Excel Technology International Holdings Limited

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

Excel
TECHNOLOGY

ANNUAL REPORT
2009

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 Stock 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
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

LEGAL ADVISER

F. Zimmern & Co.

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited
The Bank of East Asia, Limited
Standard Chartered Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

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2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F., 663 King's Road
North Point
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WEBSITE ADDRESS

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FINANCIAL HIGHLIGHTS

	2009 HK$'000	2008 HK$'000
Revenue	**172,545**	364,206
Profit/(Loss) for the year attributable to:		
– Owners of the Company	**2,367**	(822)
– Non-controlling interest	**(668)**	(1,217)
	1,699	(2,039)
Earnings/(Loss) per share for profit/(loss) attributable to the owners of the Company – Basic	**HK0.24 cents**	HK(0.08) cents
Total equity	**101,080**	95,853

CHAIRMAN'S STATEMENT

I am pleased to report that **Excel** recorded a turnover of HK$172,545,000 with a profit attributable to owners of the Company of HK$2,367,000 for 2009.

A ROLLER COASTER RIDE

2009 was a challenging year in all fronts for Management. Our multinational clients held very controlled manner toward their IT spending. Our Chinese clients, on the contrary, took aggressive steps to upgrade their IT systems and infrastructure. Wealth management products became passé because of the Lehman Brothers mini bonds fiasco in Hong Kong and Singapore. Lending business was strong in China as the Chinese government relaxed the monetary policy and encouraged lending. We likened 2009 business climate to a roller coaster ride with thrills and excitements at different turns.

Our conscious geographic and product diversity had helped us to weather the highs and lows of business demands between geographies and service areas. Nonetheless, it was a magician's play to juggle resources between our various offices and product teams to balance the uneven supply and demand conditions.

We are thankful for the backlog from 2008 and the recurring software maintenance fees to cushion our Hong Kong and South East Asia market. The China market gave us the boost in new software sales.

RIDING TOWARD 2010

This roller coaster ride gave Management some important insights. When we were riding high, we could see farther and found more opportunities. When we were staying low, we could appreciate more the importance of a solid foundation.

We believe that Excel's foundation of its software business is solid and is ready to move forward on its own momentum. We can ready to leverage our technical background and industry expertise to venture beyond the software and industry sphere. We are also blessed with a strong balance sheet with cash and cash equivalents of HK$51,892,000. While the economy of 2010 could appear to be reviving, we still expect to have a lot of ups and downs to ride through.

Management charted two courses for moving forward. First course is the preservation and further solidification of our software business under the experienced team of business managers and directors. We expect our products to be further enriched in functionalities, and our client base to be broadened across the geographies. This is evidenced by our Wealth Management System being adopted by a renowned multinational bank in deployment to its offices in Asia, South Africa, and Middle East. Another example is our Loans System has expanded into micro-finance in China and being used by the SME lending companies in Jiangsu Province in an ASP mode.

Our second course is to employ our knowledge base to diversify into related business and ventures. As reported in my last Statement, the Group piloted the Excel School of Banking and Technology (the "School") in 2009 as planned and reaped good results. We have laid a foundation to develop the Excel China Support Hub for Finance and Technology, complete with training facilities, development centers, processing centers, data centers and supporting facilities. Excel is exploring opportunities with government authorities, financial institutions and venture funds to finance and realize this visionary project. The Company will report more as the project progress in due course.

CHAIRMAN'S STATEMENT

THANKING THE CREW AND THE CUSTOMERS

Being the pilot, I cannot chart this ride alone without my precious crew. I want to make special thanks to my fellow executive directors, who have been charting this ride with me for more than 10 years now. Of course, there is the whole Management, who relentless stand by their posts during the turbulence. To the non-executive board members, I want to thank them for being the beacons to give us their guiding lights. Last but not least, I want to thank our staff, our clients, and our business partners, and most of all, our shareholders for their continuous support.

Zee Chan Mei Chu, Peggy
Chairman

Hong Kong, 23 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the year ended 31 December 2009, the Group's profit attributable to the owners of the company was HK$2,367,000, as compared with a loss of HK$822,000 in the same period of 2008.

The Group recorded a turnover of HK$172,545,000 in 2009, representing a decrease of 53% compared with a turnover of HK$364,206,000 for 2008. The decrease of turnover was largely due to the drop in systems integration business and professional services.

The improvement in profitability in 2009, despite a drop in turnover comparing to 2008, was partly contributed by a fair value gain on financial assets at fair value through profit or loss.

Sales of enterprise software products dropped by 10% to HK$75,258,000 (2008: HK$83,304,000). Revenue on professional services decreased by 28% to HK$15,487,000 (2008: HK$21,606,000). Both drops were due to slow down of the banking business in Hong Kong and South East Asia because of the financial crisis.

The systems integration business decreased by 70% to HK$77,253,000 (2008: HK$254,729,000). The ASP business remained stable with revenue of HK$4,547,000 (2008: HK$4,567,000).

OPERATION REVIEW

2009 was a turn-around year for most of our clients in the financial sector. Starting with a very tough first quarter due to the financial tsunami, many of our foreign bank clients stopped almost all their new IT initiatives and kept at a maintenance mode. As governments around the globe carried out their financial stimulating measures, the banks gradually started to resume their IT projects and increase their IT spending towards the end of 2009.

Our new business in Hong Kong dropped but backlog from 2008 and annual maintenance income cushioned us in hard times like this. We re-deployed some of our resources to develop a new enhanced release of our flagship stock trading software – InterTrade 5 – which can sustain much higher trading volume needed by banks and large stock brokers.

Later in 2009, an international bank elected our wealth management software – EC-Invest – as a standard system for their bank group. We will extend our services beyond Asia to countries in the Middle East and South Africa.

In China, our business with local banks was not affected by the financial crisis. We acquired several new customers through our loan processing software. One of them was the Small Lending System we did in Nanjing for the Jiangsu Province. It was our first entry into small lending business, a booming industry in China.

Business with foreign banks in China also started to pick up after a quiet first half of 2009. We sold our wealth management software – EC-Invest – to a major European bank at end of the year and expect to close a few more contracts in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Another key achievement in 2009 was the successful completion of an ERP (enterprise resource planning) project for a Japanese company in Greater China. We leveraged our resources in Hong Kong, China and Taiwan to help this Japanese client to install a common accounting system across four different offices and manufacturing sites in Greater China.

In 2009, we started pilot operation with our Excel School of Banking and Technology. Two training programs, aiming at producing quality candidates for software development work in the finance industry, have completed successfully. The results were very encouraging as majority of the students successfully complete the 3-month programs landed jobs with banks or other companies. We also retained some of them to work on our own projects.

FUTURE PROSPECTS

Management expects 2010 continue to be stable for Hong Kong and South East Asia. Despite the economy of the emerging countries has started to recover, the outlook for U.S. and Europe is still uncertain. This causes the foreign banks to be very cautious in their IT spending. However, the projects kicked off in late 2009 and the enhancement contracts of the enterprise software business will provide stable income in these geographies.

China will continue to be the growth area. After earning a reputation in supplying quality and robust enterprise software in the lending business, we are now seeing demands coming from customers all over China. As the Chinese government is promoting SME (small to medium enterprises) lending, coupling with the latest relaxed regulations on financial companies, the small lending business is exploding. We now have a much bigger customer spectrum covering not only large commercial banks, but finance companies, regional city banks, and automobile financiers as well. Through existing and new customers in 2009, we have adapted our Excel Loans System to the SME lending business and gained initial success. We are now positioned to expand this success in the now much bigger potential market and to manage our growth without over expanding and spending.

With the banks and finance companies restarting their IT initiatives, they are in need of more IT professionals to work on projects. Therefore, we are strengthening our marketing resources and efforts in the area of IT outsourcing. This outsourcing business includes the secondment of IT professionals to work at customer sites, and the taking up of entire software development projects using our Hong Kong or China professionals. We can see clear sign of picking up in this business area since late 2009.

Another focus in 2010 is to expand our product portfolio in our enterprise software business, so as to increase our customer base and future potentials. Instead of developing our own software products, we chose to market third party software or solutions which have been proven elsewhere and are looking for sales opportunities in Asia and Greater China.

Expanding on our success with the ERP project with the Japanese company, we have deployed additional our marketing efforts of ERP solution to Japanese companies with offices and manufacturing sites in Greater China. We can clearly see demands in this area. Our knowledge and experiences in the culture, practices and preferences in Greater China will be greatly appreciated by such Japanese companies.

MANAGEMENT DISCUSSION AND ANALYSIS

Riding on the experience of the pilot operation with our Excel School of Banking and Technology, we will continue to organize training programs to produce quality software engineers for the finance industry in China. On the other hand, the success of the School has strengthened our branding and relationship with the local authorities as well as local banks. Currently we are actively working with the various officials, government departments and private business partners in the Dongguan and Song Shan Lake area to explore the next step of our China Support Hub project. We believe such a project will create a powerful platform for the Group to expand its China business by an order of magnitude in the years to come.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group was in a strong financial position with cash and cash equivalents of HK$51,892,000 (2008: HK$47,741,000).

