Excel

TECHNOLOGY

Excel Technology International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 8048)

Annual Report

2006

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 report, 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 report.

This report, 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

ZEE CHAN Mei Chu, Peggy
FUNG Din Chung, Rickie
LEUNG Lucy, Michele
NG Wai King, Steve

NON-EXECUTIVE DIRECTOR

IP Tak Chuen, Edmond

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHEONG Ying Chew, Henry
CHANG Ka Mun
WONG Mee Chun

COMPLIANCE OFFICER

FUNG Din Chung, Rickie

QUALIFIED ACCOUNTANT

TANG Lai Wah, BA (Hons), EMBA, FCCA, CPA

COMPANY SECRETARY

TANG Lai Wah, BA (Hons), EMBA, FCCA, CPA

AUTHORISED REPRESENTATIVES

FUNG Din Chung, Rickie
LEUNG Lucy, Michele

BERMUDA RESIDENT REPRESENTATIVES

COLLIS John Charles Ross
WHALEY Anthony Devon *(Deputy)*

AUDIT COMMITTEE

CHEONG Ying Chew, Henry
CHANG Ka Mun
WONG Mee Chun

REMUNERATION COMMITTEE

ZEE CHAN Mei Chu, Peggy
CHEONG Ying Chew, Henry
CHANG Ka Mun

AUDITORS

Moores Rowland Mazars

LEGAL ADVISER

Baker & Mckenzie
F Zimmern & Co.

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
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Computershare Hong Kong Investor Services Limited
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FINANCIAL HIGHLIGHTS

	2006 HK$'000	2005 HK$'000
Turnover	**282,823**	224,242
Profit (Loss) from operations	**3,822**	(19,768)
Profit (Loss) attributable to equity holders of the Company	**1,457**	(16,566)
Earnings (Loss) per share – Basic	**0.15 cents**	(1.68 cents)
Total equity	**91,291**	87,233

CHAIRMAN'S STATEMENT

RETURN TO PROFITABILITY

Management is pleased to report that the Group has returned to profitability and is confident that this trend will continue into the coming years. The Group generated an operation profit of HK$3,822,000 in 2006 (2005: operation loss of HK$19,768,000). Attributable profit was HK$1,457,000, inclusive of a one-time disposal loss of HK$3,237,000 as selling an associate company.

The Group is in a strong financial position with net cash or cash equivalent of HK$47,261,000 and pledged deposit of HK$13,303,000 with low gearing ratio. Contracts on hand and pipeline are healthy and go well into 2007.

EXCEL, TODAY

Today, Excel has laid a solid foundation for further spring forward to the next level.

Solid Strategic Regional Platform

Since listing, Excel has grown from a Hong Kong company to now a regional company with strong sales and support offices throughout the region including: Hong Kong, Beijing, Shanghai, Shenzhen, Taipei, Tokyo, Singapore, Kuala Lumpur, Bangkok, Hangzhou and Dalian. This support network enables us to win contracts with multinational clients who have vast business growths and support needs throughout the region.

Mature Product Portfolio

Starting from a single product in 1996, the Group now has three major suites of software application, namely loans origination and processing, securities trading and risk management, wealth and investment management. All these software products are being used by our clients throughout the region and therefore are proven. The acceptance of these products will allow us to enjoy an advantageous cycle of better product features and then even wider acceptance.

Balanced Business Focus

With the conscious effort the Group spent in building up its software outsourcing capability in the past two years, we have a more balanced business mix which covers three key areas of the IT industry: enterprise software, systems integration and development outsourcing. Each of these key areas can grow independently into a sizable business, as well as complement each other within the Group's total business environment.

EXCEL TO THE NEXT HORIZON

The Group aspires to become a dominant IT solution provider in the region, particularly in the area of the enterprise software and development outsourcing. With the mission of restoring profitability achieved, we are setting our target to the next horizon in our journey of realizing our vision. I have reviewed, together with the management team, the growth strategies we are going to use and the challenges we are facing.

CHAIRMAN'S STATEMENT

Growth Strategies

Leveraging our Geographic Presence

Strategically well placed in the region with experienced staff to provide quality local support is our key in winning regional contracts from multinational companies. With that we have been able to open new multinational accounts that require regional support, or to expand the installed base of our existing clients from a single location to multiple locations in the region. We will continue to leverage this advantage of ours to broaden our client base.

Selling Deeper into Current Client Base

We are cognizant that selling to current clients is as important as breaking new accounts. The Group has established our support and business development structure to manage a deeper and wider relationship with our existing client base, using an account management concept.

We successfully sold multiple products and services to our clients and also for the same product, sold multiple licenses to their subsidiaries and offices within the region. This client adhesiveness brings stable and recurring income for the Group.

Widening Product Suite Through Partnering

Leveraging our regional dominance and our strong client base, we will bring third party products that will complement our existing product suites. Several partnerships with renowned international companies are already signed or at the late stage of conclusion. The Group will first localize these products and take on to sell and implement them for the Asian market as an integrated part of our product offering. This move allows the Group to widen its client coverage with more products and services, and effectively bring potential competitors to become long-term partners.

Challenges

Global Shortage of IT Skills

Since the burst of the dot-com bubble, fresh IT talents from universities dwindled by the years and many experienced IT practitioners have departed the industry. Global shortage of IT skills started to become more acute in the past two years, resulted in higher than expected salary cost and staff turnover. The Group's impact in these fronts was already mitigated by our advanced move of our software development to China and a vigorous training program.

Higher Operating Costs

With the return of economy brings higher operating costs for the coming years. Much of the operating costs of the Group come from salaries and rental. The Group will take conscious measures to mitigate this challenge to include the possible relocations of our software centers to more remote areas in China and planning of establishing our own software parks.

CONTINUES TO EXCEL

Each year's financial report closes a chapter on the result reaped for the financial period. It provides a static measure of the seeds sewn so far and the fruits reaped thus long. Excel will continue to grow, with limbs reaching out to new horizon, seedlings further planted for years to come. Excel Management pledges to stand fast as the gardener to continue care-take this rich soil and abundant field for our stakeholders and continue to Excel in the many years to come.

DEDICATION

I would like to dedicate this year's Chairman Statement to Mr. Frank Petro, a dear friend of Excel and an inspirer of the Management Team. Mr. Petro passed away on 31 January 2007 in San Francisco. He was Excel's Independent Non-executive Director from 2000 to 2001, and remained as an advisor to the Chairman.

Mr. Petro urges us to think years ahead, to challenge the unchallengeable, to achieve what we cannot achieve. On the practical side, Mr. Petro works with the Management on profitability, cash flow, operational efficiencies, business opportunities, and investment return. We are very sad that we lost a dear friend and a good advisor but we are also proud that we had applied and will continue to apply what we have learned from Mr. Petro to always excel to the next horizon.

I would also like to thank the Board, the Management Team, the Excellers, and also our dear clients and shareholders for supporting us in the past few difficult years.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the year ended 31 December 2006, the Group recorded an increase of 26% in turnover of HK$282,823,000, compared with a turnover of HK$224,242,000 for 2005.

The overall sales of enterprise software products increased by 16% to HK$79,102,000 (2005: HK$68,166,000). The growth from sales of enterprise software products is largely contributed by Hong Kong and Southeast Asia.

Systems Integration ("SI") income jumped 44% to HK$175,766,000 (2005: HK$121,922,000). This is mainly due to the contribution from a number of key system integration projects in Mainland China.

Revenue on professional services dropped by 20% to HK$23,163,000, compared with HK$29,044,000 in 2005.

The Group's ASP business remained stable with revenue slightly decreased to HK$4,792,000 (2005: HK$5,110,000).

The profit from operation was HK$3,822,000 for 2006 (2005: loss of HK$19,768,000).

The Group's profit attributable to equity holders in 2006 was HK$1,457,000 (2005: loss of HK$16,566,000) after netting the one-off disposal loss of an associate company of HK$3,237,000.

OPERATION REVIEW

In 2006, the Group consolidated our China business under one brand name and operation. The effect of this is a clearer identify of the Group among our clients and prospects in China. We will further reorganize the systems integration unit and the enterprise software unit in China to be more effective in addressing the different market needs of these two types of business.

The China business continues to see growth in the system integration business. Albeit the high turnover, the business is very competitive and yields low margin.

The Group will place much more focus into the sales and implementation of our own suite of enterprise software products. This is a high margin business but requires much more human capital and management attention. It is the intention of the Group to clearly delineate the SI and enterprise software business. We expect the China enterprise software business to make good returns in the coming years while SI remains to make the top line revenue but with lower margin and relatively lower risk.

Malaysia and Thailand were active grounds for business development in 2006 and we expect to reap several major contracts in these two countries in the coming period. Singapore will continue to serve as a South East Asia hub.

Hong Kong operations made significant improvement in 2006 and have strong profits and signed contracts going into 2007. Cost containment was always a closely monitored item and was tightly controlled at all times. However, salary increase and staff shortage continue to be a concern. Multinational companies operating out of Hong Kong and Singapore will continue to make major contribution to our regional business and China operation because of their heavy investment in the region.

OPERATION REVIEW *(Continued)*

The new software development outsourcing subsidiary gains business momentum and expects to make positive contribution. We expect to significantly increase the capacity of our software centers to meet business needs by adding 100 to 200 software engineers in the next 12 months.

We continue to receive recognition of growth through the awards from the renowned Tohmatsu Deloitte Company with both the "2006 Deloitte Technology Fast 50 China" award and the "2006 Deloitte Technology Fast 500 Asia Pacific" award.

PRODUCTS AND SERVICES

To allow us to increase our product and service offerings to our clients, we have now turned our focus to bringing new best of breed software that can complement our product suite. In addition to selling these products, we will provide our outsourcing service to localize these software for the software vendors, as well as provide our value added service to implement these software. Such move will create more account adhesiveness and open up a new base of clients from the original software vendor.

We are proud to say that our InterTrade software continues to be the leading stock trading software used by many major banks in Hong Kong and sustained record high transaction volume in the stock market last year.

