



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 2003**

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

\* For identification purpose only

## Highlights

- For the year ended 31 December 2003, turnover amounted to HK\$184.7 million, representing a slight decrease of 5% over the previous year.
- Revenue from Enterprise Software Products increased by 27% to HK\$63 million, which was 34% of the total turnover
- Revenue from Systems Integration decreased by 11% to HK\$108.5 million, which was 59% of the total turnover.
- The Group incurred a loss from operations of HK\$27.3 million.
- Loss attributable to shareholders was significantly reduced by 62% to HK\$26.5 million.
- Loss per share is 2.69 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 2003, together with the comparative figures for the corresponding period in 2002, as follows:

	<i>Notes</i>	<b>2003</b> <b><i>HK\$'000</i></b>	<b>2002</b> <b><i>HK\$'000</i></b>
Turnover	2	<b>184,713</b>	193,398
Other operating income	3	<b>11,054</b>	2,557
Cost of sales		<b>(109,456)</b>	(117,833)
Staff costs		<b>(68,761)</b>	(83,674)
Depreciation and amortisation		<b>(14,469)</b>	(18,106)
Other operating expenses		<b>(28,483)</b>	(29,779)
Impairment losses recognised		<b>(1,883)</b>	(13,479)
Loss from operations	4	<b>(27,285)</b>	(66,916)
Finance costs	5	<b>(417)</b>	(3,239)
Share of results of associates		<b>2,107</b>	1,236
Loss before taxation		<b>(25,595)</b>	(68,919)
Taxation	6	<b>529</b>	(565)
Loss before minority interests		<b>(25,066)</b>	(69,484)
Minority interests		<b>(1,463)</b>	663
Net loss attributable to shareholders		<b><u>(26,529)</u></b>	<b><u>(68,821)</u></b>
Loss per share - Basic	7	<b><u>(2.69 cents)</u></b>	<b><u>(6.99 cents)</u></b>

*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 the aggregate of the net amounts received and receivable from the sale of enterprise software products, and the provision of application, systems integration and professional services during the year.

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
An analysis of the Group's turnover is as follows:		
Enterprise software products	<b>63,077</b>	49,644
Systems integration	<b>108,546</b>	122,237
Professional service	<b>7,974</b>	15,817
ASP service	<b>5,116</b>	5,700
	<b>184,713</b>	193,398

## 3 Other Operating Income

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Dividend income from other investments - listed	<b>76</b>	55
Gain on disposal of associates	<b>440</b>	—
Gain on disposal of property, plant and equipment	—	497
Interest income	<b>186</b>	492
Management fee and service income	<b>564</b>	464
Realised gain on other investments	<b>275</b>	528
Reversal of accrued rentals on early termination of an operating lease	<b>9,203</b>	—
Others	<b>310</b>	521
	<b>11,054</b>	2,557

#### 4 Loss from operations

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Directors' remuneration	<b>5,871</b>	5,813
Other staff costs	<b>67,078</b>	77,278
Retirement benefit costs	<b>1,707</b>	3,004
	<u><b>74,656</b></u>	<u>86,095</u>
Less: Staff costs capitalised in development costs	<b>(5,895)</b>	(2,421)
	<u><b>68,761</b></u>	<u>83,674</u>
Depreciation and amortisation of property, plant and equipment	<b>8,423</b>	9,609
Amortisation of development costs	<b>4,950</b>	6,468
Amortisation of goodwill	<b>1,096</b>	2,029
	<u><b>14,469</b></u>	<u>18,106</u>
Impairment loss recognised in respect of property, plant and equipment	<b>1,760</b>	900
Impairment loss recognised in respect of development costs	<b>123</b>	2,579
Impairment loss recognised in respect of goodwill	<b>—</b>	10,000
	<u><b>1,883</b></u>	<u>13,479</u>
Auditors' remuneration	<b>624</b>	740
Cost of inventories consumed	<b>99,982</b>	111,251
Loss on disposal of property, plant and equipment	<b>728</b>	—
Loss on partial disposal of investments in subsidiaries	<b>—</b>	584
Minimum lease payments in respect of land and buildings	<b>10,223</b>	13,968
Realised loss on investment securities	<b>—</b>	1,159
Unrealised loss on other investments	<b>281</b>	764
	<u><b>111,618</b></u>	<u>141,366</u>
For disclosure purpose only:		
Research and development expenditure (including staff costs of HK\$18,746,000; 2002: HK\$21,205,000)	<b>21,202</b>	24,864
Less: Amount capitalised in development costs	<b>(6,239)</b>	(3,103)
	<u><b>14,963</b></u>	<u>21,761</u>