As at 31 December 2009, the Group held the unlisted private equity fund at a fair value of US$433,000 for long-term strategic purpose and treated this investment as an available-for-sale financial asset.

As at 31 December 2009, the Group invested the equity securities listed in Hong Kong of HK$7,579,000 at fair value (2008: HK$4,528,000).

The Group monitors its capital structure using gearing ratio which is net debts divided by total equity. For this purpose, the Group defines net debts as debt, which comprises long-term and short-term borrowings, less cash and cash equivalents. Total equity comprises equity attributable to owners of the Company and non-controlling interest stated in the consolidated statement of financial position. During 2009, the Group's strategy remains unchanged from 2008, which is to maintain the gearing ratio at a healthy capital level in order to support its business. As of 31 December 2009 and of 31 December 2008, cash and cash equivalents exceeded debt, therefore the gearing ratio of the Group were zero.

CAPITAL STRUCTURE

As at 31 December 2009, the Group's issued shares were 985,050,000, which was the same as last year.

INVESTMENT

During the year, the Company has invested US$799,500 to acquire 65% equity interest in a subsidiary named Excel Yingtong System (BJ) Ltd. in PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENTAL PERFORMANCES

Hong Kong region turnover was HK$83,461,000 in 2009, dropped by 19% compared with HK$103,368,000 last year.

The China operations recorded turnover of HK$108,064,000 reduced by 62% (2008: HK$281,858,000).

South East Asia region turnover was HK$7,990,000, decreased by 25% compared with last year (2008: HK$10,723,000).

EMPLOYEES

To cope with the business turnaround and the increasing need of China, the Group has slightly increased its head counts from 368 at the beginning of the year to 401 as at 31 December 2009.

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 optimise 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 Directors are as follows:

	23 Mar 2009	11 May 2009	10 Aug 2009	9 Nov 2009
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 have 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 2009 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:

	16 Mar 2009	4 May 2009	3 Aug 2009	2 Nov 2009
Cheong Ying Chew, Henry	✓	✓	✓	✓
Chang Ka Mun	✓	✓	✓	✓
Wong Mee Chun	✓	✓	✓	✓

CORPORATE GOVERNANCE REPORT

(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 includes 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 November 2009. Details of the attendance of members at remuneration committee meeting are as follows:

	9 Nov 2009
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 Bye-laws.

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 2009.

(8) AUDITORS' REMUNERATION

During the year under review, the Group has incurred an aggregate of HK$811,000 to the independent auditors for their 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 55)

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 25 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 57)

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 54)

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 30 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 51)

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 20 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 57)

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 ARA Asset Management Limited (an Asian real estate fund management company listed in Singapore), TOM Group Limited, AVIC International Holding (HK) Limited, Ruinian International Limited and Shougang Concord International Enterprises Company Limited, all being listed companies, and a Director of ARA Asset Management (Fortune) Limited (formerly known as ARA Asset Management (Singapore) Limited) as the manager of Fortune REIT and ARA Trust Management (Suntec) Limited as the manager of Suntec REIT. Both Fortune REIT and Suntec REIT are listed in Singapore. He was previously a Non-executive Director of The Ming An (Holdings) Company Limited (whose shares were withdrawn from listing on 2 November 2009). Mr. Ip holds a Bachelor of Arts degree in Economics and a Master of Science degree in Business Administration. He was appointed as a Non-executive Director of the Group on 21 February 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEONG Ying Chew, Henry (Age 62)

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, CNNC International Limited, Hutchison Telecommunications Hong Kong Holdings Limited, New World Department Store China Limited, SPG Land (Holdings) Limited and TOM Group Limited, all being listed in Hong Kong. Mr. Cheong was appointed as an Independent Non-executive Director of the Group on 30 May 2000.

Mr. CHANG Ka Mun (Age 50)

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 57)

Ms. Wong has over 20 years of experience in finance, accounting and general management. Ms. Wong currently works at JV Fitness Ltd as Senior Vice President – Chief Financial Officer. Ms. Wong is a Justice of Peace, a member of 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 53)

Director

Mr. Cheong is responsible for the development and implementation of banking software in the treasury and loans areas. He has over 29 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 52)

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 received her Bachelor degree in Accountancy with honors and Executive MBA degree from the City University of Hong Kong.

DIRECTORS' REPORT

The directors have pleasure in submitting their report and audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in Note 17 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 and the state of affairs of the Group and the Company at that date are set out in the financial statements on page 27 to 97.

The directors do not recommend the payment of a dividend.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five years is set out on page 98 of the annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 35 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 32 and Note 37 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in Note 16 to the financial statements.

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.

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES

Neither the Company nor its subsidiaries has purchased or sold any of the Company's share during the year and the Company has not redeemed any of its shares during the year.

DIRECTORS' REPORT

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

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

In accordance with the Company's bye-laws, Mr. Fung Din Chung, Rickie, Ms. Leung Lucy, Michele, Mr. Ip Tak Chuen, Edmond and Ms. Wong Mee Chun will retire by rotation and, being eligible, offer themselves for re-election.

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 which commenced on 1 March 2000. The service contracts were renewed for further periods from 1 March 2003 to 31 December 2003, from 1 January 2004 to 31 December 2009 on yearly basis. The service contracts will continue thereafter until terminated by either party giving not less than six months' written notice. This service contract is exempt from the shareholders' approval requirement under GEM 17.90 of the Listing Rules.

The Company has entered into a service contract with Ng Wai King, Steve for a term of one year which commenced on 1 January 2005. The service contract was renewed from 1 January 2006 to 31 December 2009 on yearly basis. The service contract will continue thereafter until terminated by either party giving not less than six months' written notice. This service contract is exempt from the shareholders' approval requirement under GEM 17.90 of the Listing Rules.

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).

DIRECTORS' REPORT

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

At 31 December 2009, 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	4,350,000	–	559,679,197 (Note 1)	564,029,197	57.26%
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%

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 2009.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, 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	564,029,197	57.26%
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").

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 2009.

DIRECTORS' REPORT

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 36 to the financial statements.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was approximately 50.9% of the Group's total turnover and the Group's largest customer accounted for approximately 26.8% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 43.2% of the Group's total purchases and the Group's largest supplier accounted for approximately 11.4% of the Group's total purchases.

At no time during the year, the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major suppliers or customers.

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 CONNECTED TRANSACTIONS

During the year ended 31 December 2009, the Group had no transaction with connected persons as defined in the GEM Listing Rules.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to paragraph GEM 11.04 of the Listing Rules.

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 2009, 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.

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.

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 2009.

AUDITORS

The Company's auditors, Grant Thornton retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Zee Chan Mei Chu, Peggy
Chairman

Hong Kong, 23 March 2010

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

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 27 to 97, which comprise the consolidated and company statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company 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, in accordance with Section 90 of the Bermuda Companies Act 1981, 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

GrantThornton
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' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 of the Group as at 31 December 2009 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
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

23 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Revenue	5	**172,545**	364,206
Other revenue	7	**5,284**	1,148
Change in inventories of hardware and software		**23,103**	1,283
Purchase of hardware and software		**(96,517)**	(247,300)
Professional fee		**(1,503)**	(7,453)
Employee benefits expense	14	**(83,239)**	(88,608)
Depreciation		**(2,535)**	(3,146)
Other expenses		**(15,346)**	(22,069)
Finance costs	8	**(55)**	(48)
Share of loss of an associate		**–**	(5)
Profit/(Loss) before income tax	9	**1,737**	(1,992)
Income tax expense	10	**(38)**	(47)
Profit/(Loss) for the year		**1,699**	(2,039)
Other comprehensive income, including reclassification adjustments			
Available-for-sale financial assets	12	**–**	893
Exchange gain on translation of financial statements of foreign operations		**170**	1,914
Other comprehensive income for the year, including reclassification adjustments and net of tax		**170**	2,807
Total comprehensive income for the year		**1,869**	768
Profit/(Loss) for the year attributable to:			
Owners of the Company	11	**2,367**	(822)
Non-controlling interest		**(668)**	(1,217)
		1,699	(2,039)
Total comprehensive income attributable to:			
Owners of the Company		**2,537**	1,521
Non-controlling interest		**(668)**	(753)
		1,869	768
Earnings/(Loss) per share for profit/(loss) attributable to the owners of the Company during the year			
– Basic	13	**HK0.24 cents**	HK(0.08) cents

