TECHNOLOGY

EXCEL TECHNOLOGY INTERNATIONAL HOLDINGS LIMITED

(志鴻科技國際控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8048)

RESULTS ANNOUNCEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

* *For identification purpose only*

HIGHLIGHTS

- For the year ended 31 December 2005, the Group recorded total turnover of HK$224,242,000, representing a satisfactory increase of 38% when compared with year 2004.
- Revenue from sales of enterprise software products increased by 34% to HK$68,166,000 (2004: HK$50,748,000).
- Revenue from systems integration rose by 29% to HK$121,922,000 (2004: HK$94,824,000).
- Revenue from professional services surged more than double to HK$29,044,000, with 133% increase compared with HK$12,450,000 in 2004.
- Loss attributable to equity holders of the parent for the year ended 31 December 2005 was HK$16,566,000, an improvement of 21% over the previous year.
- Loss per share is 1.68 cents for the year ended 31 December 2005.

RESULTS

The Directors of the Company present herewith the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005, together with the comparative figures for the corresponding period in 2004, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	**2005** **HK$'000**	2004 *HK$'000* (Restated)
Turnover	*3*	**224,242**	162,888
Other net operating income	*4*	**688**	2,333
Change in inventories of hardware and software		**(6,757)**	421
Purchase of hardware and software		**(108,521)**	(90,427)
Professional fee		**(15,463)**	(6,274)
Staff costs		**(82,038)**	(66,999)
Depreciation and amortisation		**(8,338)**	(8,746)
Other expenses		**(19,690)**	(20,041)
Impairment loss recognised in respect of goodwill		**(4,162)**	–
Reversal of impairment of property, plant and equipment		**816**	–
Provision for obsolete inventories		**(545)**	–
Loss from operations		**(19,768)**	(26,845)
Finance costs	*6*	**(316)**	(382)
Share of results of associates		**4,517**	4,290
Loss before taxation	*5*	**(15,567)**	(22,937)
Taxation	*7*	**(139)**	(113)
Loss for the year		**(15,706)**	(23,050)
Attributable to:			
Equity holders of the parent		**(16,566)**	(20,962)
Minority interests		**860**	(2,088)
		(15,706)	(23,050)
Loss per share – Basic	*8*	**(1.68 cents)**	(2.13 cents)

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2005

	Notes	2005 *HK$'000*	2004 *HK$'000* (Restated)
Non-current assets			
Property, plant and equipment		**13,687**	13,999
Interests in associates		**36,365**	31,848
Goodwill		**1,140**	5,302
Development costs		**3,367**	8,121
Available-for-sale financial assets		**7,229**	8,744
		61,788	68,014
Current assets			
Inventories, at cost		**279**	7,036
Unbilled revenue		**7,956**	5,230
Trade receivables	*11*	**29,019**	20,042
Other receivables, deposits and prepayments		**9,244**	6,429
Financial assets at fair value through profit or loss		**–**	1,672
Amount due from an associate		**–**	103
Pledged bank deposits		**10,484**	11,622
Bank balances and cash		**14,464**	20,196
		71,446	72,330
Current liabilities			
Short-term bank loans – secured		**7,170**	5,358
Trade payables	*12*	**14,828**	10,362
Other payables and accrued charges		**10,789**	6,090
Deferred income		**13,214**	14,084
		46,001	35,894
Net current assets		**25,445**	36,436
Net assets		**87,233**	104,450
Capital and reserves			
Share capital		**98,505**	98,505
Reserves		**(14,772)**	3,309
Equity attributable to equity holders of the parent		**83,733**	101,814
Minority interests		**3,500**	2,636
Total equity		**87,233**	104,450

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

	Attributable to equity holders of the parent						
	Share capital	**Share premium**	**Investment revaluation reserve**	**Accumulated losses**	**Total**	**Minority interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	98,505	179,650	–	(155,379)	122,776	4,724	127,500
Loss for the year	–	–	–	(20,962)	(20,962)	(2,088)	(23,050)
At 31 December 2004	98,505	179,650	–	(176,341)	101,814	2,636	104,450
At 1 January 2005	98,505	179,650	–	(176,341)	101,814	2,636	104,450
Opening balance adjustment arising from the adoption of HKAS 39	–	–	(1,305)	–	(1,305)	–	(1,305)
As restated	98,505	179,650	(1,305)	(176,341)	100,509	2,636	103,145
Net loss directly recognised in equity							
Changes in fair value of available-for-sale financial assets	–	–	(210)	–	(210)	–	(210)
Capital contributed by a minority shareholder of a subsidiary	–	–	–	–	–	4	4
(Loss) Profit for the year	–	–	–	(16,566)	(16,566)	860	(15,706)
At 31 December 2005	**98,505**	**179,650**	**(1,515)**	**(192,907)**	**83,733**	**3,500**	**87,233**

NOTES TO CONSOLIDATED FINANCIAL INFORMATION:

1. Basis of preparation

The financial information included herein is derived from financial statements which have been prepared in accordance with Hong Kong Financial Reporting Standards ("FRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure requirements of the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited.