**5 Finance costs**

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
Bank loans	<b>413</b>	301
Other borrowings	<b>4</b>	—
Interest on convertible notes	<u>—</u>	<u>2,938</u>
	<u><b>417</b></u>	<u>3,239</u>

**6 Taxation**

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
The (credit) charge comprises:		
The Company and its subsidiaries:		
Hong Kong Profits Tax		
Overprovision in prior years	<b>(650)</b>	—
Taxation in other jurisdictions		
Current year	<u>—</u>	<u>112</u>
	<b>(650)</b>	112
Share of taxation of associates	<u><b>121</b></u>	<u>453</u>
	<u><b>(529)</b></u>	<u>565</u>

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

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

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

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss before taxation	<u><b>(25,595)</b></u>	<u>(68,919)</u>
Tax at the Hong Kong Profits Tax rate of 17.5% (2002: 16%)	<b>(4,479)</b>	(11,027)
Tax effect of income that is not taxable for tax purposes	<b>(487)</b>	(1,554)
Tax effect of expenses that are not deductible for tax purposes	<b>1,571</b>	2,413
Tax effect of deductible temporary difference not recognised	<b>4,554</b>	10,582
Tax effect of share of results of associates	<b>(247)</b>	255
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(125)</b>	(104)
Overprovision in prior years	<b>(650)</b>	—
Tax effect of utilisation of tax losses previously not recognised	<u><b>(666)</b></u>	<u>—</u>
Tax (credit) charge for the year	<u><b>(529)</b></u>	<u>565</u>

At 31 December 2003, the Group has unused tax losses of approximately HK\$128,302,000 (2002: HK\$92,873,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. There were no other significant temporary differences arising during the year or at the balance sheet date.

## 7 Loss per share

The calculation of the basic loss per share is based on the net loss attributable to shareholders of HK\$26,529,000 (2002: HK\$68,821,000) and the 985,050,000 (2002: 985,050,000) shares in issue during the year.

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

## 8 Movements in reserves of the Group for the years ended 31 December 2003 and 2002 are as follows:

	<b>Share premium</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2002	179,650	(60,029)	119,621
Net loss for the year	—	(68,821)	(68,821)
	<hr/>	<hr/>	<hr/>
At 1 January 2003	179,650	(128,850)	50,800
Net loss for the year	—	(26,529)	(26,529)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>179,650</u>	<u>(155,379)</u>	<u>24,271</u>

At 31 December 2003, there were no reserves available for distribution to the Company's shareholders (2002: nil).

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

## 9 Segment Information

### (a) 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 business can be subdivided into Hong Kong, other regions in the People's Republic of China (the "PRC") and other markets.

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

	Hong Kong		PRC		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>81,944</b>	97,417	<b>100,639</b>	94,803	<b>2,976</b>	1,178	<b>(846)</b>	—	<b>184,713</b>	193,398
Segment result	<b>(19,270)</b>	(56,567)	<b>(5,286)</b>	(6,888)	<b>(2,729)</b>	(3,461)	—	—	<b>(27,285)</b>	(66,916)
Finance costs	<b>(4)</b>	(2,938)	<b>(413)</b>	(301)	—	—	—	—	<b>(417)</b>	(3,239)
Share of results of associates	<b>(593)</b>	(568)	<b>2,700</b>	1,804	—	—	—	—	<b>2,107</b>	1,236
Loss before taxation	<b>(19,867)</b>	(60,073)	<b>(2,999)</b>	(5,385)	<b>(2,729)</b>	(3,461)	—	—	<b>(25,595)</b>	(68,919)
Taxation	<b>650</b>	—	<b>(121)</b>	(565)	—	—	—	—	<b>529</b>	(565)
Loss before minority interests	<b>(19,217)</b>	(60,073)	<b>(3,120)</b>	(5,950)	<b>(2,729)</b>	(3,461)	—	—	<b>(25,066)</b>	(69,484)
Minority interests	—	—	<b>(1,463)</b>	663	—	—	—	—	<b>(1,463)</b>	663
Net loss attributable to shareholders	<b>(19,217)</b>	(60,073)	<b>(4,583)</b>	(5,287)	<b>(2,729)</b>	(3,461)	—	—	<b>(26,529)</b>	(68,821)

