Excel Technology International Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 8048

2007 Annual Report

07

Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock 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.

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

Grant Thornton

LEGAL ADVISER

Baker & Mckenzie

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
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F., 663 King's Road
North Point
Hong Kong

WEBSITE ADDRESS

www.excel.com.hk

FINANCIAL HIGHLIGHTS

	2007 HK$'000	2006 HK$'000
Turnover	**183,987**	282,823
Operating profit	**4,373**	3,822
Profit attributable to equity holders of the Company	**4,068**	1,457
Earnings per share for the profit attributable to the equity holders of the Company during the year		
– Basic	**0.41 HK cents**	0.15 HK cents
Total equity	**98,053**	91,291

CHAIRMAN'S STATEMENT

In 2007, Excel continues to deliver a profitable business and paves a solid foundation into 2008. Despite competitive pricing in the software industry and rising operating costs, particularly in the human resources area, the Group generated a profit of HK$4,068,000 in 2007 (2006: a profit of HK$1,457,000), representing a rise of 179% over the past year.

SUSTAINABLE PERFORMANCE BUILT UPON CORE SOFTWARE BUSINESS

Despite a drop in turnover, which was largely in the systems integration business in China, the Group's software business increased by 17% in the year.

Excel has well earned a track record in delivering high performance and high quality software for the banking and finance industry. We have also built a name, among the banks and financial establishments in the region, that we are as good, if not better, than many large software companies known worldwide. We believe that this foundation is well established and can support a strong growth in years to come.

Our geographic presence in the region allows our multinational clients to enjoy consistent support across geographic boundaries for solutions, which are localized according to practices and regulations in different locations. This is evidenced in our ability to beat strong and well-known competitors in securing several multinational banks to adopt our wealth management and loans processing products for their regional rollout, including China.

We will continue to enhance this solid foundation of ours, and develop a mentoring model to enlarge our management bandwidth and grow the business.

TRANSFORM TO A HIGH VALUE PLATFORM

Management is cognizant of the difficult business environment in the IT industry and is constantly seeking opportunity to transform into a different business model, which can derive values from the strengths and values of our core software business.

Many of our bank customers – Asian banks as well as multinational banks – are facing rapid expansion problems in China, particularly in the areas of human resources and IT support. The Group has identified several opportunities to provide services to address these problems. Senior management is reviewing a plan, working with partners from Hong Kong and China, to establish the China Support Hub initiative. This initiative is aiming at providing these banks with a comprehensive package of services in software development, recruitment and training of staff, backup data center, back office processing, as well as management development.

The China Support Hub initiative will use a "Build, Operate, Transfer" (BOT) model to help the banks to set up their own support hubs in which the banks will make extensive use of Excel's services to build a solid base to support their high business growth in China.

Instrumental in this undertaking will be the Excel School of Banking and Technology. The School aims to provide a first class business-oriented vocational training program in banking operation and software development. This key part of the whole initiative is being planned for a pilot in 2008.

CHAIRMAN'S STATEMENT

FOCUSED ON SHAREHOLDERS

Excel management understands the importance of shareholders. The attempt to transform to a higher value platform is an effort to realize the real value of the Group, and to raise the return to shareholders. Not only will we remain focus on financial performance, we will also strive to deliver strong corporate governance. We will keep on-going communications with our directors and shareholders, and ensure high degree of transparencies.

Here, I would like to give special appreciation to our independent non-executive board members – Mr. Cheong Ying Chew, Henry, Ms. Wong Mee Chun and Mr. Chang Ka Mun for their sound advice and due care in the support on our major undertakings. We are thankful for the support they had granted and steering us through the difficult years.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the year ended 31 December 2007, the Group's profit attributable to equity holders jumped 179% to HK$4,068,000, as compared with a profit of HK$1,457,000 in the same period of 2006.

The Group recorded a turnover of HK$183,987,000, representing a decrease of 35% compared with HK$282,823,000 for 2006. The decrease is largely attributed to the drop of the systems integration business in Mainland China, which comes up to a total of HK$62,423,000 (2006: HK$175,766,000).

The sales of enterprise software products increased by 17% to HK$92,770,000 (2006: HK$79,102,000) with an improvement of profit margin.

Revenue on professional services slightly increased by 4% to HK$24,111,000, compared with HK$23,163,000 in 2006.

The Group's ASP business remained stable with revenue of HK$4,683,000 (2006: HK$4,792,000).

OPERATION REVIEW

As indicated in our Annual Report 2006, much of the Group's efforts have been placed into the sales and implementation of our enterprise software products. As a result, we recorded a year of solid growth of our business in this area.

Significant portion of our enterprise software business comes from recurring business, such as software upgrades and maintenance services generated from our existing client base. We expect the current client base will continue to generate income for us as most of our bank customers will continue to upgrade their IT infrastructure to support their growth.

On top of the recurring business, the Group managed to secure a few new clients in 2007, albeit very keen competition. This includes the winning of a Taiwanese-owned bank in Hong Kong adopting our loans management solution (ELS), and the successful selling of our mutual funds management system (ec-Invest) into an Arabian bank, which offers Islamic Banking in Malaysia.

The software development outsourcing business has achieved a significant milestone by landing its first contract from a Japanese customer. This contract called for the implementation of an ERP (Enterprise Resource Planning) system, in 4 locations spanning across the mainland, Hong Kong and Taiwan, for a Japanese manufacturing company. Japanese speaking staffs were assigned to support this project, which is expected to complete in 2008 and serves as a good reference to other potential Japanese customers.

It has been two years since the Group built the outsourcing business, and an operation review made in early 2007 helped us to put the right focus on where the business potential is: foreign companies with strong base in Hong Kong or China. As a result, we closed down our Dalian operation, moved and consolidated its resources into our Hangzhou and Shenzhen development centers.

Southeast Asia continues to be a small but steady market for us. Leveraging the customers we have in Malaysia, we have set up a small development and support team in Kuala Lumpur. The result was quite encouraging, and that may provide the Management with alternative in support arrangement whenever we want to expand our customer base in Southeast Asia.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

The Group will continue to pursue the strategy of focusing on the enterprise software and development outsourcing.