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

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

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

The accounting policies used in the preparation of the financial statements of the Group for the year ended 31 December 2005 are consistent with those used for the year ended 31 December 2004 except as described in note 2 below.

2. Changes in accounting policies

In this year, the Group adopted the following new/revised HKFRS issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2005. The comparatives have been amended in accordance with the relevant requirements. Major effects on the changes in accounting policies are summarised below:

HKAS 1 "Presentation of financial statements"

HKAS 1 has affected the presentation of minority interests, share of net post-tax results of associates and other related disclosures. Comparative figures have been restated accordingly.

HKAS 17 "Leases"

In prior year, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses. Under HKAS 17, when the lease payment cannot be allocated reliably between the land and building elements, the entire lease payment is accounted for as a finance lease.

Since the lease payment of the Group cannot be allocated reliably between the land and building elements, the entire lease continues to be accounted for as finance lease in property, plant and equipment. The change in accounting policy has had no effect on the Group.

HKAS 24 "Related party disclosures"

HKAS 24 has affected the identification of related parties and some other related-party disclosures.

HKAS 32 "Financial instruments: Disclosure and presentation" and HKAS 39 "Financial instruments: Recognition and measurement"

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 December 2004, the Group classified investments into investment securities and other investments. Investment securities were stated at cost less provision for impairment losses that is expected to be other than temporary. Other investments were stated at their fair value. Changes in fair value were recognised in income statement as they arise.

In accordance with the provisions of HKAS 39, financial assets are classified into financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables and held-to-maturity investments.

Upon the adoption of HKAS 32 and HKAS 39, the Group's investment securities and other investments were re-designated as available-for-sale financial assets and financial assets at fair value through profit or loss respectively. They have been re-measured in accordance with HKAS 39 as appropriate. There are no adjustments arising from the adoption of HKAS 39 for financial assets at fair value through profit or loss but the adjustment related to the available-for-sale financial assets is recognised as an opening balance adjustment on the investment revaluation reserve at the beginning of the year as required by the transitional provisions of HKAS 39.

FRS 2 "Share-based payment"

The adoption of FRS 2 has resulted in a change in the accounting policy for employee share options. Prior to the application of FRS 2, the Group did not recognise the financial effect of those share options until they were exercised. Following the adoption of FRS 2, the fair value of share options determined at the grant date is recognised as expenses over the relevant vesting periods to the income statement. The Group has taken advantage of the transitional provisions of FRS 2 in respect of equity-settled share-based payments since all the share options of the Group were granted before 7 November 2002. As a result, there are no adjustments required for the share options of the Group.

FRS 3 "Business combination" and HKAS 36 "Impairment of assets"

The adoption of FRS 3 and HKAS 36 results in a change in the accounting policy for business combinations on a prospective basis. The Group ceased amortisation of goodwill from 1 January 2005 and the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill at that date in accordance with the transitional provisions of FRS 3. Following the adoption of FRS 3 and HKAS 36, goodwill is no longer amortised but is tested for impairment annually.

3. Turnover

	2005	2004
	HK$'000	*HK$'000*
An analysis of the Group's turnover is as follows:		
Enterprise software products	**68,166**	50,748
Systems integration	**121,922**	94,824
Professional services	**29,044**	12,450
ASP services	**5,110**	4,866
	224,242	162,888

4. Other net operating income

	2005	2004
	HK$'000	*HK$'000*
Dividend income from listed securities	**24**	34
Income from government grants	**–**	470
Interest income	**449**	191
Management fee and service income	**50**	120
Realised gain on available-for-sale financial assets	**–**	418
Net (loss) gain on financial assets at fair value through profit or loss	**(210)**	66
Others	**375**	1,034
	688	2,333