The Loans software has become the de facto lending processing software for many banks and financial institutions in Greater China. A major contract was signed with a leading bank in Hong Kong in which the Excel Loans system will be implemented to support all types of lending businesses in that bank.

EC-Invest, the wealth management and unit trust software suite made several large regional implementation with multinational banks. We had been asked by a number of banks, which have this software installed in their Hong Kong and other Asia locations, to bring it into Mainland China as they plan to expand their retail banking business there. It is envisaged that our first EC-Invest installation in China will soon be realized.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group was in a strong financial position with cash and cash equivalents of HK$47,261,000 (2005: HK$14,464,000), plus pledged deposit of HK$13,303,000 (2005: HK$10,484,000).

As at 31 December 2006, the unlisted private equity fund of USD800,200 at cost was held by the Group for long-term strategic purpose and the investment was stated at fair value.

As at 31 December 2006, the Group invested the equity securities listed in Hong Kong of HK$2,547,000.

As at 31 December 2006, the gearing ratio of the Group was 7.3% (2005: 8.6%) on the basis of borrowing divided by equity attributable to equity holders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 31 December 2006, the Group's outstanding issued shares were 985,050,000, which was the same as last year.

SIGNIFICANT INVESTMENTS AND DISPOSAL

In April 2006, through a non-wholly owned subsidiary, the Group acquired 65% interest in 新川資訊科技股份有限公司 ("New River") which is engaged in the provision of IT professional services in Taiwan. In connection with the business combination, the Group paid cash consideration of HK$1,920,000. Since acquisition, New River has contributed turnover and loss of HK$2,108,000 and HK$126,000 to the Group respectively. The goodwill arising on acquisition of HK$551,000 is attributable to the profitability and the synergies expected to arise from the business combination.

On 29 May 2006, the Group completed a transaction to dispose of its holdings (being 21.51%) of an associated company Camelot Information Systems Inc ("Camelot"), a provider of information technology service in China, for the consideration of approximately HK$33,076,000. Although this transaction generates an one-time disposal loss of HK$3,237,000 to the Group, it increases our liquidity position significantly by realizing the return of our original investment amount of HK$21,668,000. The reason of the disposal, as described in the relevant announcement put out by the Group, is that the Group has decided to develop its own software service outsourcing business using its own resource, the disposal of Camelot will allow us to concentrate our effort in this area.

SEGMENTAL PERFORMANCES

Hong Kong region's turnover was HK$97,643,000, increased by 13% compared with HK$86,190,000 last year.

The China operations achieved the growth in turnover of HK$195,043,000 by 34% (2005: HK$145,303,000).

South East Asia region recorded a turnover of HK$13,308,000, rose by 12% compared with 2005 (2005: HK$11,901,000).

EMPLOYEES

The total number of employees as at 31 December 2006 was 420 (beginning of 2006: 442). This decrease of number of staff reflected our effective cost control in 2006.

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.

(1) CORPORATE GOVERNANCE PRACTICES

The Board and senior management are committed to the principles of Corporate Governance and have dedicated significant efforts to provide transparency, accountability and independence.

The Company has adopted the Code of Corporate Governance Practice and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16 with effective from the accounting periods from 1 January 2005, save as disclosed in section (3) Chairman and chief executive officer regarding code provision A.2.1.

(2) BOARD OF DIRECTORS

The Board is responsible for overall strategic policies of the Group to optimize return for the shareholders.

The Board has delegated the day-to-day operational responsibilities of the Group's business to the executive management team under the leadership of the Chief Executive Officer and various Board committees.

Board Composition

The Board currently comprises of the following members:

Executive Directors:
Zee Chan Mei Chu, Peggy
Leung Lucy, Michele
Fung Din Chung, Rickie
Ng Wai King, Steve

Non-Executive Director:
Ip Tak Chuen, Edmond

Independent Non-executive Directors:
Cheong Ying Chew, Henry
Chang Ka Mun
Wong Mee Chun

(2) BOARD OF DIRECTORS *(Continued)*

Board Meeting

The Board meets at least four times a year to review financial and operating performance and discuss Group direction and strategy.

Details of the attendance of the board of Director are as follows:

	29 Mar 2006	9 May 2006	10 Aug 2006	6 Nov 2006
Zee Chan Mei Chu, Peggy	✓	✓	✓	✓
Leung Lucy, Michele	✓	✓	✓	✓
Fung Din Chung, Rickie	✓	✓	✓	✓
Ng Wai King, Steve	✓	✓	✓	✓
Ip Tak Chuen, Edmond	✓	✓	✓	✓
Cheong Ying Chew, Henry	✓	✓	✓	✓
Chang Ka Mun	✓	✓	✓	✓
Wong Mee Chun	✓	✓	✓	✓

Directors are given notice of regular Board meetings of at least 14 days in advance. The directors will receive details of agenda with comprehensive reports on the management's strategic plans, updates by business unit heads on their lines of business, financial objectives, plans and actions at least 3 days before Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters.

The Executive Directors meet every two weeks to review company business pipeline, receivables, and business unit performance. Senior management meets with Business Unit Management every two weeks to review project status and business unit issues. All these management meetings are minuted with proper central filing for attendants review and comment.

The Company has held several meetings, first with senior management, second with the Audit Committee, and subsequently with the Board, to discuss and review the Group's practice on corporate governance and make specific checks on the Group's compliance via a compliance matrix in accordance to the Listing Rules.

The non-executive directors has a well balance of expertise in corporate finance, accounting, and China matters. They bring independent and invaluable advice and judgement on the Group's business expansion and risk management issues. The executive Directors are seasoned practitioners in the information technology field and contribute to the Company with their industry and domain knowledge and management experience.

(2) BOARD OF DIRECTORS *(Continued)*

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered to be independent.

(3) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separated.

The Company has achieved a high compliance level with the exception of the separation of Ms. Zee Chan Mei Chu, Peggy serving the dual role of Chairman and Chief Executive Officer.

This exception was discussed and the dual role was approved by the Board based on the following reasons:

- The Company size is relatively small and thus not justified in separating the role of chairman and chief executive officer.

- The Company has in place internal controls to provide check and balance on the functions.

Ms. Zee Chan Mei Chu, Peggy is primarily responsible for leadership of the Company and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with other Executive Directors and senior management of each business unit.

Thus, the Company considers that this structure will not impair the balance of power and authority between the board and the management of the Company.

(4) AUDIT COMMITTEE

The Company established an audit committee on 11 August 2000 with written terms of reference in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three members – Mr. Cheong Ying Chew, Henry, Mr. Chang Ka Mun and Ms. Wong Mee Chun, all of whom are independent non-executive directors. Mr. Cheong Ying Chew, Henry is the chairman of the audit committee. Audit Committee's principal duties are to review and supervise the financial reporting process and internal control procedures of the Group.

The Audit Committee meets four times a year to review with senior management and at least once a year with the Company's auditors for the Company's audit findings, accounting policies and standards, changes of accounting rules (if any), compliance to listing rules, internal and audit control, and budget and cash flow forecast.

(4) AUDIT COMMITTEE *(Continued)*

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2006 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

Details of the attendance of members at Audit Committee meeting are as follows:

	17 Mar 2006	**3 May 2006**	**4 Aug 2006**	**6 Oct 2006**	**13 Dec 2006**
Cheong Ying Chew, Henry	✓	✓	✓	✓	✓
Chang Ka Mun	✓	✓	✓	✓	✓
Wong Mee Chun	✓	✓	✓	✓	✓

(5) REMUNERATION COMMITTEE

The remuneration committee was established in May 2005.

The Company adopted that a remuneration committee be established with specific written terms of reference which deal clearly with its authority and duties. The terms of reference will follow the requirement of Code Provision B.1.3.

The composition of the remuneration committee include Chairman, Ms. Zee Chan Mei Chu, Peggy and two independent non-executive directors, Mr. Cheong Ying Chew, Henry and Mr. Chang Ka Mun.

The remuneration committee meets annually, or on an as needed basis, to review the recommendation from the Chief Executive Officer on the compensation and incentive scheme to be provided to Senior Management.

During the year under review, a meeting of the remuneration committee was held in May 2006. Details of the attendance of members at remuneration committee meeting are as follows:

	3 May 2006
Zee Chan Mei Chu, Peggy	✓
Cheong Ying Chew, Henry	✓
Chang Ka Mun	✓

(5) REMUNERATION COMMITTEE *(Continued)*

The policy for the remuneration of executive directors is:

- To ensure that none of the Directors should determine their own remuneration;
- The remuneration should be broadly aligned with companies with which the Company competes for human resources;
- The Group should aim to attract and retain executives and to motivate them to pursue appropriate growth strategies whilst taking into account individual performance;
- The remuneration should reflect the performance, complexity of duties and responsibility of the individual.

(6) NON-EXECUTIVE DIRECTOR

Code provision A.4.1 provides that Non-executive director should be appointed for a specific term and subject to re-election. The Company's non-executive director has been appointed for specific term and subject to re-election.

(7) COMPLIANCE OF CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the twelve months ended 31 December 2006.

(8) AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the independent auditor. During the year under review, the Group has incurred an aggregate of HK$721,000 to the independent auditor for its services of auditing.

(9) INTERNAL CONTROLS

The Board recognises that a sound and effective internal control system will contribute to the effectiveness and efficiency of operations, the reliability of financial reporting and the Group's compliance with applicable laws and regulations.

Management has established the Group's Internal Control Policies and Guidance for monitoring the internal control system.

The Board has delegated to management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. Qualified personnel and individual business unit head throughout the Group maintain and monitor the compliance to these controls on an ongoing basis and report variance to senior management.

