ANNUAL REPORT 2010

Excel TECHNOLOGY

Excel Technology International Holdings Limited

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

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.

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 (the "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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this report misleading.

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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 Jingdu Tianhua
Certified Public Accountants
20th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

LEGAL ADVISER

Baker & Mckenzie
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
Rooms 1712 – 1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

WEBSITE ADDRESS

www.excel.com.hk

FINANCIAL HIGHLIGHTS

	2010	2009
	HK$'000	HK$'000
Revenue	**280,576**	172,545
Profit/(Loss) for the year attributable to:		
– Owners of the Company	**6,036**	2,367
– Non-controlling interests	**(97)**	(668)
	5,939	1,699
Earnings per share for profit attributable to the owners of the Company – Basic and diluted	**HK0.61 cents**	HK0.24 cents
Total equity	**107,638**	101,080

CHAIRMAN'S STATEMENT

I am pleased to report that **Excel** recorded a turnover of HK$280,576,000 with a profit attributable to owners of the Company of HK$6,036,000 for 2010, a significant improvement over 2009.

BUILDING ON A SOLID FOUNDATION

As reported in my Statement last year, Management had charted two courses for moving forward in 2010. I would like to report on our progress in each of these, and to describe our initiatives in 2011.

Preservation and Solidification of Our Software Business

After the turbulence of the financial tsunami in 2009, Excel found the opportunity to grow with less competition and increasing business momentum.

Management sought to further our market share through aggressive expansion of our business development team, and this increasing sales effort reaps new prestigious clients across Greater China with both Chinese clients and multinational clients. At the same time, we strengthened our account coverage which helped to penetrate deeper and broader with more sales in geography and products/services to our existing clients.

One of our new business focuses is to grow our business along with our clients' expansion. We are seeing more and more banks in the region going outside of their home turf, such as Chinese banks going international, and some regional banks expanding their operations across continents. We have much to gain when our enterprise software can become their "standard" operating inventory wherever they go.

On the product and services front, a lot of work was done to solidify our leading edge through continuous research and development work on our enterprise software. We believe that this continuous product improvement effort will make Excel stand steadfast in our dominance of the Asia market in the banking and finance software segment.

Diversification Into Related Business

In mid year, together with our China partners, Excel invested in a company which subsequently acquired approximately 175,000 square meters of land in Dongguan Song Shan Lake Technology Park. This opens a new leaf for us to enter into a new business of setting up a China Support Hub for financial establishments inside and outside China, including the opportunities to provide process and development outsourcing, training, data center and IT facility management services.

The project is now in design stage, and construction for initial phase of the project is expected to start in 2011. Once in operation, we expect the company can generate many new business opportunities for the Group, and also create an even stronger brand image among our current and prospective clients.

We also made a small investment into a guarantee company in China. This is a pilot investment for the Group to enter in the feeding stream of our business so that we can partake in the profits of our clients and also provide an opportunity to understand the vast market of personal and SME lending in China.

CHAIRMAN'S STATEMENT

PARTNERING FOR GROWTH AND DIVERSIFICATION

In the coming year, I will spend more of my time pursuing opportunities that can bring us substantial growth and return. Management believes that this can only be done through partnership, inorganic growth and diversification.

We will further strengthen our cooperation with business partners in our enterprise software business. This includes leveraging the strong sales forces of multinational IT vendors, as well as working with smaller software companies which can augment our banking solution portfolio. We will consider "white-labeling" selected software solution on the market, which will allow us to enhance our product portfolio in the shortest possible timeframe without incurring large amounts of financial and manpower resources.

Management will also actively seek out acquisition opportunities with quality companies or teams of professionals which can enhance our product offerings and profit potentials.

THANKS AND THANKS AGAIN

I want to thank our clients for the good support, our staff for the good work, our board for their guidance, our investors for being patient, and look forward to an even better 2011.

Zee Chan Mei Chu, Peggy
Chairman

Hong Kong, 21 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the year ended 31 December 2010, the Group's profit attributable to the owners of the company was HK$6,036,000, as compared with a profit of HK$2,367,000 in the same period of 2009.

The Group recorded a turnover of HK$280,576,000 in 2010, representing an increase of 63% compared with a turnover of HK$172,545,000 in 2009. The increase of turnover was largely contributed from the systems integration business and professional services income.

Sales of enterprise software products increased by 14% to HK$85,971,000 (2009: HK$75,258,000). Both revenues on systems integration business and professional services business significantly jumped by 105% and 104% to HK$158,249,000 (2009: HK$77,253,000) and HK$31,669,000 (2009: HK$15,487,000) respectively. The ASP business remained stable with revenue of HK$4,687,000 (2009: HK$4,547,000).

OPERATION REVIEW

2010 was a year of dichotomy. While U.S. and Europe were still continuing with their financial stimulating measures, the emerging countries including China were down pacing the over-heated economy. Foreign banks were expanding their presence in China to ride on the growing economy. Banks in China are also experiencing handsome growth in their businesses. All these created demand for IT.

Demands on our enterprise software were strong across all regions. Excel Loans System continued to do well in China, while Wealth Management solutions remained popular in Hong Kong and South East Asia. Many of these enterprise software sales reap new prestigious clients including multinational banks and Chinese commercial banks. At the same time, some of our multinational bank clients brought us to new places such as the Middle East and Africa through implementations of our enterprise software to support their operations there.

On the product front, we put some investment into our research and development work of our enterprise software, to ensure it stays at the forefront of the market. We upgraded our stock trading system – InterTrade – to allow for both vertical and horizontal scalability and many other new features. We also added a new product called CCS ("Credit Collateral Monitoring System"), which caters to the increasing needs on credit risk and collateral monitoring. This new product will be implemented for an international bank in the region and also be integrated with our Wealth Management System.

The professional services is another area where we had invested and we are now seeing strong growth. More and more banks and large companies are turning outside for additional resources to handle new projects, and that drives up demand in technical professionals. Our professional services business doubled in volume in the past year, and we have expanded our team significantly to cover the ever-growing demands.

A key part of professional services is our offshore outsourcing business, which makes use of our development resources in China to work on projects for clients outside of China. We are now serving multinational financial institutions using the virtual team concept linking up clients and our professionals in different locations including Hong Kong, Taipei, Hangzhou and Shenzhen.

MANAGEMENT DISCUSSION AND ANALYSIS

Our Hong Kong operation has a healthy growth in the enterprise software business and an impressive gain in the professional services business.

In China, we continued to benefit from the fast growing economy. The big jump in the systems integration business was mainly attributed to the demand from the local banks; whereas the growth in the sales of enterprise products came from both the local banks and the foreign banks in China. Our loans software and wealth management software remained the selling focus.