The responsibilities of the Management will be re-aligned to allow the dedication of one executive director to look after the software and outsourcing business in China. Such move is a reflection of the Management's optimistic view about the future prospects of software business in the banking industry in China, especially Shanghai.

It was only until late 2006 that foreign banks were allowed to incorporate locally in China and hence be able to transact more freely in Renminbi. It signifies the beginning of a high growth period for foreign banks which have great plans for China. These foreign banks represent excellent business opportunities for us because they will need computer software that are in Chinese and have been localized according to local practices and regulations.

While we had certain success with multinational banks operating in China using our enterprise software, we feel that we have not even scratched the surface of the enormous opportunities generated by these foreign banks. Unlike local Chinese banks which always have their headquarters in Beijing, most of the foreign banks have set up their China headquarters in Shanghai, and therefore we planned to deploy more sales and marketing resources in our Shanghai office to capture these new opportunities.

Another organization restructuring is also planned for our Beijing office with more resources shifted to support the enterprise software business. With more attention from the Management, we expect the software business with the local banks will continue to have healthy increase in the coming years.

We will continue to grow our software development outsourcing business by expanding our Hangzhou and Shenzhen resources. However, we have to manage the cost of our human resources carefully and monitor the effect of the new labour law being put into effect in January 2008.

We believe the Group is well positioned on a platform with its existing business lines. The Management is also prepared to take on new challenges and new initiatives which can further leverage the collective strength and position of our Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group was in a strong financial position with cash and cash equivalents of HK$37,625,000 (2006: HK$47,261,000).

As at 31 December 2007, the Group held the unlisted private equity fund for long-term strategic purpose and the investment was stated at fair value of USD686,044.

As at 31 December 2007, the Group invested the equity securities listed in Hong Kong of HK$6,990,000 at fair value. (2006: HK$2,547,000).

The Group monitors its capital structure using gearing ratio which is net debts divided by total equity. For this purpose the Group defines net debt as total debt (which includes borrowings, trade payables and other payables) less cash and cash equivalents and pledged deposits. Total equity comprises owners' equity and minority interest stated in the consolidated balance sheet. During 2007, the Group's strategy remains unchanged from 2006, which is to maintain the gearing ratio at a healthy capital level in order to support its business. As of 31 December 2007 and 31 December 2006, the cash and cash equivalents and pledged deposits exceeded the total debt, therefore the gearing ratio of the Group were zero.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 31 December 2007, the Group's outstanding issued shares were 985,050,000, which was the same as last year.

SIGNIFICANT INVESTMENTS AND DISPOSAL

During the year, the Group had not made any significant investments on acquisition and disposal.

SEGMENTAL PERFORMANCES

Hong Kong region achieved the growth in turnover of HK$121,628,000 by 25% (2006: HK$97,643,000).

The China operations turnover was HK$82,919,000, dropped by 57% compared with HK$195,043,000 last year.

South East Asia region recorded a turnover of HK$10,858,000, decreased by 18% compared with 2006 (2006: HK$13,308,000).

EMPLOYEES

The total number of employees as at 31 December 2007 was 425 (beginning of 2007: 420). Average headcount during 2007 remains similar to those in 2006.

EXPOSURE TO FOREIGN EXCHANGE RISK

The foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Besides Hong Kong dollars, the Group's transactions are carried out mostly in Renminbi. The Group's foreign currency exposures arise mainly from the exchange rate movements of Renminbi.

The details of financial risk management policy on foreign exchange risk are disclosed in note 37.2 to the financial statements.

CORPORATE GOVERNANCE REPORT

(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 on 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

CORPORATE GOVERNANCE REPORT

(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:

	19 Mar 2007	11 May 2007	10 Aug 2007	12 Nov 2007
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.

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.

CORPORATE GOVERNANCE REPORT

(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 internal controls in place 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.

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2007 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:

	9 Mar 2007	4 May 2007	2 Aug 2007	2 Nov 2007
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 March 2007. Details of the attendance of members at remuneration committee meeting are as follows:

	9 Mar 2007
Zee Chan Mei Chu, Peggy	✓
Cheong Ying Chew, Henry	✓
Chang Ka Mun	✗

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 is subject to retirement by rotation and re-election in accordance with the Company's Article of Association.

CORPORATE GOVERNANCE REPORT

(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 2007.

(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$901,000 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 MANAGEMENT

EXECUTIVE DIRECTORS

Ms. ZEE CHAN Mei Chu, Peggy (Age 53)

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 24 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 55)

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 25 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 52)

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 28 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 49)

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 18 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 MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. IP Tak Chuen, Edmond (Age 55)

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., a Non-Executive Director of TOM Group Limited and ARA Asset Management 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 60)

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, New World Department Store China Limited, SPG Land (Holdings) Limited and TOM Group Limited, all being listed in Hong Kong, and FPP Golden Asia Fund Inc (formerly known as 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 48)

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 an Advisory Council Member of the Brookings Institution (CNAPS), USA. He was a member of the Preparatory Committee of Hong Kong Special Administrative Region, a member of the Committee on Economic Development of Hong Kong 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 55)

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 MANAGEMENT

DIRECTORS

Mr. CHEONG Ho Sang, Alfred (Age 51)

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 50)

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, and 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 21 April 2008 (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 2007;

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

NOTICE OF ANNUAL GENERAL MEETING

(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

NOTICE OF ANNUAL GENERAL MEETING

(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, 25 March 2008

NOTICE OF ANNUAL GENERAL MEETING

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 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 38 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 31.

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 27 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 15 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 28 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, Leung Lucy, Michele and Ip Tak Chuen, Edmond retire by rotation and, being eligible, offer themselves for re-election.

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

At 31 December 2007, 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	–	559,679,197 (Note 1)	562,623,197	57.12%
Fung Din Chung, Rickie	24,691,498	–	–	24,691,498	2.51%
Leung Lucy, Michele	24,559,498	–	–	24,559,498	2.49%
Ng Wai King, Steve	12,650,998	–	–	12,650,998	1.28%
Wong Mee Chun	40,000	382,000 (Note 2)	–	422,000	0.04%

DIRECTORS' REPORT

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 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 2007.