(ii) Other information:

	Hong Kong		PRC		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	<b>1,482</b>	3,534	<b>7,562</b>	2,239	—	293	—	—	<b>9,044</b>	6,066
Depreciation and amortisation	<b>11,503</b>	17,029	<b>2,780</b>	895	<b>186</b>	182	—	—	<b>14,469</b>	18,106
Impairment loss recognised	<b>1,752</b>	13,479	—	—	<b>131</b>	—	—	—	<b>1,883</b>	13,479
Revenue from external customers by the location of customers	<b>80,843</b>	95,749	<b>100,639</b>	94,803	<b>4,077</b>	2,846	<b>(846)</b>	—	<b>184,713</b>	193,398

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

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

	Hong Kong		PRC		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets										
Segment assets	163,241	189,922	52,146	41,533	1,472	356	(86,486)	(39,390)	130,373	192,421
Tax recoverable	—	345	—	—	—	—	—	—	—	345
Interests in associates	—	7,750	25,614	16,700	—	—	—	—	25,614	24,450
Consolidated total assets	<u>163,241</u>	<u>198,017</u>	<u>77,760</u>	<u>58,233</u>	<u>1,472</u>	<u>356</u>	<u>(86,486)</u>	<u>(39,390)</u>	<u>155,987</u>	<u>217,216</u>
Liabilities										
Segment liabilities	(16,257)	(45,039)	(87,609)	(48,240)	(7,159)	(5,003)	86,486	39,390	(24,539)	(58,892)
Bank loan	—	—	(3,948)	(5,828)	—	—	—	—	(3,948)	(5,828)
Consolidated total liabilities	<u>(16,257)</u>	<u>(45,039)</u>	<u>(91,557)</u>	<u>(54,068)</u>	<u>(7,159)</u>	<u>(5,003)</u>	<u>86,486</u>	<u>39,390</u>	<u>(28,487)</u>	<u>(64,720)</u>

## (b) Business segments

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

Principal activities of the operating divisions are as follows:

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

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

	Enterprise Software Products		Systems Integration		Professional Services		ASP Services		Unallocated Assets		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	63,077	49,644	108,546	122,237	7,974	15,817	5,116	5,700	—	—	184,713	193,398
Segment assets	37,158	50,643	36,436	74,519	30,707	31,519	6,959	6,271	44,727	54,264	155,987	217,216
Capital additions	8,958	5,302	31	49	55	356	—	359	—	—	9,044	6,066

There is re-grouping of business segments to align with turnover classification.

## **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 2003.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL PERFORMANCE**

During the year ended 31 December 2003, the Group's turnover decreased by 5% to HK\$184,713,000 (2002: HK\$193,398,000) but loss attributable to shareholders improved by 62% to HK\$26,529,000 (2002: HK\$68,821,000). This result is achieved through a conscious geographic expansion, change of business mix and streamline of operation.

Growth in the sales of enterprise software products in China and Singapore manifested encouraging sign of market acceptance of Excel software products. The overall sales of enterprise software products increased by 27% to HK\$63,077,000 (2002: HK\$49,644,000). It comprised of 34% of the total turnover (2002: 26%), which represented a change in the mix of product and service offerings during the year of 2003.

Systems Integration decreased by 11% to HK\$108,546,000 (2002: HK\$122,237,000). Revenue on professional services decreased by 50% to HK\$7,974,000 (2002: HK\$15,817,000). The ASP business's cost of operation was contained and stabilized with predictable recurring income. Revenue derived from the ASP operation dropped slightly by 10% to HK\$5,116,000 (2002: HK\$5,700,000).