The China Support Hub project started with an investment in a company with a group of reputable Chinese investors in the middle of the year. This company successfully acquired a piece of land of approximately 175,000 square meters in the Dongguan Song Shan Lake Technology Park. A management team was set up to start the planning and design phase of this China Support Hub project. Negotiations were underway to bring in development and business partners to move the project along.

Our Excel School of Banking and Technology ("the School") in Song Shan Lake has been in operation since 2009. It had successfully produced IT professionals who have joined various development teams of the Group, as well as some of our banking clients in China. We are further refining and expanding the training programs, which will become a key element of our China Support Hub project in the future.

FUTURE PROSPECTS

Management expects 2011 to continue to be stable for South East Asia but will be opportunistic for Hong Kong. Commercial banks in China started to expand their business into Hong Kong and establish their branches as licensed banks. This created a demand for various banking product software including loans, wealth management, treasury and securities trading. Our flagship products in these areas are well positioned to capture the market. In addition, professional services will continue to be of great demand and we are stepping up our marketing and recruitment resources to meet our clients' needs.

China continues to be our focus for growth. One of the strategies we have taken is to grow our enterprise software business by extending into the new regional and city banks, as well as the finance and guarantee company market. This is very much in line with the Chinese government's initiative to encourage domestic consumption since these smaller banks and finance companies are all focusing on consumer finance and retail loans.

To fuel and support our enterprise software and professional services business, we will be in need of a large pool of software engineers. Recruiting the right talents remains a challenge to Management as we are seeing resource shortage across all of a our operating locations. The School in Song Shan Lake is charged with the mission to churn out more qualified software engineers so that they can be deployed to our various development centers as well as to the professional services jobs in customer locations across China. We will also initiate a special recruitment effort to bring in to-be graduates such that we can maintain a pool of candidates who can be further trained to become IT professionals.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group was in a strong financial position with bank balances and cash of HK$60,905,000 (2009: HK$51,892,000).

As at 31 December 2010, the Group held unlisted private equity funds and unlisted equity investments with a fair value of US$429,000 and at cost of US$500,000 respectively for long-term strategic purpose and treated the two investments as available-for-sale financial assets.

As at 31 December 2010, the Group invested in equity securities listed in Hong Kong of HK$6,793,000 at fair value (2009: HK$7,579,000).

The Group monitors its capital structure using the gearing ratio which is net debt divided by total equity. For this purpose, the Group defines net deb 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 interests stated in the consolidated statement of financial position. During 2010, the Group's strategy remains unchanged from 2009, which is to maintain the gearing ratio of not more than 20% in order to support its business. As of 31 December 2010 and 31 December 2009, cash and cash equivalents exceeded debt, therefore the gearing ratio of the Group was zero.

CAPITAL STRUCTURE

As at 31 December 2010, the Group's issued shares were 985,050,000, which was the same as last year.

INVESTMENT

During the year, the Company has not made any significant investments.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENTAL PERFORMANCES

Hong Kong region turnover was HK$90,144,000 in 2010, slightly increased by 8% compared with HK$83,461,000 last year.

The China and Taiwan operations achieved 97% growth in turnover to HK$212,667,000 (2009: HK$108,064,000).

South East Asia region turnover was HK$6,995,000, decreased by 12% compared with last year (2009: HK$7,990,000).

EMPLOYEES

To cope with the business turnaround and the increasing need of China, the Group has increased its head count from 401 at the beginning of the year to 459 as at 31 December 2010.

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 effect for 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 2010	10 May 2010	9 Aug 2010	8 Nov 2010
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 at least 14 days in advance. The Directors will receive details of the 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 a 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 with the Listing Rules.

The Non-executive Directors have a 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 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 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 a 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. The 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 2010 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:

	12 Mar 2010	4 May 2010	2 Aug 2010	1 Nov 2010
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 2010. Details of the attendance of members at the remuneration committee meeting are as follows:

	8 Nov 2010
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 Directors 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 2010.

(8) AUDITORS' REMUNERATION

During the year under review, the Group has incurred an aggregate of HK$741,000 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 heads throughout the Group maintain and monitor the compliance to these controls on an ongoing basis and report variances 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 56)

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 58)

Executive Vice President

Ms. Leung is in charge of the business development and operations in the South East 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 55)

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 52)

Executive Vice President

Dr. Ng is responsible for 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 58)

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, Shougang Concord International Enterprises Company Limited (all being listed companies) and ARA Asset Management (Fortune) Limited as the manager of Fortune REIT, and a Director of ARA Trust Management (Suntec) Limited as the manager of Suntec REIT. Fortune REIT is listed in Hong Kong and Singapore whereas Suntec REIT is listed in Singapore. 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 63)

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, Creative Energy Solutions Holdings 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 is also an Independent Director of BTS Group Holdings Public Company Limited, a company listed in Thailand, and an Executive Director and the Deputy Chairman of Worldsec Limited, a company listed in London. He is also a Member of the Securities and Futures Appeals Tribunal and a Member of the Advisory Committee of the Securities and Futures Commission, and was previously a member of the Disciplinary Panel (Panel A) of the Hong Kong Institute of Certified Public Accountant. He was an Independent Non-executive Director of FPP Japan Fund Inc. (formerly known as "FPP Golden Asia Fund Inc." and "Jade Asia Pacific Fund Inc."), a company listed in Ireland, up until October 2008. Mr. Cheong was appointed as an Independent Non-executive Director of the Group on 30 May 2000.

Mr. CHANG Ka Mun (Age 51)

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 58)

Ms. Wong has over 20 years of experience in finance, accounting and general management. Ms. Wong is a Justice of Peace, a member of the Public Service Commission and Fight Crime Committee 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 member 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 54)

Director

Mr. Cheong is responsible for the development and implementation of banking software in the treasury and loans areas. He has over 30 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 53)

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. 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 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 16 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 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 95.

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 96 of the annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 34 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 36 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 15 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 shares 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, Ms. Zee Chan Mei Chu, Peggy, Dr. Ng Wai King, Steve, Mr. Cheong Ying Chew, Henry and Mr. Chang Ka Mun 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 2010 on a 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 2010 on a 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 2010, 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	4,184,998	–	–	4,184,998	0.42%
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 2010.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, 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 2010.

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 35 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 68.0% of the Group's total turnover and the Group's largest customer accounted for approximately 50.4% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 64.4% of the Group's total purchases and the Group's largest supplier accounted for approximately 39.2% 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 2010, 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 2010, 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. The 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 2010.

AUDITORS

During the year, JBPB & Co. (Formerly known as "Grant Thornton") resigned as auditors of the Company and Grant Thornton Jingdu Tianhua was appointed as auditors of the Company to fill the casual vacancy pursuant to a resolution passed by the Board of Directors on 17 December 2010. There have been no other changes of auditors in the past three years.