SHARE OPTIONS

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. The Old Scheme was lapsed in 2006.

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 30 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 2007, the Group had the following transactions with connected persons as defined in the GEM Listing Rules.

Pursuant to the agreement dated 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. The agreement was terminated on 31 August 2007. The rentals payable by the Group for the year amounted to HK$30,400. Zee King Tak, Winston is the spouse of Zee Chan Mei Chu, Peggy.

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' REPORT

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 from 1 March 2004 to 31 December 2004 and from 1 January 2005 to 31 December 2007 on yearly basis. 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 service contract was renewed from 1 January 2006 to 31 December 2007 on yearly basis. 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 38.6% of the Group's total turnover and the Group's largest customer accounted for approximately 14.3% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 45.7% of the Group's total purchases and the Group's largest supplier accounted for approximately 14.0% 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.

CONFIRMATION OF INDEPENDENCE

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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, 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	Notes	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Zee Chan Mei Chu, Peggy	1	562,623,197	57.12%
Passion Investment (BVI) Limited	1	559,679,197	56.82%
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").

DIRECTORS' REPORT

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 2007.

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 2007.

DIRECTORS' REPORT

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 an executive director and the 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 2007, 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 2007.

AUDITORS

Messrs. Grant Thornton, 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. Grant Thornton.

On behalf of the Board

Zee Chan Mei Chu, Peggy
Chairman

Hong Kong, 25 March 2008

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

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13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

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F +852 3748 2000
www.gthk.com.hk

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") set out on pages 31 to 81, which comprise the consolidated and company balance sheets as at 31 December 2007, 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.

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.

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Auditors' responsibility *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2007 and of the Group's profit and 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.

Grant Thornton
Certified Public Accountants
Hong Kong

25 March 2008

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	5	**183,987**	282,823
Other net operating income	7	**3,091**	3,213
Change in inventories of hardware and software		**(366)**	924
Purchase of hardware and software		**(58,984)**	(167,260)
Professional fee		**(6,844)**	(10,798)
Staff costs		**(93,615)**	(82,507)
Depreciation and amortisation		**(4,634)**	(5,093)
Other expenses		**(18,262)**	(17,480)
Operating profit		**4,373**	3,822
Finance costs	11	**(57)**	(185)
Share of results of associates		**(17)**	(30)
Loss on disposal of an associate		**–**	(3,237)
Profit before income tax	8	**4,299**	370
Income tax expenses	12	**(921)**	(56)
Profit for the year		**3,378**	314
Attributable to:			
Equity holders of the Company	13	**4,068**	1,457
Minority interest		**(690)**	(1,143)
Profit for the year		**3,378**	314
Earnings per share for the profit attributable to the equity holders of the Company during the year			
– Basic	14	**0.41 HK cents**	0.15 HK cents

CONSOLIDATED BALANCE SHEET

as at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**12,501**	11,602
Interests in associates	17	**5**	22
Goodwill	18	**1,691**	1,691
Development costs	19	**–**	1,684
Available-for-sale financial assets	20	**6,292**	6,275
Loan receivable	21	**1,911**	1,911
		22,400	23,185
Current assets			
Inventories, at cost		**837**	1,203
Unbilled revenue	22	**17,802**	12,640
Trade receivables	23	**32,455**	25,467
Other receivables, deposits and prepayments		**12,845**	5,153
Financial assets at fair value through profit or loss	20	**6,990**	2,547
Pledged bank deposits		**–**	13,303
Bank balances and cash		**37,625**	47,261
		108,554	107,574
Current liabilities			
Borrowings	25	**928**	7,178
Trade payables	26	**7,127**	8,562
Other payables and accrued charges		**7,675**	7,034
Deferred income	22	**15,975**	16,694
Current tax liabilities		**858**	–
		32,563	39,468
Net current assets		**75,991**	68,106
Total assets less current liabilities		**98,391**	91,291
Non-current liabilities			
Borrowings	25	**338**	–
Net assets		**98,053**	91,291
EQUITY			
Share capital	27	**98,505**	98,505
Reserves	28	**(5,423)**	(12,365)
Equity attributable to equity holders of the Company		**93,082**	86,140
Minority interest		**4,971**	5,151
Total equity		**98,053**	91,291

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

BALANCE SHEET

as at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	16	**–**	–
Current assets			
Prepayments		**2**	5
Amounts due from subsidiaries	24	**132,969**	133,864
Bank balances		**94**	94
		133,065	133,963
Current liabilities			
Other payables and accrued charges		**387**	354
Current tax liabilities		**853**	–
Amounts due to subsidiaries	24	**64,751**	64,751
		65,991	65,105
Net current assets		**67,074**	68,858
Net assets		**67,074**	68,858
EQUITY			
Share capital	27	**98,505**	98,505
Reserves	28	**(31,431)**	(29,647)
Total equity		**67,074**	68,858

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Cash flows from operating activities		
Profit before taxation	**4,299**	370
Adjustments for:		
Share of results of associate	**17**	30
Loss on disposal of an associate	**–**	3,237
Dividend income	**(43)**	(31)
Interest income	**(2,560)**	(1,459)
Interest expense	**57**	185
Net loss (gain) on financial assets at fair value through profit or loss	**794**	(1,022)
Depreciation of property, plant and equipment	**2,950**	3,410
Amortisation of development costs	**1,684**	1,683
Loss on disposal of property, plant and equipment	**193**	–
Operating profit before working capital changes	**7,391**	6,403
Inventories	**476**	(891)
Unbilled revenue	**(4,556)**	(4,185)
Trade receivables	**(5,482)**	4,518
Other receivable, deposits and prepayments	**(7,386)**	4,201
Financial assets at fair value through profit or loss	**(5,237)**	(1,525)
Trade payables	**(1,984)**	(6,431)
Other payables and accrued charges	**(293)**	(5,456)
Deferred income	**(1,406)**	3,471
Cash (used in) generated from operations	**(18,477)**	105
Taxation in other jurisdictions paid	**(63)**	(56)
Net cash (used in) generated from operating activities	**(18,540)**	49