Based on the assessment and review made by the board and senior management on the effectiveness of the internal control system, the Audit Committee is satisfied that:

- The internal controls and accounting systems of the Group are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorisation and the accounts are reliable for publication; and

- There is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENET

EXECUTIVE DIRECTORS

Ms. ZEE CHAN Mei Chu, Peggy (Age 52)

Chairman and Chief Executive Officer

Ms. Chan is the founder of the Excel Group and is responsible for setting and implementing the corporate strategic directions of the Group. Ms. Chan has over 23 years of experience in business re-engineering, strategy studies, technology planning and systems development, serving major multi-national corporations and government agencies. Starting her career as a manager in Arthur Young & Company in Washington D.C., United States, Ms. Chan returned to Hong Kong in 1988 to establish the local office of an Australian software house, and later the Excel Group. She received the Hong Kong Young Entrepreneur Award in 1990.

Ms. LEUNG Lucy, Michele (Age 54)

Executive Vice President

Ms. Leung is in charge of the business development and operations in the Southeast Asia Region for the Group. She is also responsible for the development of wealth management related software products. Ms. Leung has over 24 years of experience in the development, conversion and migration of various computer systems in the credit card, retail banking, and insurance industries. Prior to joining the Excel Group in 1989, Ms. Leung worked for Mervyn's, United Grocers, Tymshare Transaction Services, Visa and the Bank of Montreal in the United States and Canada. Ms. Leung was appointed as an Executive Director of the Group in 2000.

Mr. FUNG Din Chung, Rickie (Age 51)

Executive Vice President

Mr. Fung is responsible for business development and corporate marketing work for Hong Kong and the South China area. In addition, he oversees a number of subsidiaries, including i21 (ASP service), HR21 (payroll software) and others. Mr. Fung has over 27 years of IT experience. Prior to joining the Excel Group in 1996, Mr. Fung worked for IBM Hong Kong for 17 years, holding various positions in technical service, training, marketing and management areas. Mr. Fung is a frequent speaker on various information technology subjects. Mr. Fung was appointed as an Executive Director of the Group in 2000.

Dr. NG Wai King, Steve (Age 48)

Executive Vice President

Dr. Ng is responsible for the setting the technology direction of its enterprise software development strategy. Leading a team of software engineers, Dr. Ng performs research and development of the Group's software infrastructure, which becomes the building blocks used by other software development teams in the Group. He has over 17 years of IT experience. Besides his strong technical capabilities, Dr. Ng also has extensive knowledge in banking, stock brokerage, portfolio management and treasury business. Prior to joining the Excel Group in 1996, Dr. Ng was the technology head for Citibank's Hong Kong Private Banking Group, in which, he managed a number of development projects for regional and global implementation. Dr. Ng was appointed as an Executive Director of the Group on 31 December 2005.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENET

NON-EXECUTIVE DIRECTOR

Mr. IP Tak Chuen, Edmond (Age 54)

Mr. Ip has been an Executive Director of Cheung Kong (Holdings) Limited since 1993 and Deputy Managing Director since 2005. Mr. Ip is also an Executive Director and Deputy Chairman of Cheung Kong Infrastructure Holdings Limited, the Senior Vice President and Chief Investment Officer of CK Life Sciences Int'l., (Holdings) Inc., and a Non-Executive Director of TOM Group Limited, and a Director of ARA Asset Management (Singapore) Limited and ARA Trust Management (Suntec) Limited. He holds a Bachelor of Arts degree in Economics and a Master of Science degree in Business Administration. Mr. Ip was appointed as a Non-Executive Director of the Group on 21 February 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEONG Ying Chew, Henry (Age 59)

Mr. Cheong holds a Bachelor of Science (Mathematics) degree and a Master of Science (Operational Research and Management) degree. He is an Independent Non-executive Director of Cheung Kong (Holdings) Limited, Cheung Kong Infrastructure Holdings Limited, Forefront International Holdings Limited, SPG Land (Holdings) Limited and TOM Group Limited, all being listed in Hong Kong, and Jade Asia Pacific Fund Inc., a company listed in Ireland. Mr. Cheong was appointed as an Independent Non-Executive Director of the Group on 30 May 2000.

Mr. CHANG Ka Mun (Age 47)

Mr. Chang is a Managing director of Li & Fung Development (China) Limited. He is also a member of the National Committee of Chinese People's Political Consultative Conference and a member of the Committee on Economic Development of Hong Kong. He was a member of the Preparatory Committee of Hong Kong Special Administrative Region as well as the Basic Law Consultative Committee of the National People's Congress of the PRC. Mr. Chang was appointed as an Independent Non-Executive Director of the Group on 30 May 2000.

Ms. WONG Mee Chun, JP (Age 54)

Ms Wong has over 20 years of experience in finance, accounting and general management. Ms. Wong is a Justice of Peace, a member of the ICAC Complaints Committee, Administrative Appeals Tribunal, the Solicitors' Disciplinary Tribunal, the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Public Service Commission of the HKSAR. She graduated from the London School of Economics and Political Science, University of London and qualified as a member of the Institute of Chartered Accountants in England and Wales with Coopers & Lybrand, London. She is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Ms. Wong was appointed as an Independent Non-Executive Director of the Group on 9 August 2002.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENET

DIRECTORS

Mr. CHEONG Ho Sang, Alfred (Age 50)

Director

Mr. Cheong is responsible for the development and implementation of banking software in the treasury and loans areas. He has over 25 years of working experience in IT especially in the banking industry where he has in-depth knowledge of corporate, investment and private banking products, accounting & MIS functions, and process management. Prior to joining the Excel Group in 2000, Mr. Cheong worked for Citibank and UBS AG in various senior management positions. At Citibank, he was in-charge of investment banking technology department for the Asia Pacific region. He was the technology head for Private Banking in Hong Kong and Singapore of UBS AG. Mr. Cheong is also a Certified Management Accountant (CMA) in Canada.

Ms. TANG Lai Wah, Venus (Age 49)

Group Financial Controller and Company Secretary

Ms. Tang has over 20 years of accounting and financial management experience in telecommunication, media and information technology industries. Prior to joining the Group in 2002, Ms. Tang had held managerial positions in several sizeable listed companies in Hong Kong. She was the Group Financial Controller for Star Telecom Group and South China Media Group respectively. Ms. Tang is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. She holds a Bachelor degree in Accountancy with honors and an Executive MBA degree from the City University of Hong Kong.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Excel Technology International Holdings Limited (the "Company") will be held at 5/F., 663 King's Road, North Point, Hong Kong on 23 April 2007 (Monday) at 2:30 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements of the Company and the Reports of the Directors and Auditors for the year ended 31 December 2006;

2. To re-elect retiring Directors;

3. To authorise the Board of Directors to fix their remuneration;

4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration; and

5. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"THAT:

(a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined in this Resolution) of all the powers of the Company to allot, issue or deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined in this Resolution); or (ii) any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-Laws of the Company in force from time to time; or (iv) the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities which are convertible into shares of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue on the date of passing this Resolution; and

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company, the Companies Act 1981 of Bermuda (as amended) or any other applicable law to be held; and

(iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution;

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrant, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares in the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of shares as at that date (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong)."

6. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"THAT:

(a) the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined in this Resolution) of all powers of the Company to purchase its own shares, subject to paragraph (b) below, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be purchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(c) for the purpose of this Resolution, "Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:–

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company, the Companies Act 1981 of Bermuda (as amended) or any other applicable law to be held; and

(iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution."

7. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT** the general mandate granted to the Directors of the Company pursuant to the Resolution 5 above and for the time being in force to exercise the powers of the Company to allot, issue or deal with unissued shares of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power, be and is hereby extended by the aggregate nominal amount of shares in the share capital of the Company repurchased by the Company since the granting of such general mandate pursuant to the exercise by the Directors of the Company of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution."

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

Hong Kong, 19 March 2007

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
5/F., 663 King's Road
North Point
Hong Kong

Notes:

1. A member entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

3. In relation to proposed Resolution 5 above, approval is being sought from the members for the grant to the Directors of a general mandate to authorise the allotment and issue of shares pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The directors have no immediate plans to issue any new securities of the Company pursuant to the said general mandate other than shares which may fall to be issued upon the exercise of any options granted under the share option scheme of the Company or any scrip dividend scheme.

4. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

DIRECTORS' REPORT

The directors have pleasure in submitting their report and audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 36 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 34.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors:
Zee Chan Mei Chu, Peggy *(Chairman)*
Fung Din Chung, Rickie
Leung Lucy, Michele
Ng Wai King, Steve

Non-executive director:
Ip Tak Chuen, Edmond

DIRECTORS *(Continued)*

Independent non-executive directors:
Cheong Ying Chew, Henry
Chang Ka Mun
Wong Mee Chun

In accordance with the Company's bye-laws, Fung Din Chung and Wong Mee Chun retire by rotation and, being eligible, offer themselves for re-election.

The independent non-executive director is not appointed for specific terms but is subject to retirement by rotation in accordance with the Company's bye-laws.

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

At 31 December 2006, the interests and short positions of the directors and the chief executives of the Company and their associates 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"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), were as follows:

Long Positions

Ordinary shares of HK$0.10 each of the Company

	Number of ordinary shares held				
Name of director	**Beneficial owner**	**Held by family**	**Held by controlled corporation**	**Total**	**Percentage of the issued share capital of the Company**
Zee Chan Mei Chu, Peggy	2,944,000	–	563,679,197 *(Note 1)*	566,623,197	57.52%
Fung Din Chung, Rickie	24,559,498	–	–	24,559,498	2.49%
Leung Lucy, Michele	–	–	24,559,498 *(Note 2)*	24,559,498	2.49%
Ng Wai King, Steve	21,050,998	–	–	21,050,998	2.14%
Wong Mee Chun	40,000	382,000 *(Note 3)*	–	422,000	0.04%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES *(Continued)*

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.

(3) These shares were held by the spouse of Wong Mee Chun.

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 31 December 2006.

SHARE OPTIONS

During the year, the movements in the number of share options which have been granted to certain directors and employees under the Old Scheme are as follows:

			Number of options		
Directors	**Date of grant**	**Exercise price** HK$	**Outstanding at 1.1.2006**	**Lapsed during the year**	**Outstanding at 31.12.2006**
Wen Pei Sung (resigned on 31 December 2005)	11 October 2001 *(Note)*	0.70	2,000,000	(2,000,000)	–
Employees	11 October 2001 *(Note)*	0.70	9,584,000	(9,584.000)	–
			11,584,000	(11,584.000)	–

Note:

The exercisable period is from 11 October 2001 to 10 October 2006 (both dates inclusive) (vesting period with the 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).