The financial statements for the year ended 31 December 2010 have been audited by Grant Thornton Jingdu Tianhua. A resolution for re-appointment of Grant Thornton Jingdu Tianhua as auditors of the Company for the ensuring year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zee Chan Mei Chu, Peggy
Chairman

Hong Kong, 21 March 2011

INDEPENDENT AUDITORS' REPORT

Grant Thornton
京都天华

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") and its subsidiaries (together, the "Group") set out on pages 27 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

Grant Thornton
京都天华

Auditors' responsibility *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010 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 Jingdu Tianhua
Certified Public Accountants
20th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

21 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	5	**280,576**	172,545
Other income	7	**3,493**	5,284
Change in inventories of hardware and software		**(10,988)**	23,103
Purchase of hardware and software		**(144,057)**	(96,517)
Professional fee		**(10,872)**	(1,503)
Employee benefits expense	13	**(91,265)**	(83,239)
Depreciation and amortisation		**(2,006)**	(2,535)
Other expenses		**(20,051)**	(15,346)
Finance costs	8	**(277)**	(55)
Share of profit of an associate		**105**	–
Profit before income tax	9	**4,658**	1,737
Income tax credit/(expense)	10	**1,281**	(38)
Profit for the year		**5,939**	1,699
Other comprehensive income for the year, net of tax*			
Exchange gain on translation of financial statements of foreign operations		**619**	170
Total comprehensive income for the year		**6,558**	1,869
Profit/(Loss) for the year attributable to:			
Owners of the Company	11	**6,036**	2,367
Non-controlling interests		**(97)**	(668)
		5,939	1,699
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**6,392**	2,537
Non-controlling interests		**166**	(668)
		6,558	1,869
Earnings per share for profit attributable to the owners of the Company during the year			
– Basic and diluted	12	**HK0.61 cents**	HK0.24 cents

* There is no tax effect on the component of other comprehensive income for the years ended 2010 and 2009.

The notes on pages 33 to 95 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**12,429**	9,508
Interest in associates	17	**105**	–
Available-for-sale financial assets	18	**7,248**	3,684
Goodwill	19	**1,140**	1,691
Development costs	20	**5,043**	–
Finance lease receivables	21	**570**	885
Deferred tax assets	33	**1,300**	–
		27,835	15,768
Current assets			
Inventories	22	**14,235**	25,223
Finance lease receivables	21	**323**	291
Amounts due from customers for contract work	23	**21,774**	19,538
Trade receivables	24	**33,209**	28,663
Other receivables, deposits and prepayments	25	**21,725**	10,167
Financial assets at fair value through profit or loss	26	**6,793**	7,579
Tax recoverable		**–**	73
Bank balances and cash	28	**60,905**	51,892
		158,964	143,426
Current liabilities			
Trade payables	29	**20,797**	22,750
Other payables and accrued charges	30	**28,174**	20,235
Borrowings	31	**24,508**	6,837
Amounts due to customers for contract work	23	**4,228**	3,499
Amount due to an associate	32	**–**	445
		77,707	53,766
Net current assets		**81,257**	89,660
Total assets less current liabilities		**109,092**	105,428
Non-current liabilities			
Borrowings	31	**1,454**	4,348
Net assets		**107,638**	101,080
EQUITY			
Share capital	34	**98,505**	98,505
Reserves		**2,668**	(3,724)
Equity attributable to owners of the Company		**101,173**	94,781
Non-controlling interests		**6,465**	6,299
Total equity		**107,638**	101,080

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

The notes on pages 33 to 95 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	16	**–**	–
Current assets			
Prepayments		**151**	153
Amounts due from subsidiaries	27	**128,960**	129,971
Bank balances and cash		**143**	138
		129,254	130,262
Current liabilities			
Other payables and accrued charges		**354**	360
Amounts due to subsidiaries	27	**64,752**	64,752
		65,106	65,112
Net current assets		**64,148**	65,150
Net assets		**64,148**	65,150
EQUITY			
Share capital	34	**98,505**	98,505
Reserves	36	**(34,357)**	(33,355)
Total equity		**64,148**	65,150

Zee Chan Mei Chu, Peggy
Director

Fung Din Chung, Rickie
Director

The notes on pages 33 to 95 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Cash flows from operating activities		
Profit before income tax	4,658	1,737
Adjustments for:		
Depreciation	1,738	2,535
Amortisation	268	–
Provision for doubtful trade receivables	20	503
Provision for doubtful other receivables	517	–
Impairment loss on available-for-sale financial assets	32	668
Impairment loss on goodwill	551	–
Loss on disposal on available-for-sale financial assets	304	–
Write off of amounts due from customers for contract work	396	538
Net loss/(gain) on disposal of property, plant and equipment	50	(72)
Fair value loss/(gain) on financial assets at fair value through profit or loss	804	(3,002)
Gain on disposal of financial assets at fair value through profit or loss	(28)	(362)
Interest expense	277	55
Share of profit of an associate	(105)	–
Dividend income	(150)	(44)
Interest income	(506)	(925)
Operating profit before working capital changes	8,826	1,631
Decrease/(Increase) in inventories	10,988	(23,103)
Decrease in finance lease receivables	283	110
Increase in amounts due from customers for contract work	(2,643)	(1,630)
(Increase)/Decrease in trade receivables	(4,566)	55,804
(Increase)/Decrease in other receivables, deposits and prepayments	(11,352)	7,942
Decrease in trade payables	(1,953)	(43,471)
Increase in other payables and accrued charges	6,504	1,127
(Decrease)/Increase in amount due to an associate	(445)	445
Increase/(Decrease) in amounts due to customers for contract work	740	(2,503)
Cash generated from/(used in) operations	6,382	(3,648)
Interest paid	(277)	(37)
Tax refund/(paid) in other jurisdictions	43	(57)
Net cash from/(used in) operating activities	6,148	(3,742)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	Note	**2010 HK$'000**	2009 HK$'000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,529)**	(1,429)
Purchase of financial assets at fair value through profit or loss		**(801)**	(1,257)
Purchase of available-for-sale financial assets		**(3,900)**	–
Proceeds from disposal of property, plant and equipment		**7**	81
Proceeds from disposal of financial assets at fair value through profit or loss		**811**	1,570
Dividend received		**150**	44
Interest received		**361**	490
Increase in development costs		**(5,311)**	–
Increase in time deposits with maturity exceeding three months		**(3,540)**	–
Net cash used in investing activities		**(16,752)**	(501)
Cash flows from financing activities			
Proceeds from other borrowings		**14,821**	4,942
Repayment of capital element of finance lease liabilities		**(134)**	(119)
Capital contribution by non-controlling interests of a subsidiary		**–**	3,358
Net cash from financing activities		**14,687**	8,181
Net increase in cash and cash equivalents		**4,083**	3,938
Cash and cash equivalents at 1 January		**51,892**	47,741
Effect on foreign exchange rate changes, on cash held		**1,390**	213
Cash and cash equivalents at 31 December	28	**57,365**	51,892