5. Loss before taxation

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Loss before taxation has been arrived at after charging:		
Directors' remuneration, excluding benefit-in-kind	**4,879**	4,882
Other staff costs	**73,761**	64,225
Contributions to defined contribution plan	**3,398**	2,942
Total staff costs	**82,038**	72,049
Less: Staff costs capitalised in development costs	**–**	(5,050)
	82,038	66,999
Depreciation and amortisation of property, plant and equipment	**3,584**	4,461
Amortisation of development costs	**4,754**	3,189
Amortisation of goodwill	**–**	1,096
Total depreciation and amortisation	**8,338**	8,746
Share of associates' taxation	**95**	437
Cost of inventories sold	**115,278**	90,006
Cost of services rendered	**75,842**	52,216
Auditors' remuneration	**651**	793
Loss on disposal of property, plant and equipment	**45**	–
Minimum lease payments in respect of land and buildings	**4,603**	4,391
Research and development expenditure (including staff costs of HK$Nil; 2004: HK$16,894,000)	**–**	17,797
Less: Amount capitalised in development costs	**–**	(5,050)
	–	12,747

6. Finance costs

	2005	2004
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years:		
Bank loans	**316**	304
Other borrowings	**–**	78
	316	382

7. Taxation

The tax charge for the years ended 31 December 2005 and 2004 represents taxation in other jurisdictions, which is calculated at the rates prevailing in the respective jurisdictions.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries either incurred tax losses during both years or their estimated assessable profits for the years are wholly absorbed by unrelieved tax losses brought forward from previous years.

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

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Loss before taxation	**(15,567)**	(22,937)
Tax at the Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	**(2,724)**	(4,014)
Tax effect of income not taxable for tax purposes	**(146)**	(200)
Tax effect of expenses not deductible for tax purposes	**2,281**	2,279
Tax effect of unrecognised tax losses not recognised/utilisation of unrecognised tax losses	**1,798**	2,964
Tax effect of share of results of associates	**(790)**	(751)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(280)**	(165)
Tax charge for the year	**139**	113

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

	THE GROUP			
	Accelerated tax depreciation	**Development costs**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	(141)	194	(53)	–
Income statement (credit) charge for the year	(60)	690	(630)	–
At 31 December 2004	(201)	884	(683)	–
At 1 January 2005	(201)	884	(683)	–
Income statement (credit) charge for the year	238	(295)	57	–
At 31 December 2005	37	589	(626)	–

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

At 31 December 2005, the Group has unused tax losses of approximately HK$145,993,000 (2004 (restated): HK$137,967,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$3,577,000 (2004: HK$3,903,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of approximately HK$142,416,000 (2004 (restated): HK$134,064,000) due to the unpredictability of future profit streams. Two subsidiaries of the Company were deregistered during the year and their tax losses brought forward totalling HK$1,924,000 was forfeited. The unrecognised tax losses may be carried forward indefinitely except losses of approximately HK$18,073,000 (2004: HK$13,747,000) which will expire as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Year of expiry		
2006	**1,089**	1,089
2007	**4,028**	4,582
2008	**2,683**	3,669
2009	**4,407**	4,407
2010	**5,866**	–
	18,073	13,747

8. Loss per share

The calculation of the basic loss per share is based on the loss attributable to equity holders of the parent of HK$16,566,000 (2004: HK$20,962,000) and the 985,050,000 (2004: 985,050,000) shares in issue during the year.

No diluted loss per share has been presented because all the share options granted as at 31 December 2005 and 2004 were anti-dilutive.

9. Segment information

(a) Geographical segments

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

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

	Hong Kong		PRC		Others		Elimination		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
				(Restated)						(Restated)
Turnover	**86,190**	75,924	**145,303**	89,587	**11,901**	4,109	**(19,152)**	(6,732)	**224,242**	162,888
Segment results	**(16,922)**	(11,209)	**(5,551)**	(14,590)	**2,705**	(1,046)	**–**	–	**(19,768)**	(26,845)
Finance costs	**(14)**	–	**(302)**	(381)	**–**	(1)	**–**	–	**(316)**	(382)
Share of results of associates	**–**	–	**4,517**	4,290	**–**	–	**–**	–	**4,517**	4,290
Loss before taxation	**(16,936)**	(11,209)	**(1,336)**	(10,681)	**2,705**	(1,047)	**–**	–	**(15,567)**	(22,937)
Taxation	**–**	–	**(139)**	(113)	**–**	–	**–**	–	**(139)**	(113)
Loss for the year	**(16,936)**	(11,209)	**(1,475)**	(10,794)	**2,705**	(1,047)	**–**	–	**(15,706)**	(23,050)