The notes on pages 33 to 97 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**9,508**	11,909
Interest in associates	18	**–**	–
Available-for-sale financial assets	19	**3,684**	4,352
Goodwill	20	**1,691**	1,691
Development cost	21	**–**	–
Finance lease receivables	22	**885**	–
		15,768	17,952
Current assets			
Inventories	23	**25,223**	2,120
Finance lease receivables	22	**291**	–
Amounts due from customers for contract work	24	**19,538**	18,458
Trade receivables	25	**28,663**	84,932
Other receivables, deposits and prepayments	26	**10,167**	18,107
Financial assets at fair value through profit or loss	27	**7,579**	4,528
Tax recoverable		**73**	–
Cash and cash equivalents	29	**51,892**	47,741
		143,426	175,886
Current liabilities			
Trade payables	30	**22,750**	66,221
Other payables and accrued charges	31	**20,235**	19,001
Borrowings	32	**6,837**	6,560
Amounts due to customers for contract work	24	**3,499**	5,984
Amount due to an associate	33	**445**	–
		53,766	97,766
Net current assets		**89,660**	78,120
Total assets less current liabilities		**105,428**	96,072
Non-current liabilities			
Borrowings	32	**4,348**	219
Net assets		**101,080**	95,853
EQUITY			
Share capital	35	**98,505**	98,505
Reserves		**(3,724)**	(6,261)
Equity attributable to owners of the Company		**94,781**	92,244
Non-controlling interest		**6,299**	3,609
Total equity		**101,080**	95,853

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

The notes on pages 33 to 97 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	17	**–**	–
Current assets			
Prepayments		**153**	150
Amounts due from subsidiaries	28	**129,971**	131,000
Cash and cash equivalents	29	**138**	121
		130,262	131,271
Current liabilities			
Other payables and accrued charges		**360**	360
Amounts due to subsidiaries	28	**64,752**	64,751
		65,112	65,111
Net current assets		**65,150**	66,160
Net assets		**65,150**	66,160
EQUITY			
Share capital	35	**98,505**	98,505
Reserves	37	**(33,355)**	(32,345)
Total equity		**65,150**	66,160

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

The notes on pages 33 to 97 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Cash flows from operating activities		
Profit/(Loss) before income tax	**1,737**	(1,992)
Adjustments for:		
Depreciation	**2,535**	3,146
Provision for doubtful trade receivables	**503**	–
Impairment loss on available-for-sale financial assets	**668**	2,054
Write off of amounts due from customers for contract work	**538**	–
Net (gain)/loss on disposal of property, plant and equipment	**(72)**	17
Fair value (gain)/loss on financial assets at fair value through profit or loss	**(3,002)**	3,157
Gain on disposal of financial assets at fair value through profit or loss	**(362)**	–
Interest expense	**55**	48
Share of loss of an associate	**–**	5
Dividend income	**(44)**	(59)
Interest income	**(925)**	(815)
Operating profit before working capital changes	**1,631**	5,561
Increase in inventories	**(23,103)**	(1,283)
Decrease in finance lease receivables	**110**	–
Increase in amounts due from customers for contract work	**(1,630)**	(8)
Decrease/(Increase) in trade receivables	**55,804**	(51,394)
Decrease/(Increase) in other receivables, deposits and prepayments	**7,942**	(5,159)
(Decrease)/Increase in trade payables	**(43,471)**	58,770
Increase in other payables and accrued charges	**1,127**	668
Increase in amount due to an associate	**445**	–
(Decrease)/Increase in amounts due to customers for contract work	**(2,503)**	557
Cash (used in)/generated from operations	**(3,648)**	7,712
Interest paid	**(37)**	(48)
Taxation in other jurisdictions paid	**(57)**	(52)
Hong Kong profits tax paid	**–**	(853)
Net cash (used in)/from operating activities	**(3,742)**	6,759

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Cash flows from investing activities		
Purchase of property, plant and equipment	**(1,429)**	(2,340)
Purchase of financial assets at fair value through profit or loss	**(1,257)**	(3,740)
Proceeds from disposal of property, plant and equipment	**81**	8
Proceeds from redemption of available-for-sale financial assets	**–**	779
Proceeds from disposal of financial assets at fair value through profit or loss	**1,570**	3,045
Acquisition of non-controlling interest	**–**	(1,057)
Dividend received	**44**	59
Interest received	**490**	815
Net cash used in investing activities	**(501)**	(2,431)
Cash flows from financing activities		
Net proceeds from other borrowings	**4,942**	5,571
Repayment of capital element of finance lease liabilities	**(119)**	(104)
Capital contribution by non-controlling interest of a subsidiary	**3,358**	–
Net cash from financing activities	**8,181**	5,467
Net increase in cash and cash equivalents	**3,938**	9,795
Cash and cash equivalents at 1 January	**47,741**	37,625
Effect on foreign exchange rate changes, on cash held	**213**	321
Cash and cash equivalents at 31 December	**51,892**	47,741

The notes on pages 33 to 97 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Equity attributable to owners 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	Non-controlling interest HK$'000	Total equity HK$'000
Balance at 1 January 2008	98,505	179,650	(893)	3,202	(187,382)	93,082	4,971	98,053
Acquisition of non-controlling interest	–	–	–	–	(2,359)	(2,359)	(609)	(2,968)
Transaction with owners	–	–	–	–	(2,359)	(2,359)	(609)	(2,968)
Loss for the year	–	–	–	–	(822)	(822)	(1,217)	(2,039)
Other comprehensive income								
Available-for-sale financial assets, including reclassification adjustments	–	–	893	–	–	893	–	893
Exchange gain on translation of financial statements of foreign operations	–	–	–	1,450	–	1,450	464	1,914
Total comprehensive income/(loss) for the year	–	–	893	1,450	(822)	1,521	(753)	768
Balance at 31 December 2008 and 1 January 2009	**98,505**	**179,650**	**–**	**4,652**	**(190,563)**	**92,244**	**3,609**	**95,853**
Capital contribution by non-controlling interest of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**3,358**	**3,358**
Transaction with owners	**–**	**–**	**–**	**–**	**–**	**–**	**3,358**	**3,358**
Profit/(Loss) for the year	**–**	**–**	**–**	**–**	**2,367**	**2,367**	**(668)**	**1,699**
Other comprehensive income								
Exchange gain on translation of financial statements of foreign operations	**–**	**–**	**–**	**170**	**–**	**170**	**–**	**170**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**170**	**2,367**	**2,537**	**(668)**	**1,869**
Balance at 31 December 2009	**98,505**	**179,650**	**–**	**4,822**	**(188,196)**	**94,781**	**6,299**	**101,080**

* These reserves accounts comprise the Group's reserves of HK$3,724,000 in deficit (2008: HK$6,261,000) in the consolidated statement of financial position.

The notes on pages 33 to 97 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

1. GENERAL INFORMATION

Excel Technology International Holdings Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and, its principal place of business is Hong Kong. The Company's shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited.

In the opinion of the directors, the ultimate parent of the Company is Passion Investment (BVI) Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its principal subsidiaries are engaged in the development, sale and implementation of enterprise software and the provision of systems integration, professional services and ASP services. The Group's operations are based in Hong Kong and The People's Republic of China ("PRC").

The financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 23 March 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 27 to 97 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

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. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in Note 3.

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as available-for-sale financial assets and financial assets at fair value through profit or loss which are stated at fair values. 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see Note 2.3) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling 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.

Non-controlling interest are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.3 Subsidiaries

Subsidiaries are 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.

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the acquisition method. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.4 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, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. 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 associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. 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. 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 the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's 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 profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate 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 associate.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.4 Associates *(Continued)*

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 reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

2.5 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 the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

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 reporting 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 recognised in other comprehensive income and accumulated 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.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

As the Group's lease payments cannot be allocated reliably between the land and building elements at the inception of the lease because similar land and buildings are not sold or lease 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 on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

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' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 profit or loss.

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 profit or loss during the financial period in which they are incurred.

2.7 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Measurement of goodwill at initial recognition is set out in Note 2.3. Accounting for goodwill arising on acquisition of investment in an associate is set out in Note 2.4.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see Note 2.20).

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 2009

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

2.8 Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

After initial recognition of the development costs, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over the estimated useful lives. Amortisation commences when the intangible asset is available for use.

2.9 Financial assets

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

Financial assets are classified into the following categories:

– 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.9 Financial assets *(Continued)*

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 reporting 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.

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

Financial assets at fair value through profit or loss include

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. 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 is 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.9 Financial assets *(Continued)*

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

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in Note 2.17 to these financial statements.

(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. Loans 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

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale 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 excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the investment revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.9 Financial assets *(Continued)*

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the Group and, national or local economic conditions that correlate with defaults on the assets in the Group.

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 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 the profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.9 Financial assets *(Continued)*

Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated 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 an 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 and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. 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.

Impairment losses of financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivables are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available for sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of an available for sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.10 Inventories

Inventories, which represent merchandise held for resale, are carried 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 determined 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 of completion and applicable selling expenses.

2.11 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. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2.12 Financial liabilities

The Group's financial liabilities include trade and other payables, finance lease liabilities and other borrowings. They are included in line items in the statement of financial position as trade and other payables or borrowings under current or non-current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2.22).