The notes on pages 33 to 95 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Equity attributable to owners of the Company						
	Share capital HK$'000	Share premium* HK$'000	Exchange reserve* HK$'000	Accumulated losses* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2009	98,505	179,650	4,652	(190,563)	92,244	3,609	95,853
Capital contribution by non-controlling interests 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 and 1 January 2010	**98,505**	**179,650**	**4,822**	**(188,196)**	**94,781**	**6,299**	**101,080**
Profit/(Loss) for the year	**–**	**–**	**–**	**6,036**	**6,036**	**(97)**	**5,939**
Other comprehensive income							
Exchange gain on translation of financial statements of foreign operations	**–**	**–**	**356**	**–**	**356**	**263**	**619**
Total comprehensive income for the year	**–**	**–**	**356**	**6,036**	**6,392**	**166**	**6,558**
Balance at 31 December 2010	**98,505**	**179,650**	**5,178**	**(182,160)**	**101,173**	**6,465**	**107,638**

* These reserves accounts comprise the Group's reserves of HK$2,668,000 in surplus (2009: HK$3,724,000 in deficit) in the consolidated statement of financial position.

The notes on pages 33 to 95 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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 parent and 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 and investment holding. 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 2010 were approved for issue by the board of directors on 21 March 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 27 to 95 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 their impact 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 the 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 2010

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 made up to 31 December each year.

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

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

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 interests represent the equity of a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

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. Cost includes directly attributable costs of investment. The results of 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.

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

2.3 Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss 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.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity in the acquiree (if any) over the net of the acquisition–date amounts of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.4 Associates *(Continued)*

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.

After application of the 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.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate.

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 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.5 Foreign currency translation *(Continued)*

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 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.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment (note 2.7).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.6 Property, plant and equipment *(Continued)*

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 and 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%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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. The carrying amount of the replaced part is derecognised. 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 Leasehold land and land use rights

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantively all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specially, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment (note 2.6).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.8 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 2.4.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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. Goodwill relating to business combinations or investments in associates prior to 1 January 2001 continues to be held in reserves and will be charged to the retained profits at the time when the business or associate to which the goodwill relates is disposed of or when a cash-generating unit to which goodwill relates becomes impaired.

2.9 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 an 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.9 Research and development costs *(Continued)*

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 a straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Capitalised development costs	3 years

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets are tested for impairment as described below in note 2.20.

2.10 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.

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, an impairment loss is determined and recognised based on the classification of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.10 Financial assets *(Continued)*

(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.

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.

Subsequent to initial recognition, the financial assets 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. The 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 2010

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

2.10 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;
- The disappearance of an active market for that financial asset because of financial difficulties; 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 a 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 2010

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

2.10 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.

(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.

2.11 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.12 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 the statement of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2.13 Financial liabilities

The Group's financial liabilities mainly 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.

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.

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.

2.14 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.14 Leases *(Continued)*

(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.

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 obligations 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 rentals 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 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 rentals, 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 on the net investment in the lease.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

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:

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, as measured by reference to services performed to date as percentage of total services to be performed in relation to the design and prescribed services as agreed with customers to be rendered in different phases.

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, as measured by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

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

2.17 Revenue recognition *(Continued)*

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

Systems integration 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. The percentage of completion is established by reference to the estimated stage of completion (see note 2.17).

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.20 Impairment of non-financial assets

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

Goodwill and development costs with indefinite useful lives 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 assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from 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 purposes and is not larger than an operating segment.

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 recognised 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 2010

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 all of its 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 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 is 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.

At the time when the share options are exercised, the amount previously recognised in the 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 the share option reserve will be transferred to accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.22 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, 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 claims 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 the 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.23 Accounting for income taxes *(Continued)*

Current tax assets and current tax liabilities are presented 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 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 and Taiwan
- South East Asia

Each reportable segment provides the following products and services:

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

2.24 Segment reporting *(Continued)*

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

(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.

Close 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

3. ADOPTION OF NEW OR AMENDED HKFRSs

In 2008, the Group has early adopted HKAS 27 (Revised) *Consolidated and separate financial statements* and HKFRS 3 (Revised) *Business combinations*. 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 2010:

HKAS 28	*Investments in associates (Revised 2008)*
HKAS 39	*Financial instruments: Recognition and measurement – Eligible hedged items (Amendments)*
HK–Int 5	*Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause*
Various	*Annual Improvements to HKFRSs 2009*

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.

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 annual periods beginning on or after 1 January 2013.

Under HKFRS 9, all recognised financial assets that are within the scope of the HKAS 39 *Financial instruments: Recognition and measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

HKAS 24 Related party disclosures (Revised 2009)

The revised standard is applicable for annual periods beginning on or after 1 January 2011. The revised standard modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in the revised standard do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the revised standard.

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.

4.1 Critical accounting estimates and assumptions

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 19.

The Group has incurred an impairment loss of HK$551,000 (2009: HK$Nil) on goodwill in 2010 in order to reduce the carrying amount of goodwill to its recoverable amount.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

4.1 Critical accounting estimates and assumptions *(Continued)*

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the 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.

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 unlisted private equity funds (the "Funds") amounting to HK$3,348,000 (2009: HK$3,380,000) which are stated at fair value.

The Fund's assets mainly represent investments in listed and 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 2010.

Deferred tax

At 31 December 2010, deferred tax assets of HK$2,168,000 (2009: HK$854,000) in relation to unused tax losses have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$83,385,000 (2009: HK$98,440,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the profit or loss for the period in which such a reversal or further recognition takes place.

4.2 Critical judgements in applying the entity's accounting policies

Research and development activities

Careful judgment by the Company's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at each reporting date. In addition, all internal activities related to the research and development of new software, products or know how are continuously monitored by the Company's management.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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:

	2010	2009
	HK$'000	HK$'000
Enterprise software products	**85,971**	75,258
Systems integration	**158,249**	77,253
Professional services	**31,669**	15,487
ASP services	**4,687**	4,547
Total revenue	**280,576**	172,545

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

6. SEGMENT INFORMATION

The executive directors, being the chief operating decision maker, 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.