SHARE OPTIONS *(Continued)*

On 23 April 2002, the Company adopted a new share option scheme (the "New Scheme") which was approved in substitution of the Old Scheme. Options granted under the Old Scheme prior to its substitution which have not been fully exercised remain valid until such time that such options are fully exercised or have lapsed. Particulars of the Old Scheme and the New Scheme are set out in note 29 to the financial statements.

No share options were granted under the New Scheme since its adoption.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group had the following transactions with connected persons as defined in the GEM Listing Rules.

Pursuant to the agreements dated 1 September 2005 and 1 September 2006 entered into between the Group and Zee King Tak, Winston, Zee King Tak, Winston agreed to lease certain premises to the Group. Zee King Tak, Winston is the spouse of Zee Chan Mei Chu, Peggy. The rentals payable by the Group for the year amounted to HK$45,600.

Save as disclosed above, no contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service contract with each of Zee Chan Mei Chu, Peggy, Fung Din Chung, Rickie and Leung Lucy, Michele for a term of three years commencing on 1 March 2000. The service contracts were renewed for further periods from 1 March 2004 to 31 December 2004, from 1 January 2005 to 31 December 2005 and from 1 January 2006 to 31 December 2006. The service contracts will continue thereafter until terminated by not less than six months' notice in writing by either party to the other.

The Company has entered into a service contract with Ng Wai King, Steve for a term of one year commencing on 1 January 2005. The services contract was renewed from 1 January 2006 to 31 December 2006. The service contract will continue thereafter until terminated by not less than six months' notice in writing by either party to the other.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was approximately 46.0% of the Group's total turnover and the Group's largest customer accounted for approximately 29.3% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 54.9% of the Group's total purchases and the Group's largest supplier accounted for approximately 32.4% of the Group's total purchases.

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in any of the five largest customers and suppliers of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, 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 positions in the ordinary shares of HK$0.10 each of the Company

Name of shareholder	Note	**Number of issued ordinary shares held**	**Percentage of the issued share capital of the Company**
Zee Chan Mei Chu, Peggy	1	566,623,197	57.52%
Passion Investment (BVI) Limited	1	563,679,197	57.22%
Cheung Kong (Holdings) Limited	2	143,233,151	14.54%
Li Ka-Shing Unity Trustee Company Limited (as trustee of The Li Ka-Shing Unity Trust)	2	143,233,151	14.54%
Li Ka-Shing Unity Trustcorp Limited (as trustee of another discretionary trust)	2	143,233,151	14.54%
Li Ka-Shing Unity Trustee Corporation Limited (as trustee of The Li Ka-Shing Unity Discretionary Trust)	2	143,233,151	14.54%
Li Ka-shing	2	143,233,151	14.54%
Alps Mountain Agent Limited	2	71,969,151	7.31%
iBusiness Corporation Limited	2	67,264,000	6.83%

Notes:

(1) These shares have been disclosed as directors' interests held by controlled corporation in the paragraph headed "Directors' and chief executive's interests or 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").

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes: *(Continued)*

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 or short positions in the issued share capital of the Company at 31 December 2006.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Company established an audit committee on 11 August 2000 with written terms of reference in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three members – Mr. Cheong Ying Chew, Henry, Mr. Chang Ka Mun and Ms. Wong Mee Chun, all of whom are independent non-executive directors. Mr. Cheong Ying Chew, Henry is the chairman of the audit committee. Audit Committee's principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee met on a quarterly basis during the year ended 31 December 2006.

COMPETING INTERESTS

Ip Tak Chuen, Edmond, a non-executive director of the Company, is an executive director and the deputy managing director of Cheung Kong (Holdings) Limited ("CKH"). Mr. Ip is also deputy chairman of Cheung Kong Infrastructure Holdings Limited ("CKI"), and a non-executive director of TOM Group Limited ("TOM Group"). Cheong Ying Chew, Henry, an independent non-executive director of the Company, is also an independent non-executive director of CKH, CKI and TOM Group. Both CKH and CKI are engaged in information technology, e-commerce and new technology. TOM Group is engaged in providing Internet services.

Save as disclosed above, at 31 December 2006, none of the directors, the management shareholders or their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause significant competition with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2006.

AUDITORS

Messrs. Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Moores Rowland Mazars.

On behalf of the Board

Zee Chan Mei Chu, Peggy
Chairman

Hong Kong, 19 March 2007

Moores Rowland Mazars
摩斯倫・馬賽會計師事務所

To the members of
Excel Technology International Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Excel Technology International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 75, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion section, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS OF QUALIFIED OPINION

(a) As at 31 December 2005, the Group's interests in associates included share of net assets of Camelot Information Systems Inc. ("Camelot") of HK$29,631,000. As we had not been able to satisfy ourselves as to whether the Group's interests in Camelot as at 31 December 2005 and the Group's share of profit for the year then ended were fairly stated under Hong Kong Financial Reporting Standards, we had qualified our report accordingly. Details of our qualification were more fully explained in the 2005 annual report.

(b) As further detailed in note 15 to the financial statements, the Group disposed of its entire interest in Camelot during the year. After the disposal the Group no longer has access to the accounting records of Camelot and consequently could not arrange for the audit of Camelot's management accounts up to the date of disposal. Because of this and the reason set out in paragraph (a) we had not been able to satisfy ourselves as to whether the Group's share of profit for the year ended 31 December 2006 of HK$160,000 was fairly stated. Any adjustments to Group's share of profit for the years ended 31 December 2005 and 31 December 2006 that might be required would have a compensating effect on the loss on disposal of Camelot of HK$3,237,000. However, there is no impact on the consolidated balance sheet as at 31 December 2006.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion the consolidated financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2006 and of the Group's cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning matters as set out in the basis of qualified opinion paragraph, in our opinion the consolidated financial statements give a true and fair view of the Group's profit for the year then ended.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants
Hong Kong

19 March 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	3	**282,823**	224,242
Other net operating income	5	**3,213**	688
Change in inventories of hardware and software		**924**	(6,757)
Purchase of hardware and software		**(167,260)**	(108,521)
Professional fee		**(10,798)**	(15,463)
Staff costs		**(82,507)**	(82,038)
Depreciation and amortisation		**(5,093)**	(8,338)
Other expenses		**(17,480)**	(19,690)
Impairment loss recognised in respect of goodwill		**–**	(4,162)
Reversal of impairment of property, plant and equipment		**–**	816
Provision for obsolete inventories		**–**	(545)
Profit (Loss) from operations		**3,822**	(19,768)
Finance costs	9	**(185)**	(316)
Share of results of associates		**(30)**	4,517
Loss on disposal of an associate		**(3,237)**	–
Profit (Loss) before taxation	6	**370**	(15,567)
Taxation	10	**(56)**	(139)
Profit (Loss) for the year		**314**	(15,706)
Attributable to:			
Equity holders of the Company	11	**1,457**	(16,566)
Minority interests		**(1,143)**	860
		314	(15,706)
Earnings (Loss) per share – Basic	12	**0.15 cents**	(1.68 cents)

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	13	**11,602**	13,687
Interests in associates	15	**22**	36,365
Goodwill	16	**1,691**	1,140
Development costs	17	**1,684**	3,367
Available-for-sale financial assets	18	**6,275**	7,229
Loan receivable	19	**1,911**	–
		23,185	61,788
Current assets			
Inventories, at cost		**1,203**	279
Unbilled revenue	20	**12,640**	7,956
Trade receivables	21	**25,467**	29,019
Other receivables, deposits and prepayments		**5,153**	9,244
Financial assets at fair value through profit or loss	18	**2,547**	–
Pledged bank deposits		**13,303**	10,484
Bank balances and cash		**47,261**	14,464
		107,574	71,446
Current liabilities			
Short-term bank loans – secured		**–**	7,170
Other loans	23	**6,305**	–
Trade payables	24	**8,562**	14,828
Other payables and accrued charges		**7,907**	10,789
Deferred income	20	**16,694**	13,214
		39,468	46,001
Net current assets		**68,106**	25,445
Net assets		**91,291**	87,233
Capital and reserves			
Share capital	25	**98,505**	98,505
Reserves	26(a)	**(12,365)**	(14,772)
Equity attributable to equity holders of the Company		**86,140**	83,733
Minority interests		**5,151**	3,500
Total equity		**91,291**	87,233

The financial statements on pages 34 to 75 were approved and authorised for issue by the Board of Directors on 19 March 2007 and are signed on its behalf by:

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

BALANCE SHEET

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Investments in subsidiaries	14	**–**	–
Current assets			
Prepayments		**5**	157
Amounts due from subsidiaries	22	**133,864**	134,524
Bank balances		**94**	242
		133,963	134,923
Current liabilities			
Other payables and accrued charges		**354**	350
Amounts due to subsidiaries	22	**64,751**	64,740
		65,105	65,090
Net current assets		**68,858**	69,833
Net assets		**68,858**	69,833
Capital and reserves			
Share capital	25	**98,505**	98,505
Reserves	26(b)	**(29,647)**	(28,672)
Total equity		**68,858**	69,833

The financial statements on pages 34 to 75 were approved and authorised for issue by the Board of Directors on 19 March 2007 and are signed on its behalf by:

