence in Shanghai, the Group will increase business activities in this strategic city where most of the domestic and foreign banks have substantial operations.

For China, the Group used sales of computer hardware as an entry point to a predominantly hardware centric IT culture for brand building and client acquisition. Even though it is a very competitive market, with our suite of products, our domain knowledge in banking and finance, and our close working relationship with the hardware vendor, we still maintain a competitive edge and this is evidenced by the growth that we had experienced in 2002. The Group is conscious of the inherent risks and mindful of not being over-aggressive and with a solid client network in place, we expect a shift of revenue mix in China towards more sales in enterprise software products in 2003.

Singapore is contemplating a few regional based projects with multinational banks. WMS is now a popular products in the Asian region.

The Group started 2003 with a healthy backlog and sales pipeline. Demand in Excel enterprise software products has increased. We are confident in acquiring new major banking clients for regional implementation of our enterprise software systems.

In 2003, our management effort is to drive sales and to achieve operation results with emphasis in the China market.

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

During the year ended 31 December 2002, 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 5.28 to 5.39 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the year ended 31 December 2002.

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

Hong Kong, 17 March 2003

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.