	2010			
	Hong Kong HK$'000	PRC and Taiwan HK$'000	South East Asia HK$'000	Total HK$'000
Revenue				
– From external customers	79,847	194,728	6,001	280,576
– From other segments	10,297	17,939	994	29,230
Reportable segment revenue	90,144	212,667	6,995	309,806
Reportable segment profit/(loss)	6,608	(1,942)	(8)	4,658
Interest income	143	273	90	506
Depreciation and amortisation of non-financial assets	900	1,026	80	2,006
Net loss on disposal of property, plant and equipment	1	49	–	50
Gain on disposal of financial assets at fair value through profit or loss	28	–	–	28
Fair value loss on financial assets at fair value through profit or loss	804	–	–	804
Impairment loss on goodwill	–	551	–	551
Impairment loss on available-for-sale financial assets	32	–	–	32
Loss on disposal of available-for-sale financial assets	–	304	–	304
Finance costs	17	260	–	277
Share of profit of an associate	–	105	–	105
Reportable segment assets	158,087	111,562	7,511	277,160
Additions to non-current segment assets (other than financial instruments and deferred tax assets) during the year	5,202	4,718	25	9,945
Reportable segment liabilities	14,488	142,616	12,418	169,522

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

6. SEGMENT INFORMATION *(Continued)*

	2009			
	Hong Kong HK$'000	PRC and Taiwan HK$'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 and amortisation 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 and deferred tax assets) 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 2010

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:

	2010 HK$'000	2009 HK$'000
Reportable segment revenue	**309,806**	199,515
Elimination of inter segment revenue	**(29,230)**	(26,970)
Group revenue	**280,576**	172,545

	2010 HK$'000	2009 HK$'000
Reportable segment assets	**277,160**	245,195
Consolidation	**(90,361)**	(86,001)
Group assets	**186,799**	159,194

	2010 HK$'000	2009 HK$'000
Reportable segment liabilities	**169,522**	144,115
Consolidation	**(90,361)**	(86,001)
Group liabilities	**79,161**	58,114

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

	2010 HK$'000	2009 HK$'000
Hong Kong	**11,449**	7,149
PRC and Taiwan	**7,223**	3,957
South East Asia	**45**	93
Total	**18,717**	11,199

During 2010, HK$141,525,000 or 50.44% of the Group's revenue depended on a single customer in the PRC and Taiwan segment (2009: HK$46,242,000 or 26.80% in the PRC and Taiwan segment). At the reporting date, 6.41% of the Group's trade receivables was due from this customer (2009: 3.00%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

7. OTHER INCOME

	2010 HK$'000	2009 HK$'000
Other revenue		
Interest income	**506**	925
Dividend income from listed securities	**150**	44
Others	**314**	309
	970	1,278
Others net income		
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	**28**	362
Gain on disposal of property, plant and equipment	**–**	72
Government grants received (note)	**575**	570
Foreign exchange gain	**1,920**	–
	2,523	4,006
	3,493	5,284

Note: The government grants were received from government of the PRC for subsidising 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 dates, there are no unfulfilled conditions or contingencies relating to the grant received.

8. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest charges on:		
Finance charges on obligations under finance leases	**17**	33
Other interest expense	**260**	22
	277	55

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after (crediting)/charging:

	2010 HK$'000	2009 HK$'000
Cost of inventories sold	155,045	73,414
Cost of services rendered	83,502	64,921
Depreciation:		
– Owned assets	1,694	2,392
– Leased assets	44	143
Amortisation of development costs	268	–
Auditors' remuneration	741	811
Net foreign exchange (gain)/loss	(1,920)	188
Net loss/(gain) on disposal of property, plant and equipment	50	(72)
Loss on disposal of available-for-sale financial assets	304	–
Impairment loss on goodwill	551	–
Impairment loss on available-for-sale financial assets	32	668
Provision for doubtful trade and other receivables	537	503
Write off of amounts due from customers for contract work	396	538
Fair value loss/(gain) on financial assets at fair value through profit or loss	804	(3,002)
Operating lease charges on land and buildings	5,100	5,228

10. INCOME TAX (CREDIT)/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.

	2010 HK$'000	2009 HK$'000
Current tax		
– Overseas		
Current year	19	38
Deferred tax		
Current year	(1,300)	–
Total income tax (credit)/expense	(1,281)	38

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

10. INCOME TAX (CREDIT)/EXPENSE *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Profit before income tax	**4,658**	1,737
Tax at the Hong Kong profits tax rate of 16.5% (2009: 16.5%)	**769**	287
Tax effect of non-taxable revenue	**(1,601)**	(1,298)
Tax effect of non-deductible expenses	**2,163**	1,993
Tax effect of unrecognised temporary differences	**(8)**	20
Tax effect of unrecognised tax losses	**989**	1,058
Utilisation of previously unrecognised tax losses	**(3,588)**	(2,143)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(142)**	4
Others	**137**	117
Income tax (credit)/expense	**(1,281)**	38

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to owners of the Company of HK$6,036,000 (2009: HK$2,367,000), a loss of HK$1,002,000 (2009: loss of HK$1,010,000) has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit attributable to owners of the Company of HK$6,036,000 (2009: HK$2,367,000) and the weighted average number of ordinary shares of 985,050,000 (2009: 985,050,000) in issue during the year.

Diluted earnings per share for the year ended 31 December 2010 and 2009 equates the basic earnings per share as there is no potential ordinary share in existence during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

13. EMPLOYEE BENEFITS EXPENSE (including directors' emoluments)

	2010 HK$'000	2009 HK$'000
Wages and salaries	**85,979**	77,773
Pension costs – defined contribution plans	**5,286**	5,466
	91,265	83,239

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

14.1 Directors' emoluments

2010	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	498	12	1,510
Fung Din Chung, Rickie	–	1,000	–	12	1,012
Leung Lucy, Michele	–	1,000	204	12	1,216
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	702	48	5,050

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

14.1 Directors' emoluments *(Continued)*

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

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 (2009: HK$Nil).

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2009: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

14.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2009: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2009: one) individual during the year are as follows:

	2010 **HK$'000**	2009 HK$'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 band:

	Number of individual	
	2010	2009
Emolument band		
HK$1,000,000 to HK$1,500,000	**1**	1

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for the year ended 31 December 2010

15. 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 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 and 1 January 2010							
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**
Year ended 31 December 2010							
Opening net book amount	**6,117**	**207**	**2,796**	**–**	**177**	**211**	**9,508**
Exchange differences	**–**	**3**	**173**	**–**	**5**	**6**	**187**
Additions	**–**	**21**	**4,485**	**–**	**23**	**–**	**4,529**
Disposals	**–**	**–**	**(56)**	**–**	**(1)**	**–**	**(57)**
Depreciation	**(103)**	**(161)**	**(1,354)**	**–**	**(42)**	**(78)**	**(1,738)**
Closing net book amount	**6,014**	**70**	**6,044**	**–**	**162**	**139**	**12,429**
At 31 December 2010							
Cost	**7,856**	**4,394**	**29,937**	**7,187**	**1,326**	**625**	**51,325**
Accumulated depreciation and impairment losses	**(1,842)**	**(4,324)**	**(23,893)**	**(7,187)**	**(1,164)**	**(486)**	**(38,896)**
Net book amount	**6,014**	**70**	**6,044**	**–**	**162**	**139**	**12,429**

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 2010

16. INTEREST IN SUBSIDIARIES – COMPANY

	2010 HK$'000	2009 HK$'000
Unlisted shares, at cost of US$1	–	–
Less: Provision for impairment	–	–
Interest in subsidiaries	–	–