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the Company							
	Share capital HK$'000	**Share premium** HK$'000	**Investment revaluation reserve** HK$'000	**Exchange reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total equity** HK$'000
At 1 January 2005	98,505	179,650	(1,305)	–	(176,341)	100,509	2,636	103,145
Net loss directly recognized in equity:								
Changes in fair value of available-for-sale financial assets	–	–	(210)	–	–	(210)	–	(210)
Capital contributed by a minority shareholder of a subsidiary	–	–	–	–	–	–	4	4
(Loss) Profit for the year	–	–	–	–	(16,566)	(16,566)	860	(15,706)
At 31 December 2005	98,505	179,650	(1,515)	–	(192,907)	83,733	3,500	87,233
At 1 January 2006	98,505	179,650	(1,515)	–	(192,907)	83,733	3,500	87,233
Net gain directly recognized in equity:								
Changes in fair value of available-for-sale financial assets	–	–	605	–	–	605	–	605
Acquisition of a subsidiary	–	–	–	–	–	–	737	737
Capital contributed by a minority shareholder of a subsidiary	–	–	–	–	–	–	1,907	1,907
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	345	–	345	150	495
Profit (Loss) for the year	–	–	–	–	1,457	1,457	(1,143)	314
At 31 December 2006	**98,505**	**179,650**	**(910)**	**345**	**(191,450)**	**86,140**	**5,151**	**91,291**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Profit (Loss) before taxation	**370**	(15,567)
Adjustments for:		
Share of results of associates	**30**	(4,517)
Loss on disposal of an associate	**3,237**	–
Dividend income	**(31)**	(24)
Interest income	**(1,459)**	(449)
Interest expense	**185**	316
Net (gain) loss on financial assets at fair value through profit or loss	**(1,022)**	210
Depreciation and amortisation of property, plant and equipment	**3,410**	3,584
Amortisation of development costs	**1,683**	4,754
Impairment loss recognised in respect of goodwill	**–**	4,162
Loss on disposal of property, plant and equipment	**–**	45
Reversal of impairment loss on property, plant and equipment	**–**	(816)
Changes in working capital:		
Inventories	**(891)**	6,757
Unbilled revenue	**(4,185)**	(2,726)
Trade receivables	**4,518**	(8,977)
Other receivables, deposits and prepayments	**4,201**	(2,815)
Financial assets at fair value through profit or loss	**(1,525)**	–
Amount due from an associate	**–**	103
Trade payables	**(6,431)**	4,466
Other payables and accrued charges	**(5,456)**	4,699
Deferred income	**3,471**	(870)
Cash generated from (used in) operations	**105**	(7,665)
Taxation in other jurisdictions paid	**(56)**	(139)
Net cash generated from (used in) operating activities	**49**	(7,804)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
INVESTING ACTIVITIES		
Interest received	**1,459**	449
Dividend received	**31**	24
Purchase of property, plant and equipment	**(1,059)**	(2,504)
(Increase) Decrease in pledged bank deposits	**(2,819)**	1,138
Acquisition of a subsidiary (Note 27)	**1,115**	–
Proceeds from redemption of available-for-sale financial assets	**1,559**	–
Proceeds from disposal of financial assets at fair value through profit or loss	**–**	1,462
Proceeds from disposal of an associate	**33,076**	–
Proceeds from disposal of property, plant and equipment	**–**	3
Increase in loan receivable	**(1,911)**	–
Net cash generated from investing activities	**31,451**	572
FINANCING ACTIVITIES		
New bank and other loans raised	**6,305**	8,298
Repayment of bank loans	**(7,170)**	(6,486)
Interest paid	**(185)**	(316)
Capital contributed by a minority shareholder of a subsidiary	**1,907**	4
Net cash generated from financing activities	**857**	1,500
Net increase (decrease) in cash and cash equivalents	**32,357**	(5,732)
Cash and cash equivalents at beginning of the year	**14,464**	20,196
Effect on exchange rate changes	**440**	–
Cash and cash equivalents at end of the year, representing bank balances and cash	**47,261**	14,464

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited. In the opinion of the directors, the ultimate parent of the Company is Passion Investment (BVI) Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its principal subsidiaries are engaged in the development, sale and implementation of enterprise software and the provision of systems integration, professional services and ASP services.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2005 financial statements, except for the adoption of *Amendments to HKAS 39 Financial instruments: Recognition and measurement and HKFRS 4 Insurance contracts: Financial guarantee contracts*. The adoption of this amendment has no significant effects on the financial statements of the Group and the Company.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for available-for-sale financial assets and financial assets at fair value through profit or loss, which are measured at fair value.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Group have been eliminated on consolidation.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repair and maintenance expenses are charged to the income statement during the year in which they are incurred.

As the Group's lease payments cannot be allocated reliably between the land and buildings elements at the inception of the lease because similar land and buildings are not sold or leased separately, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately.

Leasehold land	Over the unexpired terms of leases
Buildings	2.5%
Leasehold improvements	25%
Computer and office equipment	20% to $33^1/_3$%
ASP software	20%
Furniture and fixtures	25%
Motor vehicles	30%

Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over a period of three years.

Subsidiaries

A subsidiary is an entity in which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Subsidiaries *(Continued)*

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The Group's investment in associate is accounted for under the equity method of accounting. The income statement includes the Group's share of the post-acquisition results of the associate for the year. The balance sheet includes the Group's share of the net assets of the associates and also goodwill. The Group discontinues recognising its share of further losses when the Group's share of losses of the associate equals or exceeds the carrying amount of its interest in the associate, as the Group has no obligations in respect of the associate.

Goodwill

Goodwill on acquisition, being the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities, is recognised as a separate asset. Goodwill on acquisitions of associates or jointly controlled entities is included in interests in associates or jointly controlled entities. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment test and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the date of acquisition, after reassessment, is recognised immediately in the income statement.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which incorporates any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated at this category or not classified in any of the other categories. They are measured at fair value with changes in value recognised as a separate component of equity until the investments are sold, collected or otherwise disposed of, or until the investments are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

When an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss, is transferred from equity to income statement. Reversal of impairment loss of available-for-sale equity instrument is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Financial liabilities

The Group's financial liabilities include trade and other payables, bank loans and other borrowings. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Income from enterprise software products includes the sale of enterprise software products, custom development and the provision of maintenance services. Income from systems integration includes the provision of systems integration services and the resale of complementary hardware and software products.

The Group enters into contracts with customers whereby a number of elements are bundled together in one contract – for example, resale of complementary hardware and software products, sale of software licences and the development of customised software including completion of services provided for post-delivery service support. The contract price is fixed prior to the commencement of the contract and the Group refers to these as "fixed price contracts".

In circumstances where the contract price can be allocated on a reasonable basis to the elements of resale of hardware and software products, sale of software licences and development of customised software, revenue is recognised as described below:

(a) Revenue from resale of complementary hardware and software products is recognised when the goods are delivered and title has been passed.

(b) Revenue from sale of software licences is recognised upon delivery of the software products to the customer when there are no post-delivery obligations.

(c) Revenue from the development of customised software is recognised by reference to the stage of completion of the customisation work (including post-delivery service support) at the balance sheet date.

Where the contract price cannot be allocated into individual elements of the sale of enterprise software products and custom development, revenue from sale of enterprise software products and custom development is recognised by reference to the stage of completion of the sale of enterprise software products and custom development (including post-delivery service support) at the balance sheet date.

Maintenance service income is recognised on a straight line basis over the terms of the relevant maintenance service contracts. Where maintenance service income is not separately invoiced, it is unbundled from licence fees and deferred and recognised on a straight line basis over the period of the relevant maintenance service contracts.

Systems integration service income is recognised when the services are provided.

Professional service income is recognised when the services are provided.

Application Service Provider ("ASP") service income is recognised when the services are provided.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Management fee income is recognised when the management services are provided.

Service income is recognised when the services are provided.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity investments held that are classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity instruments classified as available-for-sale financial assets are included in the investment revaluation reserve in equity.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Impairment of non-financial assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether its property, plant and equipment and intangible assets with finite useful lives have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Related parties

A party is related to the Group if

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Critical accounting estimates and judgements

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the accounts receivables and loan receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including their current creditworthiness, past collection history and financial condition. If the financial conditions of these customers and the borrower were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

Fair value of available-for-sale financial assets

The available-for-sale financial assets as recorded in the consolidated balance sheet included an investment in an unlisted private equity fund (the "Fund") amounting to HK$5,333,000, which are stated at fair value.

The Fund's assets mainly represent investments in unlisted companies in high growth technology industries (the "Investments"). According to the audited financial statements of the Fund for the year ended 31 December 2005 and a written confirmation from the Fund's management, the fair value of the Investments are reviewed semi-annually on 30 June and 31 December, which estimation involves judgements of management of the Fund.

The fair value of the Fund as at the balance sheet date represented the Group's share of net assets of the Fund by reference to its unaudited management accounts for the year ended 31 December 2006.

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/ revised HKFRS that are not yet effective for the current year. The Group has not early adopted these HKFRS and the directors anticipate that the adoption of these HKFRS in the future periods will have no material impact on the results of the Group.

3. TURNOVER

	2006	2005
	HK$'000	HK$'000
An analysis of the Group's turnover and revenue is as follows:		
Enterprise software products	**79,102**	68,166
Systems integration	**175,766**	121,922
Professional services	**23,163**	29,044
ASP services	**4,792**	5,110
	282,823	224,242

4. SEGMENT INFORMATION

(a) Geographical segments

Geographical segments based on the location of assets are chosen as the primary segment reporting format because management considers that they are more relevant to the Group in making operating and financial decisions. The Group's business can be subdivided into Hong Kong, other regions in the People's Republic of China (the "PRC") and other markets.