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 profit or loss.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see Note 2.14(ii)).

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 profit or loss over the period of the borrowings using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.12 Financial liabilities *(Continued)*

Borrowings (Continued)

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

Trade payables

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

2.13 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it 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.

2.14 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.

(i) Classification of assets leased to the Group

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 held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with an exception as below.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.14 Leases *(Continued)*

(i) Classification of assets leased to the Group (Continued)

Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease (see Note 2.6). For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) 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 property, plant and equipment 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. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rental, if any, are charged to profit or loss in the accounting period in which they are incurred.

(iv) Assets leased out under finance leases as the lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

2.16 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

2.17 Revenue recognition

Revenue comprises the fair value for the consideration received or receivable 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, revenue is recognised as follows:

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 reporting date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.17 Revenue recognition *(Continued)*

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 reporting date.

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

Systems integration income is recognised when the services are provided.

Professional services income is recognised when the services are provided.

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

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend is recognised when the right to receive payment is established.

2.18 Contract for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably (see Note 2.17). The percentage of completion is established by reference to the estimated stage of completion.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where estimated value of work performed exceeds progress billings, the surplus is treated as an amount due from contract customers for contract work.

Where progress billings exceed estimated value of work performed, the surplus is treated as an amount due to contract customers for contract work.

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as deferred government grants in the statement of financial position and are recognised in profit or loss on a straight line basis over the expected lives of the related assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.19 Government grants *(Continued)*

Government grants relating to income is presented in gross under "Other revenue" in the statement of comprehensive income.

2.20 Impairment of non-financial assets

Goodwill arising on an acquisition of subsidiary, property, plant and equipment and the Company's interest in subsidiaries and associates are subject to impairment testing.

Goodwill with 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. 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.

Impairment losses reognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.21 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution 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.

The employees of the Group's subsidiaries which operate in PRC and Singapore are required to participate in the central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans is limited to the fixed percentage contributions payable.

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 reporting date.

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

Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instrument that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instrument expected to vest differs from previous estimates.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.21 Employee benefits *(Continued)*

Share-based employee compensation (Continued)

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

2.22 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.23 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claim from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting 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 profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting 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, including existing taxable temporary differences, 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 and associates, 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.23 Accounting for income taxes *(Continued)*

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 reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

 (i) the same taxable entity; or

 (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major geographical areas.

The Group has identified the following reportable segments:

- Hong Kong (domicile)
- PRC
- South East Asia

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.24 Segment reporting *(Continued)*

Each reportable segment provides the following products and services:

- Enterprise software products
- Systems integration
- Professional services
- ASP services

Each of these operating segments is managed separately as each of the geographical areas requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arms length prices. The geographical reportable segments are based on the location of assets.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets include all assets but corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

No asymmetrical allocations have been applied to reportable segments.

2.25 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

2.25 Related parties *(Continued)*

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

Closing family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. ADOPTION OF NEW OR AMENDED HKFRSs

(a) New and amended standards adopted by the Group

In 2008, the Group has early adopted HKAS 27 (Revised) *Consolidation and separate financial statements* and HKFRS 3 (Revised) *Business combination*. In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Various	Annual improvements to HKFRSs 2008

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 January 2008 and accordingly the third statement of financial position as at 1 January 2008 is not presented.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

(a) New and amended standards adopted by the Group *(Continued)*

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information are now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The Directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

Annual improvements 2009

The HKICPA has issued *Improvements to Hong Kong Financial Reporting Standards 2009*. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to HKAS 17 *Leases* to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The Directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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 2.20. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of cash generating units containing goodwill are disclosed in Note 20.

If the actual growth rate had been higher or the discounted rate lower than management's estimates, the Group would not be able to reverse any impairment losses that arose on goodwill.

Estimated impairment of intra-group balances

The Group's management determines the impairment of intra-group balances on a regular basis. This estimate is based on the financial forecast of the intra-group. Management reassesses any impairment at each reporting date.

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 trade receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including their current creditworthiness, past collection history and financial condition. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

Fair value of available-for-sale financial assets

The available-for-sale financial assets as recorded in the consolidated statement of financial position included an investment in an unlisted private equity fund (the "Fund") amounting to HK$3,380,000 (2008: HK$3,411,000) which are stated at fair value.

The Fund's assets mainly represent investments in unlisted companies in high growth technology industries (the "Investments"). The fair value of the Investments is reviewed by management of the Fund 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 reporting 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 2009.

5. REVENUE AND TURNOVER

The Group's principal activities are disclosed in Note 1 to these financial statements. Turnover of the Group is the revenue from these activities.

Revenue from external customers from the Group's principal activities recognised during the year is as follows:

	2009 **HK$'000**	2008 HK$'000
Enterprise software products	**75,258**	83,304
Systems integration	**77,253**	254,729
Professional services	**15,487**	21,606
ASP services	**4,547**	4,567
Total revenue	**172,545**	364,206

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

6. SEGMENT INFORMATION

The executive directors have identified the Group's three geographical areas as operating segments as further described in Note 2.24.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	2009			
	Hong Kong HK$'000	PRC HK$'000	South East Asia HK$'000	Total HK$'000
Revenue				
– From external customers	73,588	91,675	7,282	172,545
– From other segments	9,873	16,389	708	26,970
Reportable segment revenue	83,461	108,064	7,990	199,515
Reportable segment profit/(loss)	5,176	(2,673)	(766)	1,737
Interest income	181	604	140	925
Depreciation of non-financial assets	1,004	1,250	281	2,535
Net gain on disposal of property, plant and equipment	1	71	–	72
Gain on disposal of financial assets at fair value through profit or loss	362	–	–	362
Fair value gain on financial assets at fair value through profit or loss	3,002	–	–	3,002
Impairment loss on available-for-sale financial assets	31	637	–	668
Finance costs	37	18	–	55
Reportable segment assets	146,748	86,938	11,509	245,195
Additions to non-current segment assets (other than financial instruments) during the year	725	680	24	1,429
Reportable segment liabilities	10,785	117,077	16,253	144,115

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

6. SEGMENT INFORMATION *(Continued)*

	2008			
	Hong Kong HK$'000	PRC HK$'000	South East Asia HK$'000	Total HK$'000
Revenue				
– From external customers	91,318	263,015	9,873	364,206
– From other segments	12,050	18,843	850	31,743
Reportable segment revenue	103,368	281,858	10,723	395,949
Reportable segment profit/(loss)	863	(3,651)	796	(1,992)
Interest income	466	119	230	815
Depreciation of non-financial assets	1,205	1,647	294	3,146
Net (loss)/gain on disposal of property, plant and equipment	–	(18)	1	(17)
Fair value loss on financial assets at fair value through profit or loss	3,157	–	–	3,157
Impairment loss on available-for-sale financial assets	2,054	–	–	2,054
Finance cost	48	–	–	48
Share of loss of an associate	–	5	–	5
Reportable segment assets	148,941	107,536	13,794	270,271
Additions to non-current segment assets (other than financial instruments) during the year	2,030	245	65	2,340
Reportable segment liabilities	18,246	138,251	17,921	174,418

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

6. SEGMENT INFORMATION *(Continued)*

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2009 HK$'000	2008 HK$'000
Reportable segment revenue	**199,515**	395,949
Elimination of inter segment revenue	**(26,970)**	(31,743)
Group revenue	**172,545**	364,206

	2009 HK$'000	2008 HK$'000
Reportable segment assets	**245,195**	270,271
Consolidation	**(86,001)**	(76,433)
Group assets	**159,194**	193,838

	2009 HK$'000	2008 HK$'000
Reportable segment liabilities	**144,115**	174,418
Consolidation	**(86,001)**	(76,433)
Group liabilities	**58,114**	97,985

The Group's non-current assets (other than financial instruments) are divided into the following geographical areas:

	2009 HK$'000	2008 HK$'000
Hong Kong	**7,149**	8,723
PRC	**3,957**	4,525
South East Asia	**93**	352
Total	**11,199**	13,600

During 2009, HK$46,242,000 or 26.80% of the Group's revenues depended on a single customer in the PRC segment (2008: HK$142,343,000 or 39.08% in the PRC segment). At the reporting date, 3% of the Group's trade receivables was due from this customer (2008: 1%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. OTHER REVENUE

	2009 HK$'000	2008 HK$'000
Interest income	**925**	815
Dividend income from listed securities	**44**	59
Fair value gain on financial assets at fair value through profit or loss	**3,002**	–
Gain on disposal of financial assets at fair value through profit or loss	**362**	–
Net gain on disposal of property, plant and equipment	**72**	–
Government grant received (note)	**570**	–
Others	**309**	274
	5,284	1,148

Note: The government grant was received from government of the PRC for subsidizing the establishment of a network in research and development in information technology and provision of services and training to financial institutions in the PRC. At the reporting date, there are no unfulfilled conditions or contingencies relating to the grant.

8. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest charges on:		
Finance charges on obligations under finance leases	**33**	48
Other interest expense	**22**	–
	55	48

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

9. PROFIT/(LOSS) BEFORE INCOME TAX

	2009 **HK$'000**	2008 HK$'000
Profit/(Loss) before income tax is arrived at after charging/(crediting):		
Cost of inventories sold	**73,414**	246,017
Cost of services rendered	**64,921**	76,691
Depreciation:		
– Owned assets	**2,392**	3,013
– Leased assets	**143**	133
Auditors' remuneration	**811**	887
Net foreign exchange loss	**188**	113
Net (gain)/loss on disposal of property, plant and equipment	**(72)**	17
Impairment loss on available-for-sale financial assets	**668**	2,054
Provision for doubtful trade receivables	**503**	–
Write off of amounts due from customers for contract work	**538**	–
Fair value (gain)/loss on financial assets at fair value through profit or loss	**(3,002)**	3,157
Operating lease charges on land and buildings	**5,228**	5,720

10. INCOME TAX EXPENSE

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.

	2009 **HK$'000**	2008 HK$'000
Current tax		
– Overseas		
Tax for the year	**38**	47
Total income tax expense	**38**	47

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

10. INCOME TAX EXPENSE *(Continued)*

Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2009 HK$'000	2008 HK$'000
Profit/(Loss) before income tax	**1,737**	(1,992)
Tax at the Hong Kong profits tax rate of 16.5% (2008: 16.5%)	**287**	(329)
Tax effect of non-taxable revenue	**(1,298)**	(4,184)
Tax effect of non-deductible expenses	**1,993**	4,836
Tax effect of unrecognised temporary differences	**20**	(174)
Tax effect of unrecognised tax losses	**1,058**	1,562
Utilisation of previously unrecognised tax losses	**(2,143)**	(1,601)
Tax effect of share of result of an associate	**–**	1
Effect of different tax rates of subsidiaries operating in other jurisdictions	**4**	(108)
Others	**117**	44
Income tax expense	**38**	47

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to owners of the Company of HK$2,367,000 (2008: loss of HK$822,000), a loss of HK$1,010,000 (2008: loss of HK$914,000) has been dealt with in the financial statements of the Company.

12. OTHER COMPREHENSIVE INCOME

The amount of reclassification adjustments relating to each component of other comprehensive income can be summarised as follows:

	2009 HK$'000	2008 HK$'000
Net change in fair value of available-for-sale financial assets	**–**	(1,161)
Impairment loss on available-for-sale financial assets transferred to profit or loss	**–**	2,054
Net increase in investment revaluation reserve	**–**	893

13. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/loss per share is based on the profit attributable to owners of the Company of HK$2,367,000 (2008: loss of HK$822,000) and the weighted average number of ordinary shares of 985,050,000 (2008: 985,050,000) in issue during the year.

Diluted earnings/loss per share for the year ended 31 December 2009 and 2008 were not presented as there is no potential ordinary share in existence during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

14. EMPLOYEE BENEFITS EXPENSE (including directors' emoluments)

	2009 HK$'000	2008 HK$'000
Wages and salaries	77,773	83,110
Pension costs – defined contribution plans	5,466	5,498
	83,239	88,608

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

15.1 Directors' emoluments

2009	Directors' fees HK$'000	Salaries and allowances HK$'000	Benefit-in-kind HK$'000	Contributions to defined contribution plan HK$'000	Total HK$'000
Executive directors:					
Zee Chan Mei Chu, Peggy	–	1,000	480	12	1,492
Fung Din Chung, Rickie	–	1,000	–	12	1,012
Leung Lucy, Michele	–	1,000	203	12	1,215
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	683	48	5,031

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

15.1 Directors' emoluments *(Continued)*

2008	Directors' fees HK$'000	Salaries and allowances HK$'000	Benefit-in-kind HK$'000	Contributions to defined contribution plan HK$'000	Total HK$'000
Executive directors:					
Zee Chan Mei Chu, Peggy	–	1,000	467	12	1,479
Fung Din Chung, Rickie	–	1,000	–	12	1,012
Leung Lucy, Michele	–	1,000	188	12	1,200
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	655	48	5,003

Benefit-in-kind represents the estimated rateable value of residential accommodation in respect of properties owned by the Group and occupied by two executive directors of the Company.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2008: HK$Nil).

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2008: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

15.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2008: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2008: one) individual during the year are as follows:

	2009	2008
	HK$'000	HK$'000
Salaries and allowances and benefit-in-kind	**1,200**	1,200
Contributions to defined contribution plan	**12**	12
	1,212	1,212

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
Emolument bands		
HK$1,000,000 to HK$1,500,000	**1**	1

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for the year ended 31 December 2009

16. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Computer and office equipment HK$'000	ASP software HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2008							
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
Year ended 31 December 2008							
Opening net book amount	6,322	848	4,972	–	49	310	12,501
Exchange differences	–	17	219	–	3	–	239
Additions	–	9	2,331	–	–	–	2,340
Disposals	–	–	(25)	–	–	–	(25)
Depreciation	(103)	(392)	(2,505)	–	(13)	(133)	(3,146)
Closing net book amount	6,219	482	4,992	–	39	177	11,909
At 31 December 2008 and 1 January 2009							
Cost	**7,856**	**4,139**	**38,974**	**7,187**	**1,715**	**1,222**	**61,093**
Accumulated depreciation and impairment losses	**(1,637)**	**(3,657)**	**(33,982)**	**(7,187)**	**(1,676)**	**(1,045)**	**(49,184)**
Net book amount	**6,219**	**482**	**4,992**	**–**	**39**	**177**	**11,909**
Year ended 31 December 2009							
Opening net book amount	**6,219**	**482**	**4,992**	**–**	**39**	**177**	**11,909**
Additions	**–**	**104**	**971**	**–**	**177**	**177**	**1,429**
Disposals	**–**	**–**	**(9)**	**–**	**–**	**–**	**(9)**
Transfer to finance lease receivables	**–**	**–**	**(1,286)**	**–**	**–**	**–**	**(1,286)**
Depreciation	**(102)**	**(379)**	**(1,872)**	**–**	**(39)**	**(143)**	**(2,535)**
Closing net book amount	**6,117**	**207**	**2,796**	**–**	**177**	**211**	**9,508**
At 31 December 2009							
Cost	**7,856**	**4,259**	**25,548**	**7,187**	**1,294**	**618**	**46,762**
Accumulated depreciation and impairment losses	**(1,739)**	**(4,052)**	**(22,752)**	**(7,187)**	**(1,117)**	**(407)**	**(37,254)**
Net book amount	**6,117**	**207**	**2,796**	**–**	**177**	**211**	**9,508**

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

17. INTEREST IN SUBSIDIARIES – COMPANY

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost of US$1	–	–
Less: Provision for impairment	–	–
Interest in subsidiaries	–	–

Particulars of the principal subsidiaries at 31 December 2009 are as follows:

Name of subsidiary	**Place of incorporation/ registration**	**Nominal value of issued share capital/ registered capital**	**Percentage of issued share capital/registered capital held by the Company**	**Principal activities**
Excel (BVI) Limited	British Virgin Islands*	5,000 shares of US$1 each	100%#	Investment holding
Excel China Investment (BVI) Limited	British Virgin Islands*	5,000 shares of US$1 each	100%	Investment holding
Excel Consulting and Solutions Sdn. Bhd.	Malaysia*	2 shares of RM1 each	100%	Development of computer software and provision of sale and marketing services
Excel Global IT Services (Dalian) Limited	PRC**	US$150,000	100%	Inactive
Excel Global IT Services Holdings Limited	British Virgin Islands*	500,000 shares of US$1 each	100%	Investment holding
Excel Global IT Services (HK) Limited	Hong Kong*	10,000 shares of HK$1 each	100%	Provision of professional services
Excel Investment China Limited	Hong Kong*	1,000 shares of HK$1 each	100%	Investment holding
Excel International Limited	Hong Kong*	10,000 shares of HK$1 each	100%	Inactive

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

17. INTEREST IN SUBSIDIARIES – COMPANY *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of issued share capital/registered capital held by the Company	Principal activities
Excel SSL Investment Limited	Hong Kong*	1,000 shares of HK$1 each	100%	Investment holding
Excel System (Hong Kong) Limited	Hong Kong*	200,000 shares of HK$1 each	100%	Systems integration
Excel System Limited	British Virgin Islands*	100 shares of US$1 each	100%	Inactive
Excel Technology International (BVI) Limited	British Virgin Islands*	1 share of US$1 each	100%	Investment holding
Excel Technology International (Hong Kong) Limited	Hong Kong*	1,000 shares of HK$1 each	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%	Investment holding
Excelink Technology Pte Ltd.	Singapore*	S$893,022	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%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