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Cash flows from investing activities		
Interest received	**2,560**	1,459
Dividend received	**43**	31
Purchase of property, plant and equipment	**(2,810)**	(1,059)
Decrease (Increase) in pledged bank deposits	**13,303**	(2,819)
Acquisition of a subsidiary	**–**	1,115
Proceeds from redemption of available-for-sale financial assets	**–**	1,559
Proceeds from disposal of an associate	**–**	33,076
Proceeds from disposal of property, plant and equipment	**9**	–
Increase in loan receivable	**–**	(1,911)
Net cash generated from investing activities	**13,105**	31,451
Cash flows from financing activities		
New other loans raised	**–**	6,305
Repayment of bank and other loans	**(6,444)**	(7,170)
Interest paid	**(57)**	(185)
Repayment of obligation under finance lease	**(157)**	–
Capital contributed by a minority shareholder of a subsidiary	**–**	1,907
Net cash (used in) generated from financing activities	**(6,658)**	857
Net (decrease) increase in cash and cash equivalents	**(12,093)**	32,357
Cash and cash equivalents at beginning of the year	**47,261**	14,464
Effect on exchange rate changes	**2,457**	440
Cash and cash equivalents at end of the year, representing bank balances and cash	**37,625**	47,261

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

	Equity 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 interest HK$'000	Total equity HK$'000
At 1 January 2006	98,505	179,650	(1,515)	–	(192,907)	83,733	3,500	87,233
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
Net gain recognised directly in equity	–	–	605	345	–	950	2,794	3,744
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
At 1 January 2007	98,505	179,650	(910)	345	(191,450)	86,140	5,151	91,291
Changes in fair value of available-for-sale financial assets	–	–	17	–	–	17	–	17
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	2,857	–	2,857	510	3,367
Net gain recognised directly in equity	–	–	17	2,857	–	2,874	510	3,384
Profit (Loss) for the year	–	–	–	–	4,068	4,068	(690)	3,378
At 31 December 2007	**98,505**	**179,650**	**(893)**	**3,202**	**(187,382)**	**93,082**	**4,971**	**98,053**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

1. GENERAL INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares 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.

These financial statements on page 31 to 81 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 ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

The financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 25 March 2008.

2. ADOPTION OF NEW OR AMENDED HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2007 as follows:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Interpretation 8	Scope of HKFRS 2
HK(IFRIC) – Interpretation 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Interpretation 10	Interim Financial Reporting and Impairment

HKAS 1 (Amendment) and HKFRS 7 are relevant to the Group's operation.

The Group has adopted for the first time HKFRS 7 "*Financial Instruments: Disclosures*" in its 2007 consolidated financial statements. The standard has been applied retrospectively, i.e. with amendments to the 2006 accounts and their presentation. The 2006 comparatives contained in these financial statements therefore differ from those published in the financial statements for the year ended 31 December 2006.

The adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies but gave rise to additional disclosures.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect of presentation, recognition and measurement of accounts are described in the following notes. An overview of standards and interpretations that will become mandatory for the Group in future periods is given in note 2.3.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

2.1 HKAS 1 (Amendment) – Capital Disclosures

In accordance with HKAS 1 (Amendment) – "Capital Disclosures" the Group now reports on its capital management objectives, policies and procedures in the Annual Report. The new disclosures that become necessary due to this change in HKAS 1 can be found in note 36.

2.2 HKFRS 7 – Financial Instruments: Disclosures

HKFRS 7 is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends disclosure requirements previously set out in HKAS 32 "Financial Instruments: Disclosure and Presentation". All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature

- a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments, and
- a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items.

2.3 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early applied the following new/revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of such HKFRSs will not result in material financial impacts on the Group's financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) - Interpretation 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) - Interpretation 12	Service Concession Arrangements[3]
HK(IFRIC) - Interpretation 13	Customer Loyalty Programmes[4]
HK(IFRIC) - Interpretation 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as available-for-sale and at fair value through profit or loss, which are stated at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

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

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries *(Continued)*

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interest are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interest are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interest in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associates is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associates' net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associates, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associates. For this purpose, the Group's interest in the associates is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associates is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 17) of the associates and its carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Associates *(Continued)*

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associates use accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associates' accounting policies to those of the Group when the associates' financial statements are used by the Group in applying the equity method.

In the Company's balance sheet, investments in associates are stated at cost less any impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

3.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Foreign currency translation *(Continued)*

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.6 Revenue recognition

Revenue comprises the fair value for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest, royalties and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably and on the following bases.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Revenue recognition *(Continued)*

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.

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.

3.7 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 3.4.

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 4).

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 a business combination is recognised immediately in income statement.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 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.

3.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciated 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%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Impairment of assets

Goodwill arising on an acquisition of subsidiary, property, plant and equipment, interests in subsidiaries and interests in associates are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Leases *(Continued)*

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or , if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under financial leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

3.12 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associates and jointly controlled entities are set out below.

Financial assets other than hedging instruments are classified into the following categories:

– held-to-maturity investments
– financial assets at fair value through profit or loss
– loans and receivables
– available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets *(Continued)*

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition, and includes fees that are an integral part of the effective interest rate and transaction cost.

(iii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement. Available-for-sales 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets *(Continued)*

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

(iii) Financial assets 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 losses are not reversed in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial liabilities

The Group's financial liabilities include trade payables and other payables and other borrowings.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 3.11(i)).

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3.14 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.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 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 is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

3.16 Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.18 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in PRC are required to participate in the central pension scheme operated by the relevant local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the retirement scheme.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.19 Segment reporting

In accordance with the Group's internal financial reporting system, the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries. It is the total cost incurred during the period to acquire assets (both tangible and intangible) that are expected to be used for more than one period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Segment reporting *(Continued)*

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude corporate assets and available-for-sale investment. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

3.20 Related parties

A party is related to the Group if

(i) 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;

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

(iii) the party is a jointly venture in which the Group is a venturer;

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

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) 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 (iv) or (v); or

(vii) 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 18).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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 judgment 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.

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$5,350,000 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 2006 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 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 2007.