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

	Hong Kong		PRC		Others		Elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**97,643**	86,190	**195,043**	145,303	**13,308**	11,901	**(23,171)**	(19,152)	**282,823**	224,242
Segment results	**2,454**	(16,922)	**697**	(5,551)	**671**	2,705	**–**	–	**3,822**	(19,768)
Finance costs	**(59)**	(14)	**(126)**	(302)	**–**	–	**–**	–	**(185)**	(316)
Share of results of associates	**–**	–	**(30)**	4,517	**–**	–	**–**	–	**(30)**	4,517
Loss on disposal of an associate	**–**	–	**(3,237)**	–	**–**	–	**–**	–	**(3,237)**	–
Profit (Loss) before taxation	**2,395**	(16,936)	**(2,696)**	(1,336)	**671**	2,705	**–**	–	**370**	(15,567)
Taxation	**–**	–	**(56)**	(139)	**–**	–	**–**	–	**(56)**	(139)
Profit (Loss) for the year	**2,395**	(16,936)	**(2,752)**	(1,475)	**671**	2,705	**–**	–	**314**	(15,706)

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

(ii) Other information:

	Hong Kong		PRC		Others		Elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital additions	**443**	433	**558**	2,071	**58**	–	**–**	–	**1,059**	2,504
Depreciation and amortisation	**3,074**	3,428	**1,948**	4,847	**71**	63	**–**	–	**5,093**	8,338
Impairment loss reversed	**–**	(816)	**–**	–	**–**	–	**–**	–	**–**	(816)
Impairment loss recognised	**–**	4,162	**–**	–	**–**	–	**–**	–	**–**	4,162
Revenue by location of customers	**92,499**	73,971	**197,593**	154,105	**15,902**	15,318	**(23,171)**	(19,152)	**282,823**	224,242

Inter-segment sales are charged at similar terms as external customers.

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

	Hong Kong		PRC		Others		Elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets										
Segment assets	**148,270**	113,907	**41,866**	39,769	**10,165**	6,119	**(69,564)**	(62,926)	**130,737**	96,869
Interests in associates	**–**	–	**22**	36,365	**–**	–	**–**	–	**22**	36,365
Consolidated total assets	**148,270**	113,907	**41,888**	76,134	**10,165**	6,119	**(69,564)**	(62,926)	**130,759**	133,234
Liabilities										
Segment liabilities	**(18,746)**	(18,431)	**(76,763)**	(73,177)	**(13,523)**	(10,149)	**69,564**	62,926	**(39,468)**	(38,831)
Bank loans	**–**	(2,000)	**–**	(5,170)	–	–	–	–	**–**	(7,170)
Consolidated total liabilities	**(18,746)**	(20,431)	**(76,763)**	(78,347)	**(13,523)**	(10,149)	**69,564**	62,926	**(39,468)**	(46,001)

4. SEGMENT INFORMATION *(Continued)*

(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, segment assets and capital additions by business segments is as follows:

	Enterprise software products		Systems integration		Professional services		ASP services		Unallocated		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**79,102**	68,166	**175,766**	121,922	**23,163**	29,044	**4,792**	5,110	**–**	–	**282,823**	224,242
Segment assets	**34,207**	39,418	**14,665**	17,115	**9,719**	41,541	**279**	582	**71,889**	34,578	**130,759**	133,234
Capital additions	**897**	2,287	**–**	–	**154**	180	**8**	37	**–**	–	**1,059**	2,504

5. OTHER NET OPERATING INCOME

	2006 HK$'000	2005 HK$'000
Dividend income from listed securities	**31**	24
Interest income	**1,459**	449
Management fee and service income	**–**	50
Net gain (loss) on financial assets at fair value through profit or loss	**1,022**	(210)
Others	**701**	375
	3,213	688

6. PROFIT (LOSS) BEFORE TAXATION

	2006 HK$'000	2005 HK$'000
Profit (Loss) before taxation has been arrived at after charging:		
Directors' remuneration, excluding benefit-in-kind (Note 7)	**4,348**	4,879
Other staff costs	**74,228**	73,761
Contributions to defined contribution plans	**3,931**	3,398
	82,507	82,038
Depreciation and amortisation of property, plant and equipment	**3,410**	3,584
Amortisation of development costs	**1,683**	4,754
Total depreciation and amortisation	**5,093**	8,338
Cost of inventories sold	**166,336**	115,278
Cost of services rendered	**73,150**	75,842
Auditors' remuneration	**721**	651
Loss on disposal of property, plant and equipment	**–**	45
Minimum lease payments in respect of land and buildings	**4,761**	4,603

7. DIRECTORS' REMUNERATION

The aggregate amounts of remuneration received and receivable by the Company's directors are as follows:

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit HK$'000	Benefit-in-kind (Note) HK$'000	Contributions to defined contribution plan HK$'000	2006 Total HK$'000
Executive directors						
Zee Chan Mei Chu, Peggy	**–**	**1,000**	**–**	**364**	**12**	**1,376**
Fung Din Chung, Rickie	**–**	**1,000**	**–**	**–**	**12**	**1,012**
Leung Lucy, Michele	**–**	**1,000**	**–**	**135**	**12**	**1,147**
Ng Wai King, Steve	**–**	**1,000**	**–**	**–**	**12**	**1,012**
Non-executive director						
Ip Tak Chuen, Edmond	**–**	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors						
Cheong Ying Chew, Henry	**100**	**–**	**–**	**–**	**–**	**100**
Chang Ka Mun	**100**	**–**	**–**	**–**	**–**	**100**
Wong Mee Chun	**100**	**–**	**–**	**–**	**–**	**100**
	300	**4,000**	**–**	**499**	**48**	**4,847**

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit HK$'000	Benefit-in-kind (Note) HK$'000	Contributions to defined contribution plan HK$'000	2005 Total HK$'000
Executive directors						
Zee Chan Mei Chu, Peggy	–	1,000	–	324	9	1,333
Fung Din Chung, Rickie	–	1,000	–	–	11	1,011
Leung Lucy, Michele	–	1,000	–	125	12	1,137
Wen Pei Sung (resigned on 31 December 2005)	–	1,450	85	–	12	1,547
Ng Wai King, Steve (appointed on 31 December 2005)	–	–	–	–	–	–
Non-executive director						
Ip Tak Chuen, Edmond	–	–	–	–	–	–
Independent non-executive directors						
Cheong Ying Chew, Henry	100	–	–	–	–	100
Chang Ka Mun	100	–	–	–	–	100
Wong Mee Chun	100	–	–	–	–	100
	300	4,450	85	449	44	5,328

7. DIRECTORS' REMUNERATION *(Continued)*

Note: The amount represents the estimated rateable value of residential accommodation in respect of properties owned by the Group and occupied by two executive directors of the Company.

No directors waived any emoluments during both years.

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: four) are directors of the Company whose emoluments are disclosed in note 7 above. The emoluments of the remaining highest paid individual (2005: one individual) are as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**1,200**	1,200
Retirement benefit costs	**12**	12
	1,212	1,212

The emoluments of the individual (2005: one individual) was within the following bands:

	Number of employees	
	2006	2005
HK$1,000,000 to HK$1,500,000	**1**	1

No emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**185**	316

10. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's entities either incurred tax losses during both years or their estimated assessable profits for the years were wholly absorbed by unrelieved tax losses brought forward from previous years.

The tax charge for the years ended 31 December 2006 and 2005 represents taxation in other jurisdictions, which is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of tax charge

	2006 **HK$'000**	2005 HK$'000
Profit (Loss) before taxation	**370**	(15,567)
Tax at the Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**65**	(2,724)
Tax effect of income not taxable for tax purposes	**(3,860)**	(146)
Tax effect of expenses not deductible for tax purposes	**4,701**	2,281
Tax effect of unrecognised tax losses / utilisation of previously unrecognised tax losses	**(1,421)**	1,798
Tax effect of share of results of associates and loss on disposal of an associate	**572**	(790)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1)**	(280)
Tax charge for the year	**56**	139

11. PROFIT (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit (loss) attributable to equity holders of the Company includes a loss of HK$975,000 (2005: HK$893,000) which has been dealt with in the financial statements of the Company.

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$1,457,000 (2005: loss of HK$16,566,000) and the 985,050,000 (2005: 985,050,000) shares in issue during the year.

No diluted earnings (loss) per share have been presented because all the share options granted as at 31 December 2006 and 2005 were anti-dilutive.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Computer and office equipment HK$'000	ASP software HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group							
Reconciliation of carrying amount – year ended 31 December 2005							
At beginning of year	5,786	1,045	5,818	1,073	128	149	13,999
Additions	–	185	2,300	–	19	–	2,504
Impairment loss reversed	816	–	–	–	–	–	816
Disposals	–	(31)	–	–	(17)	–	(48)
Depreciation	(75)	(468)	(2,182)	(737)	(65)	(57)	(3,584)
At balance sheet date	6,527	731	5,936	336	65	92	13,687
Reconciliation of carrying amount – year ended 31 December 2006							
At beginning of year	6,527	731	5,936	336	65	92	13,687
Acquisition of a subsidiary	–	130	136	–	–	–	266
Additions	–	–	1,050	–	9	–	1,059
Depreciation	(103)	(473)	(2,391)	(336)	(50)	(57)	(3,410)
At balance sheet date	**6,424**	**388**	**4,731**	**–**	**24**	**35**	**11,602**
At beginning of year							
Cost	7,856	2,773	33,214	7,187	1,631	717	53,378
Accumulated depreciation, amortisation and impairment losses	(1,329)	(2,042)	(27,278)	(6,851)	(1,566)	(625)	(39,691)
	6,527	731	5,936	336	65	92	13,687
At balance sheet date							
Cost	7,856	2,960	34,106	7,187	1,640	717	54,466
Accumulated depreciation, amortisation and impairment losses	(1,432)	(2,572)	(29,375)	(7,187)	(1,616)	(682)	(42,864)
	6,424	**388**	**4,731**	**–**	**24**	**35**	**11,602**

The Group's leasehold land and buildings are situated in Hong Kong and are held under long leases.

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost of US$1	**–**	–

Details of the Company's principal subsidiaries as at 31 December 2006 are set out in note 36.

15. INTERESTS IN ASSOCIATES

	The Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**22**	29,748
Goodwill	**–**	6,617
	22	36,365

As at 31 December 2006, the Group had interests in the following associates:

Name of associate	Place of incorporation/ registration	Principal place of operation	Proportion of nominal value of issued share capital/registered capital attributable to the Group	Principal activities
深圳志鴻中科科技有限公司	PRC	PRC	45.0%	Development of computer software services and provision of sale and marketing support
錢引信息科技(上海)有限公司	PRC	PRC	38.0%	Inactive

At 31 December 2006, the accumulated losses of the Group include losses of HK$401,000 (2005: profits of HK$14,645,000) retained by the Group's associates.