Particulars of the principal subsidiaries at 31 December 2010 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*	100,000 shares of RM1 each	100%	Development of computer software and provision of sale and marketing services
Excel Global IT Services Holdings Limited	British Virgin Islands*	500,000 shares of US$1 each	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
Excel SSL Investment Limited	Hong Kong*	1,000 shares of HK$1 each	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

16. 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 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
HR21 Limited	Hong Kong*	2 shares of HK$1 each	93%	Development of computer software and provision of maintenance services

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

16. 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
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 2010

16. 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**	RMB4,041,031	100%	Provision of IT and related supporting services for the banking industry in PRC
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 a list of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

17. INTEREST IN ASSOCIATES – GROUP

	2010 HK$'000	2009 HK$'000
Share of net assets	**105**	–

The following list contains only the particular 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:

	2010 HK$'000	2009 HK$'000
Share of associate's assets and liabilities		
Non-current assets	**55**	27
Current assets	**1,078**	411
Current liabilities	**(1,015)**	(559)
Share of associate's revenue and profit/(losses)		
Revenue	**1,385**	1,041
Profit/(Losses)	**236**	(124)

The Group has not recognised losses amounting to HK$Nil (2009: HK$124,000) for 深圳志鴻中科科技有限公司. There are no accumulated losses not recognised at the reporting date (2009: HK$131,000).

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 2010

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2010 HK$'000	2009 HK$'000
Unlisted private equity fund, at fair value	**3,348**	3,380
Unlisted equity investments, at cost less impairment losses	**3,900**	304
	7,248	3,684

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 41.7.

The unlisted equity investments with carrying amount of HK$3,900,000 (2009: HK$304,000) were 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. As at the reporting date, the Group plans to hold the investments for the foreseeable future.

During the year, the Group has disposed certain of its unlisted equity investments with carrying amount of HK$304,000 at the time of disposal to an independent third party at nil consideration. A loss on disposal of HK$304,000 was recognised in profit or loss for the year.

19. GOODWILL – GROUP

The main changes in the carrying amounts of goodwill result from the impairment of previously recognised goodwill. The net carrying amount of goodwill can be analysed as follows:

	2010 HK$'000	2009 HK$'000
At the beginning of year		
Gross carrying amount	**15,853**	15,853
Accumulated impairment	**(14,162)**	(14,162)
	1,691	1,691
Net carrying amount at 1 January	**1,691**	1,691
Impairment loss	**(551)**	–
Net carrying amount at 31 December	**1,140**	1,691
At the end of year		
Gross carrying amount	**15,853**	15,853
Accumulated impairment	**(14,713)**	(14,162)
	1,140	1,691

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

19. GOODWILL – GROUP *(Continued)*

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

	2010 **HK$'000**	2009 HK$'000
Provision of professional services in the PRC	**1,140**	1,140
Provision of professional services in Taiwan	**–**	551
Net carrying amount at 31 December	**1,140**	1,691

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 (2009: three-year) budget plan, and at a discount rate of 5% (2009: 5%). Cash flows for the three-year (2009: three-year) period were extrapolated using a nil to 30% (2009: 5% to 20%) 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.

The forecast for the Group's provision of professional services in Taiwan unit was adjusted in 2010 for the slowdown of market in Taiwan. Impairment testing taking into account these latest developments resulted in the impairment of goodwill associated with the cash generating unit.

The related goodwill impairment loss of HK$551,000 (2009: HK$Nil) was included under "other expenses" in the statement of comprehensive income and attributed to the Group's provision of professional services in Taiwan.

For the provision of professional services in PRC, 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

20. DEVELOPMENT COSTS – GROUP

	2010	2009
	HK$'000	HK$'000
At 1 January		
Cost	**31,085**	31,085
Accumulated amortisation	**(31,085)**	(31,085)
Net book amount	**–**	–
Year ended 31 December		
Opening net book amount	**–**	–
Additions from internal developments	**5,311**	–
Amortisation charge	**(268)**	–
Closing net book amount	**5,043**	–
At 31 December		
Cost	**36,396**	31,085
Accumulated amortisation	**(31,353)**	(31,085)
Net book amount	**5,043**	–

The development costs represented all direct costs incurred in the development of enterprise software products. The amortisation charge for the year is included in "depreciation and amortisation" in the consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

21. FINANCE LEASE RECEIVABLES – GROUP

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

	2010 **HK$'000**	2009 HK$'000
Total minimum lease payments:		
Due within one year	**741**	380
Due in the second to fifth years	**240**	950
	981	1,330
Unearned finance income	**(88)**	(154)
Present value of minimum lease payments	**893**	1,176
Present value of minimum lease payments:		
Due within one year	**323**	291
Due in the second to fifth years	**570**	885
	893	1,176
Less: Portion due within one year included under current assets	**(323)**	(291)
Non-current portion included under non-current assets	**570**	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% (2009: 5.00% – 7.19%) 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

22. INVENTORIES – GROUP

	2010 HK$'000	2009 HK$'000
Finished goods	**14,235**	25,223

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

Amounts due from customers for contract work represent 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.

	2010 HK$'000	2009 HK$'000
Contracts in progress at the reporting date:		
Estimated contract costs plus recognised profits less recognised losses	**89,030**	71,578
Less: progress billings	**(71,484)**	(55,539)
	17,546	16,039
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**21,774**	19,538
Amounts due to customers for contract work	**(4,228)**	(3,499)
	17,546	16,039

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

24. TRADE RECEIVABLES – GROUP

	2010 HK$'000	2009 HK$'000
Trade receivables		
From third parties	**30,079**	25,637
From a related party	**3,653**	3,529
	33,732	29,166
Less: provision for impairment of trade receivables	**(523)**	(503)
	33,209	28,663

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.

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 at 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:

	2010 HK$'000	2009 HK$'000
0 – 30 days	**16,815**	9,684
31 – 60 days	**8,307**	6,598
61 – 90 days	**1,344**	6,001
Over 90 days	**6,743**	6,380
	33,209	28,663

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 was in default or delinquency of payments, and current market conditions.

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

	2010 HK$'000	2009 HK$'000
Balance at the beginning of the year	**503**	–
Impairment loss recognised	**20**	503
Balance at the end of the year	**523**	503

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

24. TRADE RECEIVABLES – GROUP *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Neither past due nor impaired	**15,125**	9,671
1 – 90 days past due	**17,367**	12,943
Over 90 days past due	**717**	6,049
	33,209	28,663

As at 31 December 2010, 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.

25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP

	2010 HK$'000	2009 HK$'000
Other receivables	**1,605**	7,294
Deposits	**1,332**	1,661
Prepayments	**18,788**	1,212
	21,725	10,167

At 31 December 2010, other receivables include an amount due from an associate amounting to HK$622,000 (2009: HK$Nil). The amount due is unsecured, interest-free and repayable on demand.