17. INTEREST IN SUBSIDIARIES – COMPANY *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of issued share capital/registered capital held by the Company	Principal activities
HR21 Limited	Hong Kong*	2 shares of HK$1 each	93%	Development of computer software and provision of maintenance services
i21 Limited	Hong Kong*	14,000 shares of HK$1 each	80.1%	ASP services provider
Infostar Ltd.	British Virgin Islands*	1 share of US$1 each	100%	Investment holding
Wise Success Ltd.	British Virgin Islands*	5,000 shares of US$1 each	100%	Investment holding
北京志鴻英華科技有限公司	PRC***	US$1,230,000	65%	Systems integration, development of computer software 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%	Development of computer software and provision of maintenance services
志鴻軟件(深圳)有限公司	PRC**	HK$3,000,000	100%	Development of computer software and provision of maintenance services

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

17. INTEREST IN SUBSIDIARIES – COMPANY *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of issued share capital/registered capital held by the Company	Principal activities
志鴻六維軟件科技（上海）有限公司	PRC**	US$350,000	100%	Provision of professional services
志鴻六維科技（杭州）有限公司	PRC**	US$70,000	100%	Provision of professional services
新川資訊科技股份有限公司	Taiwan*	NT$11,913,620	100%	Provision of professional services
東莞志鴻國際金融科技孵化中心有限公司	PRC**	RMB10,000,000	100%	Provision of IT and related support services for the banking industry in China
北京志鴻銀通科技有限公司	PRC***	US$1,230,000	65%	Inactive

Issued capital held directly by the Company

* Limited liability company

** Wholly-owned foreign enterprise

*** Sino-foreign equity joint venture enterprise

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particular of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

18. INTEREST IN ASSOCIATES – GROUP

	2009 HK$'000	2008 HK$'000
Share of net assets	–	–

The following list contains only the particulars of an associate which is an unlisted corporate entity, which in the opinion of the directors principally affected the results or net assets of the Group.

Name of associate	Form of business structure	Place of registration	Particular of paid up registered capital	% of interest held	Principal activities
深圳志鴻中科科技有限公司	Sino-foreign equity joint venture enterprise	PRC	Registered capital of RMB1,000,000	45%	Development of computer software services and provision of sale and marketing support

The associate has a reporting date of 31 December.

The summarised financial information of the Group's associate extracted from the financial statements of the associate is as follows:

	2009 HK$'000	2008 HK$'000
Share of associate's assets and liabilities		
Non-current assets	27	35
Current assets	411	359
Current liabilities	(559)	(394)
Share of associate's revenue and losses		
Revenue	1,041	1,365
Losses	(124)	(5)

The Group has not recognised losses amounting to HK$124,000 (2008: HK$7,000) for 深圳志鴻中科科技有限公司. The accumulated losses not recognised were HK$131,000 (2008: HK$7,000).

The Group has not incurred any contingent liabilities or other commitments relating to its investments in associates.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2009 **HK$'000**	2008 HK$'000
Unlisted private equity fund, at fair value	**3,380**	3,411
Unlisted equity investments, at cost less impairment losses	**304**	941
	3,684	4,352

The unlisted private equity fund principally invests in high growth technology industries and is held for long-term strategic purposes. The fair value of the Group's investment in unlisted private equity fund has been measured as described in Note 43.7.

The unlisted equity investments with a carrying amount of HK$304,000 (2008: HK$941,000) are measured at cost less impairment losses as they do not have quoted market prices in active markets and the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group plans to hold these investments for the foreseeable future.

20. GOODWILL – GROUP

There are no movement in the carrying amount of goodwill during the two years ended 31 December 2009 and 2008. The net carrying amount of goodwill can be analysed as follows:

	2009 **HK$'000**	2008 HK$'000
Net carrying amount at 1 January and 31 December		
Gross carrying amount	**15,853**	15,853
Accumulated impairment	**(14,162)**	(14,162)
	1,691	1,691

The carrying amount of goodwill, net of any impairment loss, is allocated to the following cash generating units:

	2009 **HK$'000**	2008 HK$'000
Provision of professional services in the PRC	**1,140**	1,140
Provision of professional services in Taiwan	**551**	551
Net carrying amount at 31 December	**1,691**	1,691

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

20. GOODWILL – GROUP *(Continued)*

The recoverable amounts of the goodwill relating to the provision of professional services in the PRC and Taiwan stated above were determined based on value-in-use calculations covering a detailed three-year (2008: one-year) budget plan, and at a discount rate of 5% (2008: 9%). Cash flows for the three-year (2008: one-year) period were extrapolated using a 5% to 20% (2008: 9%) growth rate in considering contracts obtained by the companies and economic conditions of the market. The estimated growth rates used are comparable to the growth rate for the industry.

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.

Apart from the considerations described in determining the value in use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

21. DEVELOPMENT COST – GROUP

	2009	2008
	HK$'000	HK$'000
Net carrying amount at 1 January and 31 December		
Cost	**31,085**	31,085
Accumulated amortisation	**(31,085)**	(31,085)
	–	–

The development costs represented all direct costs incurred in the development of enterprise software products. There are no movement in the carrying amount for the two years ended 31 December 2009 and 2008.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

22. FINANCE LEASE RECEIVABLES – GROUP

The analysis of the Group's amounts receivable under finance leases is as follows:

	2009 **HK$'000**	2008 HK$'000
Total minimum lease payments:		
Due within one year	**380**	–
Due in the second to fifth years	**950**	–
	1,330	–
Unearned finance income	**(154)**	–
Present value of minimum lease payments	**1,176**	–
Present value of minimum lease payments:		
Due within one year	**291**	–
Due in the second to fifth years	**885**	–
	1,176	–
Less: Portion due within one year included under current assets	**(291)**	–
Non-current portion included under non-current assets	**885**	–

The Group has entered into finance leasing arrangements for certain items of its computer equipment. The average term of finance leases entered into is 4 years. There are no unguaranteed residual values of assets leased under finance leases at the reporting date.

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The effective interest rate contracted at the reporting date ranged between 5.00% – 7.19% (2008: Nil) per annum.

Finance lease receivable balances are secured over the computer equipment leased. The Group is not permitted to sell or re-pledge the collateral in the absence of default by the lessee.

The Group has no allowance for doubtful debts on its finance lease receivables as the amounts in the current period are neither past due nor impaired.

23. INVENTORIES – GROUP

	2009 **HK$'000**	2008 HK$'000
Finished goods	**25,223**	2,120

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

24. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK – GROUP

Amounts due from customers for contract work represents the excess of the value of work performed over the amount of billing issued to customers.

Amounts due to customers for contract work represents the excess of billing over the value of work performed and the amounts received from customers before the related services have been rendered.

	2009	2008
	HK$'000	HK$'000
Contracts in progress at the reporting date:		
Estimated contract costs plus recognised profits less recognised losses	**71,578**	57,201
Less: progress billings	**(55,539)**	(44,727)
	16,039	12,474
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**19,538**	18,458
Amounts due to customers for contract work	**(3,499)**	(5,984)
	16,039	12,474

All the amounts included in amounts due are expected to be billed and recovered/(credited) to the profit or loss within one year.

25. TRADE RECEIVABLES – GROUP

	2009	2008
	HK$'000	HK$'000
Trade receivables		
From third parties	**25,637**	84,932
From a related party	**3,529**	–
	29,166	84,932
Less: provision for impairment of receivables	**(503)**	–
	28,663	84,932

Trade receivables from third parties are due within 14 days to 60 days from the date of billing. Debtors with balances that are more than 90 days overdue are requested to settle all outstanding balances before any further credit is granted.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

25. TRADE RECEIVABLES – GROUP *(Continued)*

The directors of the Group considered that the fair values of trade receivables are not materially different from their carrying amounts because these balances have short maturity periods on their inception. All trade receivables are expected to be recovered within one year.

Based on the invoice dates, the ageing analysis of the trade receivables was as follows:

	2009	2008
	HK$'000	HK$'000
0 – 30 days	**9,684**	69,768
31 – 60 days	**6,598**	3,488
61 – 90 days	**6,001**	1,282
Over 90 days	**6,380**	10,394
	28,663	84,932

At each reporting date the Group reviews receivables for evidence of impairment on both an individual and collective basis. The amount of impairment loss of impaired receivables, if any, is recognised based on the credit history of the customer, whether the customer is experiencing financial difficulties and were in default or delinquency of payments, and current market conditions.

The movement in the provision for impairment of trade receivables is as follows:

	2009	2008
	HK$'000	HK$'000
Balance at the beginning of the year	**–**	–
Impairment loss recognised	**503**	–
Balance at the end of the year	**503**	–

The ageing analysis of the Group's trade receivables based on due date is as follows:

	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**9,671**	74,538
1 – 90 days past due	**12,943**	10,394
Over 90 days past due	**6,049**	–
	28,663	84,932

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

25. TRADE RECEIVABLES – GROUP *(Continued)*

As at 31 December 2009, trade receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a large number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of trade receivables past due but not impaired.