15. INTERESTS IN ASSOCIATES *(Continued)*

During the year ended 31 December 2006, the Group disposed of its 21.5% equity interest in Camelot Information Systems Inc. ("Camelot") at a consideration of approximately HK$33,076,000, resulting in a loss on disposal of HK$3,237,000. The share of profit of Camelot for the period from 1 January 2006 up to the date of disposal was HK$160,000, which was based on the unaudited management accounts of Camelot.

Summary of financial information of associates are as follows:

	2006	2005
	HK$'000	HK$'000
Share of associates' assets and liabilities		
Non-current assets	**5**	4,746
Current assets	**222**	29,163
Non-current liabilities	**–**	454
Current liabilities	**205**	3,707
Share of associates' revenue and profit (loss)		
Revenue	**272**	30,960
(Loss) Profit	**(190)**	4,517

16. GOODWILL

	The Group	
	2006	2005
	HK$'000	HK$'000
Reconciliation of carrying amount		
At beginning of year	**1,140**	5,302
Additions	**551**	–
Impairment loss	**–**	(4,162)
At balance sheet date	**1,691**	1,140
At balance sheet date		
Cost net of accumulated amortisation	**15,853**	15,302
Accumulated impairment losses	**(14,162)**	(14,162)
	1,691	1,140

16. GOODWILL *(Continued)*

Estimates used to measure recoverable amounts of cash-generating units containing goodwill

Goodwill acquired through business combination has been allocated to the cash-generating units for impairment test:

	2006	2005
	HK$'000	HK$'000
Provision of professional services in the PRC	**1,140**	1,140
Provision of professional services in Taiwan	**551**	–
	1,691	1,140

The recoverable amounts of the goodwill relating to the provision of professional services in the PRC and Taiwan have been determined by a value in use calculation. Cash flow projections are based on approved financial budgets for the year ending 31 December 2007.

Key assumptions used in value in use calculation

– Growth rate in turnover	7%
– Discount rate	9%

Management determined the budgeted gross margin on the basis of past performance and its expectation for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amount of the goodwill to exceed its aggregate recoverable amount.

17. DEVELOPMENT COSTS

	The Group	
	2006	2005
	HK$'000	HK$'000
Reconciliation of carrying amount		
At beginning of year	**3,367**	8,121
Amortisation	**(1,683)**	(4,754)
At balance sheet date	**1,684**	3,367
At balance sheet date		
Cost	**31,085**	31,085
Accumulated Amortisation	**(29,401)**	(27,718)
	1,684	3,367

The development costs represented all direct costs incurred in the development of enterprise software products. This asset is tested for impairment where an indication on impairment arises.

18. INVESTMENTS IN SECURITIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Available-for-sale financial assets		
– unlisted private equity fund, at fair value	**5,333**	6,287
– unlisted equity investments, at cost	**942**	942
	6,275	7,229
Financial assets at fair value through profit or loss, held for trading		
– equity securities listed in Hong Kong	**2,547**	–
	8,822	7,229
Analysed for reporting purposes:		
– included in non-current assets	**6,275**	7,229
– included in current assets	**2,547**	–
	8,822	7,229

Market values have been used to determine the fair value of listed equity securities. The unlisted private equity fund principally invests in high growth technology industries and is held for long-term strategic purposes. The fair value is determined by reference to the net asset value of the underlying investment in the equity fund.

19. LOAN RECEIVABLE

The Group

The loan receivable from a minority shareholder of a subsidiary (the "Subsidiary") bears interest at 5% per annum and is repayable on 11 December 2009 (i.e. the third anniversary date since the date of drawdown). If the borrower defaults in payment of the principal and interest on the maturity date, the Group shall have the right to receive the shares of the Subsidiary owned by the borrower at the rate of the then fair market value or US$1 per share, whichever is higher.

20. UNBILLED REVENUE/DEFERRED INCOME

The Group

Unbilled revenue represents the excess of the value of work performed over the amount of billing issued to customers. Deferred income represents the excess of billing over the value of work performed and the amounts received from customers before the related services have been rendered.

All the amounts included in unbilled revenue/deferred income are expected to be billed and recovered/credited to the income statement within one year.

21. TRADE RECEIVABLES

	The Group	
	2006	2005
	HK$'000	HK$'000
Trade receivables from:		
third parties	**22,958**	27,835
a related party	**2,509**	1,184
	25,467	29,019

Trade receivables from third parties 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.

Trade receivable from a related party is unsecured, interest-free and due within 30 days from the date of billing. The related party is a shareholder of a subsidiary of the Company.

The following is an ageing analysis of the trade receivables at the balance sheet date:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within 1 month	**14,657**	22,197
1 to 3 months	**5,779**	5,085
Over 3 months	**5,031**	1,737
	25,467	29,019

22. AMOUNTS DUE FROM/TO SUBSIDIARIES

The Company

The amounts are unsecured, non-interest bearing and repayable on demand.

23. OTHER LOANS

The Group

The loans borrowed from companies controlled by a minority shareholder of a subsidiary are unsecured and interest-free. HK$2,910,000 of the loans is repayable on 21 January 2007 while the remaining HK$3,395,000 is repayable on 21 February 2007.

24. TRADE PAYABLES

The following is an ageing analysis of the trade payables at the balance sheet date:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within 1 month	**2,380**	10,827
1 to 2 months	**4,792**	599
2 to 3 months	**792**	1,517
Over 3 months	**598**	1,885
	8,562	14,828

25. SHARE CAPITAL

	2006 & 2005	
	Number of shares	Amount HK$'000
Authorised:		
Shares of HK$0.10 each	5,000,000,000	500,000
Issued and fully paid:		
Shares of HK$0.10 each	985,050,000	98,505

There were no changes in the Company's authorised, issued and fully paid share capital in both years.

26. RESERVES

(a) The Group

	Share premium HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	179,650	(1,305)	–	(176,341)	2,004
Net loss directly recognised in equity:					
Changes in fair value of available-for-sale financial assets	–	(210)	–	–	(210)
Loss for the year	–	–	–	(16,566)	(16,566)
At 31 December 2005	179,650	(1,515)	–	(192,907)	(14,772)
At 1 January 2006	179,650	(1,515)	–	(192,907)	(14,772)
Net gain directly recognised in equity:					
Changes in fair value of available-for-sale financial assets	–	605	–	–	605
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	345	–	345
Profit for the year	–	–	–	1,457	1,457
At 31 December 2006	**179,650**	**(910)**	**345**	**(191,450)**	**(12,365)**

(b) The Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	179,650	(207,429)	(27,779)
Loss for the year	–	(893)	(893)
At 31 December 2005	179,650	(208,322)	(28,672)
At 1 January 2006	179,650	(208,322)	(28,672)
Loss for the year	–	(975)	(975)
At 31 December 2006	**179,650**	**(209,297)**	**(29,647)**

At 31 December 2006, there were no reserves available for distribution to the Company's equity holders (2005: Nil).

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

27. ACQUISITION OF A SUBSIDIARY

In April 2006, through a non-wholly owned subsidiary, the Group acquired 65% interest in 新川資訊科技股份有限公司 ("New River") which is engaged in the provision of IT professional services in Taiwan. In connection with the business combination, the Group paid cash consideration of HK$1,920,000.

The fair value of the identifiable assets and liabilities of New River as at the date of acquisition and their carrying value determined in accordance with HKFRS immediately before the acquisition are as follows:

	Carrying value HK$'000	Fair value HK$'000
Property, plant and equipment	266	**266**
Bank balances and cash	3,035	**3,035**
Unbilled revenue	358	**358**
Trade receivables	653	**653**
Other receivables, deposits and prepayments	39	**39**
Other payables and accrued charges	(2,245)	**(2,245)**
	2,106	**2,106**
Less: minority interest		**(737)**
		1,369
Goodwill arising on acquisition		**551**
Total consideration, paid by cash		**1,920**
Net cash acquired from the subsidiary		**3,035**
Cash paid		**(1,920)**
Net cash inflow		**1,115**

Since acquisition, New River has contributed turnover and loss of HK$2,108,000 and HK$126,000 to the Group respectively.

If the business combination effected during the period had been taken place at the beginning of the period, the turnover and loss for the Group would have been approximately HK$283,765,000 and HK$251,000 respectively according to the unaudited financial information of New River.

The goodwill is attributable to the profitability and the synergies expected to arise from the business combination.

28. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Development costs HK$'000	Tax losses HK$'000	Total HK$'000
The Group				
At 1 January 2005	(201)	884	(683)	–
(Credit) Charge for the year	238	(295)	57	–
At 31 December 2005	37	589	(626)	–
At 1 January 2006	37	589	(626)	–
(Credit) Charge for the year	(71)	(294)	365	–
At 31 December 2006	**(34)**	**295**	**(261)**	**–**

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the HKAS 12 "Income taxes" issued by the HKICPA.

At 31 December 2006, the Group had unused tax losses of approximately HK$140,010,000 (2005: HK$145,993,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$1,489,000 (2005: HK$3,577,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of approximately HK$138,521,000 (2005: HK$142,416,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except losses of approximately HK$17,143,000 (2005: HK$18,073,000) which will expire as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Year of expiry		
2006	**–**	1,089
2007	**3,956**	4,028
2008	**1,243**	2,683
2009	**3,349**	4,407
2010	**6,017**	5,866
2011	**2,578**	–
	17,143	18,073

29. SHARE OPTION SCHEMES

On 16 June 2000, the Company adopted a share option scheme (the "Old Scheme") and this scheme was substituted by a new share option scheme (the "New Scheme") pursuant to the shareholders' resolution in a special general meeting on 23 April 2002 for complying with the terms of the Rules Governing the Listing of Securities on the GEM. Under the Old Scheme, the directors may at their discretion grant options to eligible employees of the Group, including executive directors of the Company or its subsidiaries, to subscribe for shares in the Company. An option may be exercised within an option period, which shall not be less than three years and not be more than ten years from the date of grant where the acceptance date should not be later than 28 days after the date of offer. A nominal consideration of HK$1 was payable on acceptance of the grant of the options. The subscription price of the options was the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted under the Old Scheme may not exceed 30% of the issued shares capital of the Company from time to time. Options granted under the Old Scheme prior to its cessation which have not been fully exercised remain valid until such time that such options are fully exercised or have lapsed.