### **OPERATIONS**

Overall staff cost was further reduced by 18%. Comparing with 2002, staff cost constituted 71% of the total operating expenses (2002: 74%). The relocation of the Hong Kong headquarter office in December 2003 was a decisive step to further cut operating expenses substantially. The effect of saving in rental expenses will be reflected in 2004 and onward. As a result of a series of cost-cutting efforts, the Group's total operating expenses was reduced by 14% to HK\$97,244,000 (2002: HK\$113,453,000).

The loss from operations narrowed to HK\$27,285,000 (2002: HK\$66,916,000). The loss attributable to shareholders in 2003 was therefore significantly reduced by 62% to HK\$26,529,000 (2002: HK\$68,821,000).

### **LIQUIDITY**

As at 31 December 2003, the Group held cash and cash equivalents of HK\$24,390,000, which was similar to that of last year (2002: HK\$24,514,000). The computer hardware inventory level was reduced to HK\$6,615,000 (2002: HK\$23,090,000).

The Group fully paid up its capital commitment of US\$1,000,000 to the private equity investment fund. There is no more outstanding capital commitment from the Group. As at 31 December 2003, the investment was carried at cost.

Camelot Information Systems Inc. (a 21.5% associate) recorded an increase in its net profit by 37% to HK\$13,287,000 (2002: HK\$9,703,000). The Group took up its share of the profit attributable to shareholders for an amount of HK\$2,579,000 (2002: HK\$1,047,000) after charging for the goodwill amortization relating to the investment in Camelot.

During the year, the Group sold down 20.5% shareholding in Excel Force Ltd. at cost to the other shareholder. At present, the Group holds only 19.5% in Excel Force Ltd. and has classified the holding as a strategic investment. The sell down was the result of an amicable agreement between the shareholders, as the coming business direction of Excel Force Ltd. will differ from its original objectives.

As of 31 December 2003, the gearing ratio of the Group was 3.2% (2002: 3.9%) on the basis of bank borrowing divided by shareholders' fund.

## **CAPITAL STRUCTURE**

As at 31 December 2003, the Group's outstanding issued shares were 985,050,000, which was the same as last year.

## **NEW PRODUCTS / SERVICES**

The development of Modular Banking System ("MBS") was completed with a successful implementation with its first client installation. The Group renamed MBS as Reserves and Treasury Portfolio System ("REAPS") to signify the launch of a marketing campaign to promote the product to other financial institutions in China and Southeast Asia. Based on the technology infrastructure of Wealth Management System ("WMS"), the Group developed and implemented the first Bank Insurance product ("BANCAS") for China Minsheng Bank. This new product enables banks to distribute insurance products through its branch network. The Group also further developed WMS which helped to further secure contracts both in China and Malaysia.

## **SIGNIFICANT INVESTMENTS/ACQUISITIONS AND PERFORMANCES**

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

## **SEGMENTAL PERFORMANCES**

Hong Kong's turnover (included sale of enterprise software products, systems integration, professional services and ASP services) was HK\$81,098,000.

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

Singapore recorded a turnover of HK\$2,976,000.

## **EMPLOYEES**

The total number of employees as at 31 December 2003 was reduced from 408 (beginning of 2003) to 348. In 2004, we need to beef up the staff force in Singapore as two regional implementation projects for Excel software products will kick off. As the development work of certain software products finished, the released staff resources were redeployed to other development or implementation teams.

## **EXPOSURE TO FOREIGN EXCHANGE RISK**

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

## **PROSPECTS IN 2004**

Year 2004 started off a strong backlog and with two major software contracts while final terms were being negotiated, the work already started with letter of intent. It is expected that with economic recovery, the Group's sales will exceed that of 2003.

The Group set a mandate to build the software outsourcing business by utilizing its established resources in the Shenzhen Software Center. As a step to speed up the development in other parts of China, the Group will collaborate and partner with other players in this area through alliance. The Group already started providing outsourcing services to multinational companies. We expect further headcount increase in China to meet the business needs for outsourcing and managed services.

Besides building a niche market in the financial sectors for application software, the Group is actively pursuing opportunities in launching ASP business in China. The sheer number of customers and geographical distribution of clients' operations in China justified the use of ASP mode of delivering software service. Leveraging on the successful experience in Hong Kong, the Group is confident that at least one ASP business can be launched in China in 2004.

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

During the year ended 31 December 2003, 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 2003.

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

Hong Kong, 22 March 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](http://www.excel.com.hk).*