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP

	2009 **HK$'000**	2008 HK$'000
Other receivables	**7,294**	1,992
Deposits	**1,661**	1,698
Prepayments	**1,212**	14,417
	10,167	18,107

The directors of the Group considered that the fair values of other receivable, deposits and prepayments are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2009 **HK$'000**	2008 HK$'000
Listed securities held for trading:		
– Equity securities in Hong Kong	**7,579**	4,528

The fair value of the Group's investments in listed securities has been measured as described in Note 43.7.

28. AMOUNTS DUE FROM/(TO) SUBSIDIARIES – COMPANY

The amounts due are unsecured, interest-free and repayable on demand. The carrying amount of the amounts due approximates its fair value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

29. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**51,892**	47,741	**138**	121

Included in bank and cash balances of the Group is HK$7,863,000 (2008: HK$7,156,000) of bank balances denominated in Renminbi ("RMB") placed with banks in PRC and bear interest at an effective interest rate of approximately 1.21% (2008: 0.96%) per annum. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Included in bank and cash balances of the Group is HK$5,578,000 (2008: HK$9,563,000) of bank balances denominated in Malaysian Ringgit ("MYR") placed with banks in Malaysia and bear interest at an effective interest rate of approximately 1.78% (2008: 2.34%) per annum. In Malaysia, the Group is permitted to exchange MYR into foreign currencies.

30. TRADE PAYABLES – GROUP

The Group was granted by its suppliers credit periods ranging from 30 – 60 days. Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	2009	2008
	HK$'000	HK$'000
0 – 30 days	**7,415**	53,525
31 – 60 days	**494**	4,115
61 – 90 days	**–**	20
Over 90 days	**14,841**	8,561
	22,750	66,221

All amounts are short term and hence the carrying values of trade payables are considered to be a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

31. OTHER PAYABLES AND ACCRUED CHARGES – GROUP

	2009 HK$'000	2008 HK$'000
Deferred income	**11,685**	10,813
Other payables	**3,414**	2,088
Accrued charges	**5,136**	6,100
	20,235	19,001

All amounts are short term and hence the carrying values of other payables and accrued charges are considered to be a reasonable approximation of fair value.

At 31 December 2009, accrued charges included accrued salaries and allowance to certain directors of the Company amounted to HK$300,000 (2008: HK$300,000).

32. BORROWINGS – GROUP

	Notes	2009 HK$'000	2008 HK$'000
Non-current			
Finance lease liabilities	32(a)	**85**	219
Other borrowings	32(b)		
– A related company		**4,263**	–
		4,348	219
Current			
Finance lease liabilities	32(a)	**134**	119
Other borrowings	32(b)		
– A non-controlling shareholder		**–**	1,995
– A third party		**6,703**	4,446
		6,837	6,560
Total borrowings		**11,185**	6,779

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

32. BORROWINGS – GROUP *(Continued)*

32(a) Finance lease liabilities

The analysis of the Group's obligations under finance leases is as follows:

	2009 HK$'000	2008 HK$'000
Total minimum lease payments:		
Due within one year	**151**	151
Due in the second to fifth years	**88**	239
	239	390
Future finance charges on finance lease	**(20)**	(52)
Present value of finance lease liabilities	**219**	338
Present value of minimum lease payments:		
Due within one year	**134**	119
Due in the second to fifth years	**85**	219
	219	338
Less: Portion due within one year included under current liabilities	**(134)**	(119)
Portion due after one year included under non-current liabilities	**85**	219

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 matures in July 2011 and bears interest at 5.25% per annum. The carrying value of the finance lease approximates its fair value.

Finance lease liabilities are effectively secured by the underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

32(b) Other borrowings

The loan borrowed from a related company is unsecured, interest-free and wholly repayable on 31 December 2011.

The loans borrowed from a non-controlling shareholder and a third party are unsecured, interest-free and wholly repayable within 1 year from the reporting date. The loan borrowed from the non-controlling shareholder was fully repaid during the year.

The carrying amounts of the amounts due approximate their fair values.

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for the year ended 31 December 2009

33. AMOUNT DUE TO AN ASSOCIATE – GROUP

The amount due is unsecured, interest-free and repayable on demand. The carrying amount of the amount due approximates its fair value.

34. DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2008: 16.5%).

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

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Net deferred tax liabilities/ (assets) HK$'000
At 1 January 2008	973	(973)	–
Deferred taxation charged/(credited) to profit or loss	111	(111)	–
At 31 December 2008 and 1 January 2009	**1,084**	**(1,084)**	**–**
Deferred taxation (credited)/charged to profit or loss	**(230)**	**230**	**–**
At 31 December 2009	**854**	**(854)**	**–**

For the purpose of statement of financial position presentation, certain deferred tax assets and liabilities have been offset in accordance with HKAS 12 *Income taxes* issued by the HKICPA.

At 31 December 2009, the Group had unused tax losses of approximately HK$103,616,000 (2008: HK$124,479,000) to carry forward against future taxable income. A deferred tax asset has been recognised in respect of approximately HK$5,176,000 (2008: HK$6,569,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of approximately HK$98,440,000 (2008: HK$117,910,000) due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

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34. DEFERRED TAXATION – GROUP *(Continued)*

These tax losses do not expire under current legislation except losses of approximately HK$12,452,000 (2008: HK$15,607,000) which will expire as follows:

	2009 HK$'000	2008 HK$'000
Year of expiry:		
2009	**–**	3,627
2010	**4,247**	4,968
2011	**1,130**	1,130
2012	**1,750**	2,851
2013	**3,031**	3,031
2014	**2,294**	–
	12,452	15,607

35. SHARE CAPITAL – GROUP AND COMPANY

	2009 Number of shares	**2009 HK$'000**	2008 Number of shares	2008 HK$'000
Authorised:				
Ordinary shares of HK$0.1 each				
At 1 January and 31 December	**5,000,000,000**	**500,000**	5,000,000,000	500,000
Issued and fully paid:				
At 1 January and 31 December	**985,050,000**	**98,505**	985,050,000	98,505

36. 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

36. SHARE OPTION SCHEMES *(Continued)*

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.

37. RESERVES – COMPANY

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008	179,650	(211,081)	(31,431)
Loss for the year	–	(914)	(914)
At 31 December 2008 and 1 January 2009	**179,650**	**(211,995)**	**(32,345)**
Loss for the year	**–**	**(1,010)**	**(1,010)**
At 31 December 2009	**179,650**	**(213,005)**	**(33,355)**

At 31 December 2009, there were no reserves available for distribution to owners of the Company (2008: HK$Nil).

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

38. OPERATING LEASE COMMITMENTS

Group – as lessee

At the reporting date, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings which are payable by the Group are as follows:

	2009 **HK$'000**	2008 HK$'000
Within one year	**4,333**	4,470
In the second to fifth years	**530**	2,032
	4,863	6,502

The Group leases the land and building under operating leases. The leases run for an initial period of one to two years, with an option to renew the lease and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rentals.

Company – as lessee

The Company does not have any significant operating lease commitments as lessee or lessor.

39. CAPITAL COMMITMENTS

Group

	2009 **HK$'000**	2008 HK$'000
Authorised, but not contracted for		
– Equity capital contribution to a subsidiary	**–**	6,236

Company

The Company does not have any significant capital commitments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

40. RELATED PARTY TRANSACTIONS

40.1 Details of the transactions between the Group and its related parties are summarised below.

	2009	2008
	HK$'000	HK$'000
Sale of enterprise software products		
– a non-controlling shareholder	**14,971**	1,656
Purchase of complementary hardware and software		
– a non-controlling shareholder	**841**	2,669
– a related party	**–**	140,555

Sales to or purchases from the related parties stated above were conducted in the Group's normal course of business and at mutually agreed prices and terms.

Outstanding balances with a non-controlling shareholder arising from sale and purchase of goods and services and loan advanced, included in trade receivables, trade payables and borrowings are as follows:

	2009	2008
	HK$'000	HK$'000
Receivable from/(payable to) a non-controlling shareholder		
Trade receivables	**3,529**	–
Trade payables	**–**	(2,031)
Other borrowings (Note 32)	**–**	(1,995)
	3,529	(4,026)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

40. RELATED PARTY TRANSACTIONS *(Continued)*

40.2 Key management personnel remuneration

Key management of the Group are members of the board of directors, as well as certain senior management personnel. Included in staff costs are key management personnel remuneration which includes the following expenses:

	2009 **HK$'000**	2008 HK$'000
Short-term employee benefits		
Salaries and other benefits	**6,963**	6,935
Contribution to defined contribution plan	**72**	72
	7,035	7,007

41. FINANCIAL GUARANTEE CONTRACTS – GROUP

The Group does not have any financial guarantee contracts with outsiders as at 31 December 2009 and 2008.