The New Scheme adopted on 23 April 2002 will expire on 22 April 2012. The purpose of the New Scheme is to provide the participants with an opportunity to acquire equity interests in the Company and with an incentive to continue contributing to the success of the Company. Under the New Scheme, the directors may grant options at their discretion to any eligible employees of the Group, including executive directors of the Company and its subsidiaries to subscribe for shares in the Company. The exercisable period of the options granted commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant where the acceptance date should not be later than 14 days after the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of the options. The subscription price of the options shall not be less than the highest of (i) the closing price of the Company's shares on the date of the grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted under the New Scheme may not exceed the nominal amount of 10% of the issued share capital of the Company. However, the total maximum number of shares which may be issued upon exercise of all outstanding options must not exceed 30% of the issued share capital from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval of the Company's shareholders.

No share options were granted under the New Scheme since its adoption.

29. SHARE OPTION SCHEMES *(Continued)*

A summary of the movements of the outstanding options during each of the years ended 31 December 2006 and 2005 under the Old Scheme is as follows:

Date of grant	**Exercise price** HK$	**Number of options** Outstanding at 1.1.2006	Lapsed during the year	Outstanding at 31.12.2006
11 October 2001 *(Note)*	0.70	11,584,000	(11,584,000)	–

Date of grant	Exercise price HK$	Number of options Outstanding at 1.1.2005	Lapsed during the year	Outstanding at 31.12.2005
1 September 2000	0.90	32,928,000	(32,928,000)	–
11 October 2001 *(Note)*	0.70	14,644,000	(3,060,000)	11,584,000
		47,572,000	(35,988,000)	11,584,000

Details of the share options held by the directors and chief executive included in the above table are as follows:

Date of grant	**Exercise price** HK$	**Number of options** Outstanding at 1.1.2006	Lapsed during the year	Outstanding at 31.12.2006
11 October 2001 *(Note)*	0.70	2,000,000	(2,000,000)	–

Date of grant	Exercise price HK$	Number of options Outstanding at 1.1.2005	Lapsed during the year	Outstanding at 31.12.2005
1 September 2000	0.90	16,000,000	(16,000,000)	–
11 October 2001 *(Note)*	0.70	2,000,000	–	2,000,000
		18,000,000	(16,000,000)	2,000,000

29. SHARE OPTION SCHEMES *(Continued)*

Note:

The exercisable period is from 11 October 2001 to 10 October 2006 (both dates inclusive) (vesting period with 1st tranche of 20% is 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 2005 and the remaining tranche of 15% from 11 October 2005).

No share options were exercised under the Old Scheme during both years.

30. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of a trustee. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK$1,000.

The employees of the Group's subsidiaries in the PRC and Singapore are members of the state-managed retirement benefits scheme operated by the relevant governments. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

31. RELATED PARTY TRANSACTIONS

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

	2006 **HK$'000**	2005 HK$'000
Revenue:		
Sale of enterprise software products to a minority shareholder	**10,816**	8,924
Sale of enterprise software products to a related company	**–**	627
Professional service fee from an associate	**–**	338
Management fee and service income from a related company	**–**	100
Purchases and expenses:		
Purchase of complementary hardware and software from a minority shareholder	**10,285**	22,063
Purchase of complementary hardware and software from an associate	**165**	160
Design fee paid to a related company	**–**	100
Rental paid to a minority shareholder	**6**	68
Compensation paid to key management personnel, excluding directors:		
– Salaries and other benefits	**1,980**	2,980
– Contribution to defined contribution plan	**24**	36

Note:

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

The sales and purchase transactions were conducted at mutually agreed prices and terms.

The rental expense paid to a minority shareholder is based on an agreement entered into between the minority shareholder and the Group in August 2005.

32. OPERATING LEASES COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**3,229**	3,274
In the second to fifth years inclusive	**465**	1,711
	3,694	4,985

The lease payments are fixed for a term of one to two years and no arrangements have been entered into for contingent rental payments.

33. CONTINGENT LIABILITIES

The Company

At 31 December 2006, the Company had given corporate guarantees of HK$30,450,000 (2005: HK$30,450,000) to suppliers to secure the credit facilities granted to its subsidiaries. At 31 December 2006, the amount of facilities utilised by the subsidiaries amounted to HK$39,000 (2005: HK$2,461,000).

At 31 December 2006, the Company had also given corporate guarantees to customers in respect of the performance of obligations and liabilities under the service contracts entered into by the subsidiaries to the extent of HK$12,204,000 (2005: HK$16,124,000).

34. PLEDGE OF ASSETS

The Group

At 31 December 2006, bank deposits and leasehold land and buildings of HK$3,603,000 (2005: HK$10,484,000) and HK$6,424,000 (2005: HK$6,527,000) respectively were pledged to secure credit facilities granted to the Group. In addition, bank deposit of HK$9,700,000 was pledged for performance of obligations and liabilities under a service contract entered into by a subsidiary and a third party customer (2005: Nil).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short-term deposits. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its business activities.

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk, and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on its risk management and limit the Group's exposure to these risks to a minimum. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group trades only with recognised and creditworthy third parties. The credit policy on granting credit terms to customers includes assessing and valuing of customers' creditworthiness and financial standing. Management also closely monitors all outstanding debts and reviews the collectability of trade receivables periodically, with the result that the Group's exposure to bad debts is not significant. As at the balance sheet date, there was no significant concentration of credit risk.

Foreign exchange risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of Renminbi. The Group did not incur substantial foreign currency gain or loss during the year.

Liquidity risk

Liquidity risk refers to the risk in which the Group is unable to meet its short-term liabilities. Liquidity risk is minimal and is managed by matching the payments and receipt cycles, short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

36. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued capital/registered capital	Proportion of nominal value of issued share capital/ registered capital: Attributable to the Group	Held by the Company	Held by subsidiaries	Principal activities
Excel (BVI) Limited	British Virgin Islands*	5,000 shares of US$1 each	100%	100%	–	Investment holding
Excel China Investment (BVI) Limited	British Virgin Islands*	5,000 shares of US$1 each	100%	–	100%	Investment holding
Excel Consulting and Solutions Sdn. Bhd.	Malaysia*	2 shares of RM1 each	100%	–	100%	Development of computer software and provision of sale and marketing services
Excel Global IT Services Holdings Limited	British Virgin Islands*	500,000 shares of US$1 each	51%	–	51%	Investment holding
Excel Global IT Services (HK) Limited	Hong Kong*	10,000 shares of HK$1 each	51%	–	51%	Provision of professional services
Excel Technology International (BVI) Limited	British Virgin Islands*	1 share of US$1	100%	–	100%	Investment holding
Excel Technology International (Hong Kong) Limited	Hong Kong*	1,000 shares of HK$1 each	100%	–	100%	Development of computer software, systems integration and provision of maintenance services
Excelink Development Corporation	British Virgin Islands*	10,000 shares of US$1 each	100%	–	100%	Investment holding
Excelink Technology Pte Ltd.	Singapore*	S$893,022	100%	–	100%	Development of computer software and provision of sale and marketing services
Grandful Star Ltd.	British Virgin Islands*	1 share of US$1	100%	–	100%	Investment holding
HR21 Holdings Limited	British Virgin Islands*	50,000 shares of US$1 each	93%	–	93%	Investment holding

36. PRINCIPAL SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued capital/registered capital	Proportion of nominal value of issued share capital/ registered capital: Attributable to the Group	Held by the Company	Held by subsidiaries	Principal activities
HR21 Limited	Hong Kong*	2 shares of HK$1 each	93%	–	93%	Development of computer software and provision of maintenance services
i21 Limited	Hong Kong*	14,000 shares of HK$1 each	80.1%	–	80.1%	ASP services provider
Infostar Ltd.	British Virgin Islands*	1 share of US$1	100%	–	100%	Investment holding
Excel Global IT Services (Dalian) Limited	PRC**	US$150,000	51%	–	51%	Provision of professional services
Wise Success Ltd.	British Virgin Islands*	5,000 shares of US$1 each	100%	–	100%	Investment holding
北京志鴻英華科技有限公司	PRC***	US$1,230,000	65%	–	65%	Systems integration
深圳志鴻聯匯計算機系統有限公司	PRC***	RMB6,000,000	66%	–	66%	Development of computer software and provision of sale and marketing services
志鴻軟件(深圳)有限公司	PRC***	HK$3,000,000	100%	–	100%	Development of computer software and provision of maintenance services
安利科技(上海)有限公司	PRC**	US$350,000	100%	–	100%	Provision of professional services
志鴻六維科技(杭州)有限公司	PRC**	US$70,000	51%	–	51%	Provision of professional services
新川資訊科技股份有限公司	Taiwan*	NT$11,913,620	33.15%	–	33.15%	Provision of professional services

* Limited liability company
** Wholly-owned foreign enterprise
*** Sino-foreign equity joint venture enterprise

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at 31 December 2006 or at any time during the year.

FINANCIAL SUMMARY

Year ended 31 December 2006

	2002 HK$'000 (Restated)	2003 HK$'000 (Restated)	2004 HK$'000 (Restated)	2005 HK$'000	**2006 HK$'000**
RESULTS					
Turnover	193,398	184,713	162,888	224,242	**282,823**
Profit (Loss) before taxation	(69,372)	(25,716)	(22,937)	(15,567)	**370**
Taxation	(112)	650	(113)	(139)	**(56)**
Profit (Loss) for the year	(69,484)	(25,066)	(23,050)	(15,706)	**314**
ASSETS AND LIABILITIES					
Total assets	217,216	155,987	140,344	133,234	**130,759**
Total liabilities	(64,720)	(28,487)	(35,894)	(46,001)	**(39,468)**
Total equity	152,496	127,500	104,450	87,233	**91,291**