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

At 31 December 2010, the Group's other receivables of HK$517,000 (2009: HK$Nil) were individually determined to be impaired and a specific allowance for doubtful debts was recognised. The individually impaired receivables related to third parties that were in financial difficulties and have not responded to repayment demands. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

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

	2010 **HK$'000**	2009 HK$'000
Listed securities held for trading:		
Equity securities in Hong Kong	**6,793**	7,579

The fair value of the Group's investments in listed securities has been measured as described in note 41.7.

27. 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.

28. CASH AND CASH EQUIVALENTS – GROUP

	2010 **HK$'000**	2009 HK$'000
Bank balances and cash	**60,905**	51,892
Less: Time deposits with maturity exceeding three months	**(3,540)**	–
Cash and cash equivalents per the consolidated statement of cash flows	**57,365**	51,892

Included in bank and cash balances of the Group is HK$32,518,000 (2009: HK$7,863,000) of bank balances denominated in Renminbi ("RMB") placed with banks in PRC and bear interest at an effective interest rate of approximately 0.59% (2009: 1.21%) 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 balances and cash of the Group is HK$2,277,000 (2009: HK$5,578,000) of bank balances denominated in Malaysian Ringgit ("MYR") placed with banks in Malaysia and bear interest at an effective interest rate of approximately 1.97% (2009: 1.78%) per annum. In Malaysia, the Group is permitted to exchange MYR into foreign currencies.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

29. 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:

	2010 **HK$'000**	2009 HK$'000
0 – 30 days	**7,401**	7,415
31 – 60 days	**7,796**	494
61 – 90 days	**32**	–
Over 90 days	**5,568**	14,841
	20,797	22,750

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

30. OTHER PAYABLES AND ACCRUED CHARGES – GROUP

	2010 **HK$'000**	2009 HK$'000
Deferred income	**17,272**	11,685
Other payables	**3,417**	3,414
Accrued charges	**7,485**	5,136
	28,174	20,235

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

At 31 December 2010, accrued charges included accrued salaries and allowance to certain directors of the Company amounted to HK$300,000 (2009: HK$300,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

31. BORROWINGS – GROUP

	Notes	2010 HK$'000	2009 HK$'000
Non-current			
Finance lease liabilities	31(a)	–	85
Other borrowings	31(b)		
– A related company		1,454	4,263
		1,454	4,348
Current			
Finance lease liabilities	31(a)	85	134
Other borrowings	31(b)		
– Third parties		8,260	6,703
– Related companies		16,163	–
		24,508	6,837
Total borrowings		25,962	11,185

31(a) Finance lease liabilities

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

	2010 HK$'000	2009 HK$'000
Total minimum lease payments:		
Due within one year	88	151
Due in the second to fifth years	–	88
	88	239
Future finance charges on finance lease	(3)	(20)
Present value of finance lease liabilities	85	219

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

31. BORROWINGS – GROUP *(Continued)*

31(a) Finance lease liabilities *(Continued)*

	2010 HK$'000	2009 HK$'000
Present value of minimum lease payments:		
Due within one year	**85**	134
Due in the second to fifth years	**–**	85
	85	219
Less: Portion due within one year included under current liabilities	**(85)**	(134)
Portion due after one year included under non-current liabilities	**–**	85

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.

31(b) Other borrowings

The loans borrowed from related companies are unsecured, interest-free and repayable on demand, except for (1) an amount of HK$1,454,000 (2009: HK$Nil) which is wholly repayable on 31 May 2012; and (2) an amount of HK$4,481,000 (2009: HK$4,263,000) which is wholly repayable on 31 December 2011. The related companies are companies which are controlled by a non-controlling shareholder who can exercise significant influence to the Group.

The loan borrowed from third parties are unsecured, interest-free and repayable on demand except for an amount of HK$Nil (2009: HK$6,703,000) which is wholly repayable within one year from the reporting date.

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

32. 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.

NOTES TO THE FINANCIAL STATEMENTS

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33. DEFERRED TAXATION – GROUP

Deferred taxation is calculated on temporary differences under the liability method using a principal taxation rate of 16.5% (2009: 16.5%).

The movement during the year in deferred tax asset is as follows:

	2010 HK$'000	2009 HK$'000
At 1 January	**–**	–
Recognised in profit or loss	**(1,300)**	–
At 31 December	**(1,300)**	–

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation HK$'000
At 1 January 2009	1,084
Recognised in profit or loss	(230)
At 31 December 2009 and 1 January 2010	**854**
Recognised in profit or loss	**14**
At 31 December 2010	**868**

Deferred tax assets

	Tax losses HK$'000
At 1 January 2009	(1,084)
Recognised in profit or loss	230
At 31 December 2009 and 1 January 2010	**(854)**
Recognised in profit or loss	**(1,314)**
At 31 December 2010	**(2,168)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

33. DEFERRED TAXATION – GROUP *(Continued)*

For the purpose of the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset in accordance with HKAS 12 *Income taxes* issued by the HKICPA. The amounts recognised in the consolidated statement of financial position are as follows:

	2010 **HK$'000**	2009 HK$'000
Deferred tax assets	**(2,168)**	(854)
Deferred tax liabilities	**868**	854
Net deferred tax assets recognised in the consolidated statement of financial position	**(1,300)**	–

Unrecognised deferred tax assets

At 31 December 2010, the Group had unused tax losses of approximately HK$96,526,000 (2009: HK$103,616,000) to carry forward against future taxable income. A deferred tax asset has been recognised in respect of approximately HK$13,141,000 (2009: HK$5,176,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of approximately HK$83,385,000 (2009: HK$98,440,000) due to the unpredictability of future profit streams.

These tax losses do not expire under current legislation except losses of approximately HK$6,805,000 (2009: HK$12,452,000) which will expire as follows:

	2010 **HK$'000**	2009 HK$'000
Year of expiry:		
2010	**–**	4,247
2011	**385**	1,130
2012	**993**	1,750
2013	**1,389**	3,031
2014	**2,266**	2,294
2015	**1,772**	–
	6,805	12,452

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34. SHARE CAPITAL – GROUP AND COMPANY

	2010 Number of shares	2010 HK$'000	2009 Number of shares	2009 HK$'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

35. SHARE OPTION SCHEMES

On 16 June 2000, the Company adopted a share option scheme (the "Old Scheme") and this scheme was substituted by a new share option scheme (the "New Scheme") pursuant to the shareholders' resolution in a special general meeting on 23 April 2002 for complying with the terms of the Rules Governing the Listing of Securities on the GEM. The Old Scheme was lapsed in 2006.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

36. RESERVES – COMPANY

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	179,650	(211,995)	(32,345)
Loss for the year	–	(1,010)	(1,010)
At 31 December 2009 and 1 January 2010	**179,650**	**(213,005)**	**(33,355)**
Loss for the year	**–**	**(1,002)**	**(1,002)**
At 31 December 2010	**179,650**	**(214,007)**	**(34,357)**

At 31 December 2010, there were no reserves available for distribution to owners of the Company (2009: HK$Nil).