42. PLEDGE OF ASSETS

At the reporting date, the Group's leasehold land and buildings with net carrying amount of HK$6,117,000 (2008: HK$6,219,000) was pledged to bank to secure unutilised banking facilities granted to the Group.

The Group is not allowed to pledge the above assets as security for other borrowings or to sell them to another entity. These facilities were also secured by corporate guarantee issued by the Company.

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

43.1 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale financial assets				
– Unlisted private equity fund, at fair value	**3,380**	3,411	**–**	–
– Unlisted equity investments, at cost less impairment losses	**304**	941	**–**	–
Financial assets at fair value through profit or loss				
– Listed equity securities held for trading	**7,579**	4,528	**–**	–
Loans and receivables				
– Finance lease receivables	**1,176**	–	**–**	–
– Amounts due from customers for contract work	**19,538**	18,458	**–**	–
– Trade receivables	**28,663**	84,932	**–**	–
– Other receivables and deposits	**8,955**	3,690	**–**	–
– Amounts due from subsidiaries	**–**	–	**129,971**	131,000
– Cash and cash equivalents	**51,892**	47,741	**138**	121
	121,487	163,701	**130,109**	131,121

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

43.1 Categories of financial assets and liabilities *(Continued)*

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Financial liabilities measured at amortised cost				
– Trade payables	**22,750**	66,221	**–**	–
– Other payables and accrued charges	**8,550**	8,188	**360**	360
– Amounts due to subsidiaries	**–**	–	**64,752**	64,751
– Amount due to an associate	**445**	–	**–**	–
– Borrowings	**11,185**	6,779	**–**	–
	42,930	81,188	**65,112**	65,111

43.2 Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk arise from its overseas sales and purchases, which are primarily denominated in United States Dollars ("US$") and Renminbi ("RMB"). These are not the functional currencies of certain Group entities to which these transactions relate.

The US$ is pegged to the Hong Kong Dollars ("HK$") and the amounts denominated in US$ is considered to be insignificant. In respect of trade receivables and payables denominated in RMB, the Group ensures that the net exposure is kept to an acceptable level by buying and selling the RMB at the rates adopting by the People's Bank of China where necessary to address short-term imbalances. The amounts denominated in RMB is considered to be insignificant at the reporting dates.

The policies to manage foreign currency risk have been followed by the Group since prior years and are considered to be effective.

The Company has no exposure to foreign currency risk at the reporting date nor in comparative periods.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

43.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's interest rate risk arises primarily from bank balances, finance lease receivables and finance lease liabilities. Borrowings bearing variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. All of the Group's finance lease receivables and finance lease liabilities are at fixed rates. The exposure to interest rates for the Group's short-term bank deposits is considered immaterial. The Group therefore does not have significant exposure to interest rate risk at the reporting date nor in comparative periods.

The Company has no exposure to interest rate risk at the reporting date nor in comparative periods.

43.4 Other price risk

Other price risk relates to the risk that the fair values of equity securities will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to change in market prices in respect of its investments in listed equity classified as financial assets at fair value through profit or loss.

To manage its market price risk arising from these investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the decision made by the board of directors. All the investments are equity securities listed in The Stock Exchange of Hong Kong Limited and are valued at quoted market prices at the reporting date.

The policies to manage other price risk have been followed by the Group since prior years and are considered to be effective.

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

	2009		
	Increase/ (decrease) in price of listed equity securities %	**Effect on profit after income tax HK$'000**	**Effect on component of equity HK$'000**
Market price of listed investment	**+10**	**758**	**758**
	–10	**(758)**	**(758)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

43.4 Other price risk *(Continued)*

	2008		
	Increase/ (decrease) in price of listed equity securities %	Effect on loss after income tax HK$'000	Effect on component of equity HK$'000
Market price of listed investment	+10	(453)	453
	–10	453	(453)

The assumed volatility of listed securities represent management's assessment of a reasonably possible change in these security prices over the next twelve month period.

43.5 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and its investing activities.

The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised below.

	Group		Company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Class of financial assets – carrying amounts				
Available-for-sale financial assets	**3,684**	4,352	**–**	–
Financial assets at fair value through profit or loss	**7,579**	4,528	**–**	–
Finance lease receivables	**1,176**	–	**–**	–
Amounts due from customers for contract work	**19,538**	18,458	**–**	–
Trade receivables	**28,663**	84,932	**–**	–
Other receivables and deposits	**8,955**	3,690	**–**	–
Amounts due from subsidiaries	**–**	–	**129,971**	131,000
Cash and cash equivalents	**51,892**	47,741	**138**	121
	121,487	163,701	**130,109**	131,121

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

43.5 Credit risk *(Continued)*

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 reporting date, the credit risk is considered negligible as the counterparties are reputable banks and multi-national companies with high quality external credit ratings.

The Group adopts conservative investment strategies with management monitoring the investment portfolio. Usually investments are in liquid securities quoted on recognised stock exchanges, except where entered into for long term strategic purposes.

The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

43.6 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

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 liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

Analysed below is the Group's and Company's remaining contractual maturities for its non-derivative financial liabilities as at 31 December 2009. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

43.6 Liquidity risk *(Continued)*

Group

	Within 1 year or on demand HK$'000	Over 1 year but within 2 years HK$'000	Over 2 years but within 5 years HK$'000	Total contractual undiscounted amount HK$'000	Carrying amount HK$'000
2009					
Trade payables	**22,750**	**–**	**–**	**22,750**	**22,750**
Other payables and accrued charges	**8,550**	**–**	**–**	**8,550**	**8,550**
Amount due to an associate	**445**	**–**	**–**	**445**	**445**
Borrowings	**7,072**	**4,967**	**–**	**12,039**	**11,185**
	38,817	**4,967**	**–**	**43,784**	**42,930**
2008					
Trade payables	66,221	–	–	66,221	66,221
Other payables and accrued charges	8,188	–	–	8,188	8,188
Borrowings	6,560	134	85	6,779	6,779
	80,969	134	85	81,188	81,188

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

43.6 Liquidity risk *(Continued)*

Company

	Within 1 year or on demand HK$'000	Over 1 year but within 2 years HK$'000	Over 2 years but within 5 years HK$'000	Total contractual undiscounted amount HK$'000	Carrying amount HK$'000
2009					
Other payables and accrued charges	**360**	**–**	**–**	**360**	**360**
Amounts due to subsidiaries	**64,752**	**–**	**–**	**64,752**	**64,752**
	65,112	**–**	**–**	**65,112**	**65,112**
2008					
Other payables and accrued charges	360	–	–	360	360
Amounts due to subsidiaries	64,751	–	–	64,751	64,751
	65,111	–	–	65,111	65,111

43.7 Fair value measurements recognised in the statement of financial position – Group

The Group adopted the amendments to HKFRS 7 *Improving disclosures about financial instruments* effective from 1 January 2009. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements. The Group has taken advantage of the transitional provisions in the amendments to HKFRS 7 and accordingly, no comparatives for the hierarchy for fair value measurement disclosures have been presented.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

43.7 Fair value measurements recognised in the statement of financial position – Group

(Continued)

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

		2009		
	Notes	**Level 1 HK$'000**	**Level 2 HK$'000**	**Total HK$'000**
Assets				
Available-for-sale financial assets				
– Unlisted private equity fund	(a)	**–**	**3,380**	**3,380**
Listed securities held for trading	(b)	**7,579**	**–**	**7,579**
Net fair values		**7,579**	**3,380**	**10,959**

(a) Unlisted private equity fund

The fair value of unlisted private equity fund is determined by reference to the net asset value of the underlying investment in the equity fund.

(b) Listed securities

The listed equity securities are denominated in Hong Kong dollars. Fair values have been determined by reference to their quoted bid prices at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

44. 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 goods 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 debts as debt, which comprises long-term and short-term borrowings, less cash and cash equivalents. Total equity comprises equity attributable to owners of the Company and non-controlling interest stated in the consolidated statement of financial position. During 2009, the Group's strategy remains unchanged from 2008, which is to maintain the gearing ratio at a healthy capital level in order to support its business. As of 31 December 2009 and of 31 December 2008, cash and cash equivalents exceeded debt, therefore the gearing ratio of the Group were zero.

FINANCIAL SUMMARY

for the year ended 31 December 2009

	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009** **HK$'000**
RESULTS					
Turnover	224,242	282,823	183,987	364,206	**172,545**
(Loss)/Profit before income tax	(15,567)	370	4,299	(1,992)	**1,737**
Income tax expense	(139)	(56)	(921)	(47)	**(38)**
(Loss)/Profit for the year	(15,706)	314	3,378	(2,039)	**1,699**
ASSETS AND LIABILITIES					
Total assets	133,234	130,759	130,954	193,838	**159,194**
Total liabilities	(46,001)	(39,468)	(32,901)	(97,985)	**(58,114)**
Total equity	87,233	91,291	98,053	95,853	**101,080**