5. REVENUE AND TURNOVER

Revenue, which is also the Group's turnover, represented total income from provision of services. Revenue recognised during the year is as follows:

	2007 **HK$'000**	2006 HK$'000
Enterprise software products	**92,770**	79,102
Systems integration	**62,423**	175,766
Professional services	**24,111**	23,163
ASP services	**4,683**	4,792
	183,987	282,823

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

6. SEGMENT INFORMATION

6.1 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	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**121,628**	97,643	**82,919**	195,043	**10,858**	13,308	**(31,418)**	(23,171)	**183,987**	282,823
Segment results	**10,077**	2,454	**(3,602)**	697	**(2,102)**	671	**–**	–	**4,373**	3,822
Finance costs	**(57)**	(59)	**–**	(126)	**–**	–	**–**	–	**(57)**	(185)
Share of results of associates	**–**	–	**(17)**	(30)	**–**	–	**–**	–	**(17)**	(30)
Loss on disposal of an associate	**–**	–	**–**	(3,237)	**–**	–	**–**	–	**–**	(3,237)
Profit (Loss) before income tax	**10,020**	2,395	**(3,619)**	(2,696)	**(2,102)**	671	**–**	–	**4,299**	370
Income tax expenses	**(854)**	–	**(51)**	(56)	**(16)**	–	**–**	–	**(921)**	(56)
Profit (Loss) for the year	**9,166**	2,395	**(3,670)**	(2,752)	**(2,118)**	671	**–**	–	**3,378**	314

(ii) Other information:

	Hong Kong		PRC		Others		Elimination		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital additions	**1,713**	443	**979**	558	**717**	58	**–**	–	**3,409**	1,059
Depreciation and amortisation	**2,950**	3,074	**1,443**	1,948	**241**	71	**–**	–	**4,634**	5,093
Revenue by location of customers	**109,840**	92,499	**88,673**	197,593	**16,892**	15,902	**(31,418)**	(23,171)	**183,987**	282,823

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

6. SEGMENT INFORMATION *(Continued)*

6.1 Geographical segments *(Continued)*

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

	Hong Kong		PRC		Others		Elimination		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets										
Segment assets	**123,032**	99,392	**39,150**	23,443	**3,929**	3,885	**(90,271)**	(69,564)	**75,840**	57,156
Interests in associates	**–**	–	**5**	22	**–**	–	**–**	–	**5**	22
Unallocated corporate assets									**55,109**	73,581
Consolidated total assets									**130,954**	130,759
Liabilities										
Segment liabilities	**(18,331)**	(18,746)	**(84,868)**	(69,585)	**(17,849)**	(13,523)	**90,271**	69,564	**(30,777)**	(32,290)
Unallocated corporate liabilities										
– Borrowings									**(1,266)**	(7,178)
– Others									**(858)**	–
Consolidated total liabilities									**(32,901)**	(39,468)

6.2 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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

6. SEGMENT INFORMATION *(Continued)*

6.2 Business segments *(Continued)*

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	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Revenue from external customers	**92,770**	79,102	**62,423**	175,766	**24,111**	23,163	**4,683**	4,792	**–**	–	**183,987**	282,823
Segment assets	**48,971**	34,207	**21,729**	14,665	**5,002**	8,027	**143**	279	**55,109**	73,581	**130,954**	130,759
Capital additions	**2,734**	897	**–**	–	**675**	154	**–**	8	**–**	–	**3,409**	1,059

7. OTHER NET OPERATING INCOME

	2007 HK$'000	2006 HK$'000
Dividend income from listed securities	**43**	31
Interest income	**2,560**	1,459
Net gain on financial assets at fair value through profit or loss	**–**	1,022
Others	**488**	701
	3,091	3,213

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

8. PROFIT BEFORE INCOME TAX

	2007 HK$'000	2006 HK$'000
Profit before income tax is arrived at after charging:		
Directors' remuneration, excluding benefit-in-kind (note 9)	**5,248**	4,348
Other staff costs	**83,002**	74,228
Contributions to defined contribution plans	**5,365**	3,931
Total staff costs	**93,615**	82,507
Depreciation of property, plant and equipment	**2,950**	3,410
Amortisation of development costs	**1,684**	1,683
Total depreciation and amortisation	**4,634**	5,093
Cost of inventories sold	**59,350**	166,336
Cost of services rendered	**79,986**	73,150
Auditors' remuneration	**901**	721
Net loss on financial assets at fair value through profit or loss	**794**	–
Loss on disposal of property, plant and equipment	**193**	–
Minimum lease payments in respect of land and buildings	**4,981**	4,761

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

9. DIRECTORS' REMUNERATION

The aggregate amounts of remuneration received and receivable by 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$'000	2007 Total HK$'000
Executive directors						
Zee Chan Mei Chu, Peggy	–	1,000	–	414	12	1,426
Fung Din Chung, Rickie	–	1,300	–	–	12	1,312
Leung Lucy, Michele	–	1,300	–	153	12	1,465
Ng Wai King, Steve	–	1,300	–	–	12	1,312
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	4,900	–	567	48	5,815

	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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

9. 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 the executive directors of the Company.

No directors waived any emoluments during both years.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2006: four) are directors of the Company whose emoluments are disclosed in note 9 above. The emoluments of the remaining highest paid individual (2006: one individual) are as follows:

	2007 **HK$'000**	2006 HK$'000
Salaries and other benefits	**1,300**	1,200
Retirement benefit	**12**	12
	1,312	1,212

The emoluments of the individual (2006: one individual) was within the following bands:

	Number of employees	
	2007	2006
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.

11. FINANCE COSTS

	2007 **HK$'000**	2006 HK$'000
Interest charges on:		
Bank loans wholly repayable within five years	**–**	185
Finance charges on finance leases	**57**	–
	57	185

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

12. INCOME TAX EXPENSES

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.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates prevailing in the countries in which the Group operates.