The application of the share premium account is governed by section 40 of the Bermuda Companies Act.

37. 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:

	2010 HK$'000	2009 HK$'000
Within one year	**5,301**	4,333
In the second to fifth years	**4,990**	530
	10,291	4,863

The Group leases the land and buildings under operating leases. The leases run for an initial period of one to three (2009: one to two) years, with an option to renew the lease and renegotiated the terms at the expiry dates 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

38. RELATED PARTY TRANSACTIONS

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

	2010 **HK$'000**	2009 HK$'000
Sale of enterprise software products		
– a non-controlling shareholder	**5,798**	14,971
Provision of professional services		
– an associate	**1,169**	–
Purchase of complementary hardware and software		
– a non-controlling shareholder	**2,611**	841

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 related parties arising from sale and purchase of goods and services and loan advanced, included in trade receivables, trade payables and borrowings are as follows:

	2010 **HK$'000**	2009 HK$'000
Non-controlling shareholder		
Trade receivables	**3,653**	3,529
Companies controlled by a non-controlling shareholder who can exercise significant influence to the Group		
Other borrowings	**(17,617)**	(4,263)
An associate		
Other receivables, deposits and prepayments	**622**	–
Amount due to an associate	**–**	(445)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

38. RELATED PARTY TRANSACTIONS *(Continued)*

38.2 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:

	2010	2009
	HK$'000	HK$'000
Short-term employee benefits		
Salaries and other benefits	**6,982**	6,963
Contribution to defined contribution plan	**72**	72
	7,054	7,035

39. FINANCIAL GUARANTEE CONTRACTS – GROUP

The Group does not have any financial guarantee contracts with outsiders as at 31 December 2010 and 2009.

40. PLEDGE OF ASSETS

At the reporting date, the Group's leasehold land and buildings with net carrying amount of HK$6,014,000 (2009: HK$6,117,000) 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 a corporate guarantee issued by the Company.

41. 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.

There has been no change to the type of the Group's and the Company's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

41.1 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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale financial assets				
– Unlisted private equity fund, at fair value	**3,348**	3,380	**–**	–
– Unlisted equity investments, at cost less impairment losses	**3,900**	304	**–**	–
Financial assets at fair value through profit or loss				
– Listed equity securities held for trading	**6,793**	7,579	**–**	–
Loans and receivables				
– Finance lease receivables	**893**	1,176	**–**	–
– Amounts due from customers for contract work	**21,774**	19,538	**–**	–
– Trade receivables	**33,209**	28,663	**–**	–
– Other receivables and deposits	**2,937**	8,955	**–**	–
– Amounts due from subsidiaries	**–**	–	**128,960**	129,971
– Bank balances and cash	**60,905**	51,892	**143**	138
	133,759	121,487	**129,103**	130,109
Financial liabilities				
Financial liabilities measured at amortised cost				
– Trade payables	**20,797**	22,750	**–**	–
– Other payables and accrued charges	**10,902**	8,550	**354**	360
– Amounts due to subsidiaries	**–**	–	**64,752**	64,752
– Amount due to an associate	**–**	445	**–**	–
– Borrowings	**25,962**	11,185	**–**	–
	57,661	42,930	**65,106**	65,112

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

41.2 Foreign currency risk

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

41.3 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.

41.4 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 dates.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

41.4 Other price risk *(Continued)*

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

	2010		
	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**	**679**	**679**
	-10	**(679)**	**(679)**

	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)

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

41.5 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**	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Class of financial assets – carrying amounts				
Available-for-sale financial assets	**7,248**	3,684	**–**	–
Financial assets at fair value through profit or loss	**6,793**	7,579	**–**	–
Finance lease receivables	**893**	1,176	**–**	–
Amounts due from customers for contract work	**21,774**	19,538	**–**	–
Trade receivables	**33,209**	28,663	**–**	–
Other receivables and deposits	**2,937**	8,955	**–**	–
Amounts due from subsidiaries	**–**	–	**128,960**	129,971
Bank balances and cash	**60,905**	51,892	**143**	138
	133,759	121,487	**129,103**	130,109

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

41.6 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 to meet its liquidity requirements in the short term.

Analysed below is the Group's and Company's remaining contractual maturities for its non-derivative financial liabilities as at 31 December 2010. 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.

Group

	Within 1 year or on demand HK$'000	**Over 1 year but within 2 years HK$'000**	**Total contractual undiscounted amount HK$'000**	**Carrying amount HK$'000**
2010				
Trade payables	**20,797**	**–**	**20,797**	**20,797**
Other payables and accrued charges	**10,902**	**–**	**10,902**	**10,902**
Borrowings	**24,978**	**1,586**	**26,564**	**25,962**
	56,677	**1,586**	**58,263**	**57,661**
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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

41.6 Liquidity risk *(Continued)*

Company

At 31 December 2010 and 2009, the Company's contractual maturity for its financial liabilities are within one year or on demand. The carrying amounts of its financial liabilities approximate their contractual undiscounted cash flows.

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

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:

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:

			2010	
	Notes	**Level 1 HK$'000**	**Level 2 HK$'000**	**Total HK$'000**
Assets				
Available-for-sale financial assets				
– Unlisted private equity fund	(a)	**–**	**3,348**	**3,348**
Listed securities held for trading	(b)	**6,793**	**–**	**6,793**
Net fair values		**6,793**	**3,348**	**10,141**

			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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

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

(Continued)

(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.

42. 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 the gearing ratio which is net debt divided by total equity. For this purpose, the Group defines net debt 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 interests stated in the consolidated statement of financial position. During 2010, the Group's strategy remains unchanged from 2009, which is to maintain the gearing ratio of not more than 20% in order to support its business. As of 31 December 2010 and 31 December 2009, cash and cash equivalents exceeded debt, therefore the gearing ratio of the Group was zero.

FINANCIAL SUMMARY

for the year ended 31 December 2010

	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
RESULTS					
Turnover	282,823	183,987	364,206	172,545	**280,576**
Profit/(Loss) before income tax	370	4,299	(1,992)	1,737	**4,658**
Income tax (expense)/credit	(56)	(921)	(47)	(38)	**1,281**
Profit/(Loss) for the year	314	3,378	(2,039)	1,699	**5,939**
ASSETS AND LIABILITIES					
Total assets	130,759	130,954	193,838	159,194	**186,799**
Total liabilities	(39,468)	(32,901)	(97,985)	(58,114)	**(79,161)**
Total equity	91,291	98,053	95,853	101,080	**107,638**