	2007 HK$'000	2006 HK$'000
Current tax		
– Hong Kong		
Under provision in respect of prior years	**853**	–
– Overseas		
Tax for the year	**16**	56
Under provision in respect of prior years	**52**	–
Total income tax expenses	**921**	56

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007 HK$'000	2006 HK$'000
Profit before income tax	**4,299**	370
Tax at the Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	**752**	65
Tax effect of non-taxable revenue	**(6,259)**	(3,860)
Tax effect of non-deductible expenses	**6,635**	4,701
Tax effect of unrecognised temporary differences	**278**	–
Tax effect of unrecognised tax losses	**1,578**	1,053
Utilisation of previously unrecognised tax losses	**(2,552)**	(2,474)
Underprovision of tax in prior years	**905**	–
Tax effect of share of results of associates and loss on disposal of an associate	**3**	572
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(436)**	(1)
Others	**17**	–
Income tax expenses	**921**	56

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to equity holders of the Company of HK$4,068,000 (2006: HK$1,457,000), a loss of HK$1,784,000 (2006: HK$975,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$4,068,000 (2006: HK$1,457,000) and the 985,050,000 (2006: 985,050,000) shares in issue during the year.

No diluted earnings per share have been presented because there were no dilutive potential ordinary shares in issue for the year.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Computer and office equipment HK$'000	ASP software HK$'000	Furniture and fixture HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group							
At 1 January 2006							
Cost	7,856	2,773	33,214	7,187	1,631	717	53,378
Accumulated depreciation	(1,329)	(2,042)	(27,278)	(6,851)	(1,566)	(625)	(39,691)
Net book amount	6,527	731	5,936	336	65	92	13,687
Year ended 31 December 2006							
Opening net book amount	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)
Closing net book amount	6,424	388	4,731	–	24	35	11,602
At 31 December 2006							
Cost	7,856	2,960	34,106	7,187	1,640	717	54,466
Accumulated depreciation and impairment losses	(1,432)	(2,572)	(29,375)	(7,187)	(1,616)	(682)	(42,864)
Net book amount	6,424	388	4,731	–	24	35	11,602

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Computer and office equipment HK$'000	ASP software HK$'000	Furniture and fixture HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2007							
Opening net book amount	6,424	388	4,731	–	24	35	11,602
Exchange difference	–	88	545	–	5	4	642
Additions	–	962	1,969	–	37	441	3,409
Disposal	–	–	(202)	–	–	–	(202)
Depreciation	(102)	(590)	(2,071)	–	(17)	(170)	(2,950)
Closing net book amount	6,322	848	4,972	–	49	310	12,501
At 31 December 2007							
Cost	7,856	4,037	36,359	7,187	1,701	1,200	58,340
Accumulated depreciation and impairment losses	(1,534)	(3,189)	(31,387)	(7,187)	(1,652)	(890)	(45,839)
Net book amount	6,322	848	4,972	–	49	310	12,501

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

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost of US$1	**–**	–

Details of the Company's principal subsidiaries as at 31 December 2007 are set out in note 38.

17. INTERESTS IN ASSOCIATES

	The Group	
	2007 HK$'000	2006 HK$'000
Share of net assets	**5**	22

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

17. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of an associate at 31 December 2007 is as follows:

Name of associate	Place of incorporation/ registration	Principal place of operation	Interest held	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

At 31 December 2007, the accumulated losses of the Group include losses of HK$418,000 (2006: losses of HK$401,000) retained by the Group's associates.

The summarised financial information of the Group's associates extracted from its management accounts are as follows:

	2007 **HK$'000**	2006 HK$'000
Share of associates' assets and liabilities		
Non-current assets	**23**	5
Current assets	**414**	222
Current liabilities	**(432)**	(205)
Share of associates' revenue and loss		
Revenue	**981**	272
Loss	**(17)**	(190)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

18. GOODWILL

The net carrying amount of goodwill can be analysed as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 January		
Gross carrying amount	**15,853**	15,302
Accumulated impairment	**(14,162)**	(14,162)
Net carrying amount at 1 January	**1,691**	1,140
Net carrying amount at 1 January	**1,691**	1,140
Additions	**–**	551
Net carrying amount at 31 December	**1,691**	1,691
At 31 December		
Gross carrying amount	**15,853**	15,853
Accumulated impairment	**(14,162)**	(14,162)
Net carrying amount	**1,691**	1,691

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:

	2007	2006
	HK$'000	HK$'000
Provision of professional services in the PRC	**1,140**	1,140
Provision of professional services in Taiwan	**551**	551
	1,691	1,691

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 2008.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

18. GOODWILL *(Continued)*

Key assumptions used for value in use calculation:

	2007	2006
–Growth rate in turnover	**30%**	7%
–Discount rate	**9%**	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 amounts.

19. DEVELOPMENT COSTS

	The Group	
	2007	2006
	HK$'000	HK$'000
Net carrying amount at 1 January	**1,684**	3,367
Amortisation	**(1,684)**	(1,683)
Net carrying amount at 31 December	**–**	1,684
At 31 December		
Cost	**31,085**	31,085
Accumulated amortisation	**(31,085)**	(29,401)
Net carrying amount at 31 December	**–**	1,684

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

20. INVESTMENTS IN SECURITIES

	The Group	
	2007	2006
	HK$'000	HK$'000
Available-for-sale financial assets		
–unlisted private equity fund, at fair value	**5,350**	5,333
–unlisted equity investments, at cost	**942**	942
	6,292	6,275
Financial assets at fair value through profit or loss, held for trading		
–equity securities listed in Hong Kong	**6,990**	2,547
	13,282	8,822
Analysed for reporting purposes:		
–included in non-current assets	**6,292**	6,275
–included in current assets	**6,990**	2,547
	13,282	8,822

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.

21. 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.

22. 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

23. TRADE RECEIVABLES

	The Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables from:		
Third parties	**27,640**	22,958
A related party	**4,815**	2,509
	32,455	25,467

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 directors of the Group considered that the fair values of trade receivable amount are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

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

	The Group	
	2007	2006
	HK$'000	HK$'000
Within 1 month	**15,695**	14,657
1 to 3 months	**9,415**	5,779
Over 3 months	**7,345**	5,031
	32,455	25,467

24. AMOUNTS DUE FROM(TO) SUBSIDIARIES

The Company

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

25. BORROWINGS

	The Group	
	2007	2006
	HK$'000	HK$'000
Non-current		
Finance lease liabilities	**338**	–
Current		
Other borrowings (Note)	**824**	7,178
Finance lease liabilities	**104**	–
	928	7,178
Total borrowings	**1,266**	7,178

Note: The loans borrowed from a company controlled by a minority shareholder of a subsidiary and Shenzhen Finance Bureau are unsecured, interest-free and repayable on demand.

The analysis of the obligations under finance lease is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Total minimum lease payments		
Due within one year	**151**	–
Due in the second to fifth years	**391**	–
	542	–
Future finance charges on finance lease	**(100)**	–
Present value of finance lease liabilities	**442**	–
The present value of finance lease liabilities is as follows:		
Due within one year	**104**	–
Due in the second to fifth years	**338**	–
	442	–
Less : Portion due within one year included under current liabilities	**(104)**	–
Non-current portion included under non-current liabilities	**338**	–

The Group has entered into a finance lease for a motor vehicle. The lease period is for four years. The lease does not have options to renew or any contingent rental provisions.

The finance lease outstanding is repayable in 54 instalments, matures in July 2011 and bears interest at 5.25% per annum. The carrying value of the finance lease approximates their fair values.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

26. TRADE PAYABLES

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

	The Group	
	2007	2006
	HK$'000	HK$'000
Within 1 month	**2,782**	2,380
1 to 2 months	**221**	4,792
2 to 3 months	**35**	792
Over 3 months	**4,089**	598
	7,127	8,562

27. SHARE CAPITAL

	2007 and 2006	
	Number of shares	**HK$'000**
Authorised:		
Ordinary shares of HK$0.10 each	5,000,000,000	500,000
Issued and fully paid		
Ordinary 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.

28. 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 2006	179,650	(1,515)	–	(192,907)	(14,772)
Changes in fair value of available-for-sale financial assets	–	605	–	–	605
Exchanges 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)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

28. RESERVES *(Continued)*

(a) The Group *(Continued)*

	Share premium HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	179,650	(910)	345	(191,450)	(12,365)
Changes in fair value of available-for-sale financial assets	–	17	–	–	17
Exchanges difference on translation of financial statements of overseas subsidiaries	–	–	2,857	–	2,857
Profit for the year	–	–	–	4,068	4,068
At 31 December 2007	**179,650**	**(893)**	**3,202**	**(187,382)**	**(5,423)**

(b) The Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006	179,650	(208,322)	(28,672)
Loss for the year	–	(975)	(975)
At 31 December 2006 and at 1 January 2007	179,650	(209,297)	(29,647)
Loss for the year	–	(1,784)	(1,784)
At 31 December 2007	**179,650**	**(211,081)**	**(31,431)**

At 31 December 2007, there were no reserves available for distribution to the Company's equity holders (2006: Nil).

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

29. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006:17.5%)

The movement on the deferred tax liabilities (assets) is as follows:

	Accelerated tax depreciation HK$'000	Development costs HK$'000	Tax losses HK$'000	Total HK$'000
The Group				
At 1 January 2006	37	589	(626)	–
(Credit) Charge for the year	(71)	(294)	365	–
At 31 December 2006	(34)	295	(261)	–
At 1 January 2007	(34)	295	(261)	–
Charge (Credit) for the year	1,007	(295)	(712)	–
At 31 December 2007	**973**	**–**	**(973)**	**–**

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 2007, the Group had unused tax losses of approximately HK$126,780,000 (2006: HK$140,010,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$5,560,000 (2006: HK$1,489,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of approximately HK$121,220,000 (2006: HK$138,521,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except losses of approximately HK$14,452,000 (2006: HK$17,143,000) which will expire as follows:

	The Group	
	2007 HK$'000	2006 HK$'000
Year of expiry		
2007	**–**	3,956
2008	**1,532**	1,243
2009	**3,694**	3,349
2010	**5,489**	6,017
2011	**1,061**	2,578
2012	**2,676**	–
	14,452	17,143

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for the year ended 31 December 2007

30. 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. The Old Scheme was lapsed in 2006.

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.

31. 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.

32. MAJOR-NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of HK$599,000 (2006: Nil).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

33. RELATED PARTY TRANSACTIONS

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

	2007 HK$'000	2006 HK$'000
Revenue:		
Sale of enterprise software products to a minority shareholder	**3,962**	10,816
Purchases and expenses:		
Purchase of complementary hardware and software from a minority shareholder	**2,272**	10,285
Purchase of complementary hardware and software from an associate	**148**	165
Rental paid to a minority shareholder	**–**	6
Compensation paid to key management personnel, excluding directors:		
–Salaries and other benefits	**2,140**	1,980
–Contribution to defined contribution plan	**24**	24

Note:

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

The rental expense paid to a minority shareholder in 2006 is based on an agreement entered into between the minority shareholder and the Group in August 2005.

34. 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	
	2007 HK$'000	2006 HK$'000
Within one year	**4,975**	3,229
In the second to fifth years inclusive	**5,951**	465
	10,926	3,694

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

35. FINANCIAL GUARANTEE CONTRACTS

The Company

At 31 December 2007, the Company had given corporate guarantees of HK$21,450,000 (2006: HK$30,450,000) to suppliers to secure the credit facilities granted to its subsidiaries. At 31 December 2007, the amount of facilities utilised by the subsidiaries amounted to HK$Nil (2006: HK$39,000).

At 31 December 2007, 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$300,000 (2006: HK$12,204,000).

As there is no comparable market transaction of these financial guarantee contracts and their fair value cannot be reliably estimated, the directors do not consider the fair value of issuing those guarantees can practically be estimated and recognised in the financial statements.

36. CAPITAL MANAGEMENT

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern; and
- to provide an adequate return for shareholders

by pricing products and services commensurately with the level of risks.

The Group actively and regularly reviews and manages its capital structure and makes adjustments to it in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure using gearing ratio which is net debts divided by total equity. For this purpose the Group defines net debt as total debt (which includes borrowings, trade payables and other payables) less cash and cash equivalents and pledged deposits. Total equity comprises owners' equity and minority interest stated in the consolidated balance sheet. During 2007, the Group's strategy remains unchanged from 2006, which is to maintain the gearing ratio at a healthy capital level in order to support its business. As of 31 December 2007 and 31 December 2006, the cash and cash equivalents and pledged deposits exceeded the total debt, therefore the gearing ratio of the Group were zero.

NOTES TO THE FINANCIAL STATEMENTS

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37. FINANCIAL RISK MANAGEMENT

The Group actively and regularly reviews and manages its financial risk and takes actions to mitigate such risk.

The Group's financial instruments comprise borrowing, cash and deposits, trade receivables and trade payables, which arise directly from its business activities. The Group has not used any derivates and other instruments for hedging purposes. The Group also did not hold or issue any derivative financial instruments for trading purposes.

The main risks arising from the Group's financial instruments are credit risk, foreign exchange risk and liquidity risk. The Group adopts conservative strategies on its risk management and seeks to 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.

37.1 Credit risk

HKFRS 7 defines the credit risk as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	The Group	
	2007	2006
	HK$'000	HK$'000
Class of financial assets – carrying amount		
Available-for-sale financial assets	**6,292**	6,275
Loan receivable	**1,911**	1,911
Financial assets at fair value through profit or loss	**6,990**	2,547
Bank balances and cash	**37,625**	47,261
Pledged bank deposits	**–**	13,303
Trade and other receivables	**45,300**	30,620
	98,118	101,917

In respect of credit risk associated with trade and other receivables, management closely monitors all outstanding debts and reviews the collectability of trade receivables periodically. As at the balance sheet date, the credit risk is considered negligible, since the counterparties are reputable banks and multi-national companies with high quality external credit ratings.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

37. FINANCIAL RISK MANAGEMENT *(Continued)*

37.2 Foreign exchange risk

HKFRS 7 defines the foreign exchange risk as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Besides Hong Kong dollars, the Group's transactions are carried out mostly in Renminbi. The Group's foreign currency exposures arise mainly from the exchange rate movements of Renminbi.

The following table indicates the approximate change in the Group's profit after tax and other components of consolidated equity in response to reasonably possible change in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	2006		
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax HK$'000	Effect on component of equity HK$'000
Renminbi	+10	590	2,246
	-10	(590)	(2,246)

	2007		
	Increase/ (decrease) in foreign exchange rates %	**Effect on profit after tax HK$'000**	**Effect on component of equity HK$'000**
Renminbi	**+10**	**1,185**	**2,257**
	-10	**(1,185)**	**(2,257)**

The sensitivity analysis above has been determined assuming that the change in foreign currency rates had occurred at the balance sheet date. The estimated percentage increase or decrease represents management's assessment of a reasonably possible change in foreign currency rates over the period until the next annual balance sheet date. The sensitivity analysis is performed on the same basis for 2006.

37. FINANCIAL RISK MANAGEMENT *(Continued)*

37.3 Liquidity risk

HKFRS 7 defines the liquidity risk as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group's prudent policy is to regularly monitor its current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and cash equivalents and available-for-sale financial assets to meet its liquidity requirements in the short term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities.

		Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
(a)	**The Group**					
	2006					
	Borrowings	7,178	7,178	7,178	–	–
	Trade and other payables	15,596	15,596	15,596	–	–
		22,774	22,774	22,774	–	–
	2007					
	Borrowings	**1,266**	**1,266**	**928**	**119**	**219**
	Trade and other payables	**14,802**	**14,802**	**14,802**	**–**	**–**
		16,068	**16,068**	**15,730**	**119**	**219**
(b)	**The Company**					
	2006					
	Other payables and accrued charges	354	354	354	–	–
	Amounts due to subsidiaries	64,751	64,751	64,751	–	–
		65,105	65,105	65,105	–	–
	2007					
	Other payables and accrued charges	**387**	**387**	**387**	**–**	**–**
	Amounts due to subsidiaries	**64,751**	**64,751**	**64,751**	**–**	**–**
		65,138	**65,138**	**65,138**	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

37. FINANCIAL RISK MANAGEMENT *(Continued)*

37.4 Equity price risk

The Group is exposed to equity price risk because the investments held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss. All the investments are equity securities listed in Hong Kong.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the balance sheet date.

	2006	
	Increase/ (decrease) in price of listed equity securities %	Effect on profit after tax and retained profits HK$'000
Market price of listed investment	+18	460
	-18	(460)

	2007	
	Increase/ (decrease) in price of listed equity securities %	**Effect on profit after tax and retained profits HK$'000**
Market price of listed investment	**+5**	**350**
	-5	**(350)**

The sensitivity analyses have been determined assuming that reasonably possible changes in the equity price had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent market price changes on equity over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

NOTES TO THE FINANCIAL STATEMENTS

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38. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2007 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 Holding 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

NOTES TO THE FINANCIAL STATEMENTS

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38. PRINCIPAL SUBSIDIARIES *(Continued)*

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
Excelink Technology Pte Ltd.	Singapore*	S$893,022	100%	–	100%	Development of computer software and provision of sale and marketing services
HR21 Holdings Limited	British Virgin Islands*	50,000 shares of US$1 each	93%	–	93%	Investment holding
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
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%	Development of computer software, systems integration and provision of maintenance services
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

NOTES TO THE FINANCIAL STATEMENTS

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38. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued capital/registered capital	Proportion of nominal value of issued share capital/ registered capital			Principal activities
			Attributable to the Group	Held by the Company	Held by subsidiaries	
志鴻六維軟件科技(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 particular of excessive length.

None of the subsidiaries had any loan capital subsisting at 31 December 2007 or at any time during the year.

39. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.

Financial summary

for the year ended 31 December 2007

	2003 HK'000 (Restated)	2004 HK'000 (Restated)	2005 HK'000	2006 HK'000	**2007** **HK'000**
Results					
Turnover	184,713	162,888	224,242	282,823	**183,987**
Profit (Loss) before taxation	(25,716)	(22,937)	(15,567)	370	**4,299**
Income tax expenses	650	(113)	(139)	(56)	**(921)**
Profit (Loss) for the year	(25,066)	(23,050)	(15,706)	314	**3,378**
ASSETS AND LIABILITIES					
Total assets	155,987	140,344	133,234	130,759	**130,954**
Total liabilities	(28,487)	(35,894)	(46,001)	(39,468)	**(32,901)**
Total equity	127,500	104,450	87,233	91,291	**98,053**