(ii) Other information:

	Hong Kong		PRC		Others		Elimination		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Capital additions	**433**	6,332	**2,071**	2,470	**–**	177	**–**	–	**2,504**	8,979
Depreciation and amortisation	**3,428**	4,572	**4,847**	4,092	**63**	82	**–**	–	**8,338**	8,746
Impairment loss reversed	**(816)**	–	**–**	–	**–**	–	**–**	–	**(816)**	–
Impairment loss recognised	**4,162**	–	**–**	–	**–**	–	**–**	–	**4,162**	–
Revenue from external customers by the location of customers	**73,971**	69,784	**154,105**	94,046	**15,318**	5,790	**(19,152)**	(6,732)	**224,242**	162,888

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

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

	Hong Kong		PRC		Others		Elimination		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets										
Segment assets	**113,907**	132,106	**39,769**	33,814	**6,119**	4,676	**(62,926)**	(62,100)	**96,869**	108,496
Interests in associates	**–**	–	**36,365**	31,848	**–**	–	**–**	–	**36,365**	31,848
Consolidated total assets	**113,907**	132,106	**76,134**	65,662	**6,119**	4,676	**(62,926)**	(62,100)	**133,234**	140,344
Liabilities										
Segment liabilities	**(18,431)**	(18,492)	**(73,177)**	(62,734)	**(10,149)**	(11,410)	**62,926**	62,100	**(38,831)**	(30,536)
Bank loan	**(2,000)**	–	**(5,170)**	(5,358)	**–**	–	**–**	–	**(7,170)**	(5,358)
Consolidated total liabilities	**(20,431)**	(18,492)	**(78,347)**	(68,092)	**(10,149)**	(11,410)	**62,926**	62,100	**(46,001)**	(35,894)

(b) Business segments

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

Principal activities of the operating divisions are as follows:

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

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

	Enterprise software products		Systems integration		Professional services		ASP services		Unallocated assets		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**68,166**	50,748	**121,922**	94,824	**29,044**	12,450	**5,110**	4,866	**–**	–	**224,242**	162,888
Segment assets	**39,418**	35,747	**17,115**	17,327	**41,541**	37,061	**582**	5,454	**34,578**	44,755	**133,234**	140,344
Capital additions	**2,287**	8,011	**–**	–	**180**	960	**37**	8	**–**	–	**2,504**	8,979

10. Dividends

The Directors have resolved not to recommend the payment of any dividends by the Company for the financial year ended 31 December 2005.

11. Trade receivables

Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

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

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 month	**22,197**	10,088
1 to 3 months	**5,085**	8,165
Over 3 months	**1,737**	1,789
	29,019	20,042

12. Trade payables

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

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 month	**10,827**	6,033
1 to 2 months	**599**	1,750
2 to 3 months	**1,517**	11
Over 3 months	**1,885**	2,568
	14,828	10,362

QUALIFIED OPINION ON AUDITORS' REPORT

The Group's auditors, Moores Rowland Mazars ("Moores Rowland"), proposed to issue a qualified opinion arising from limitation of audit scope on the consolidated financial statements of the Group for the year ended 31 December 2005. Details of which are set out below.

As at 31 December 2005, the Group's interests in associates included share of net assets of Camelot Information Systems Inc. ("Camelot") of HK$29,631,000 and the Group's loss for the year was arrived at after share of Camelot's profit of HK$6,154,000 for the year then ended. These amounts were derived from the audited accounts of Camelot for the year ended 31 December 2005, which have been prepared under the accounting principles generally accepted in the People's Republic of China. Beijing Hengxincheng Certified Accountants Co. Limited is Camelot's auditors for the financial year ended 31 December 2005 and they issued an unqualified report on the accounts of Camelot on 23 March 2006. The Group's auditors, Moores Rowland, have requested Camelot's auditors for further information regarding the audit of Camelot. However, Moores Rowland have yet to receive all such information from Camelot's auditors to enable them to form a conclusion on the adequacy of the work of Camelot's auditors and, hence, whether additional audit procedures are required, and Moores Rowland have not been able to perform alternative procedures that they considered necessary to satisfy themselves as to whether:

(1) the Group's interests in Camelot as at 31 December 2005 and the Group's share of profit for the year then ended were fairly stated under the Hong Kong Financial Reporting Standards ("HKFRS"); and

(2) the financial information of Camelot as disclosed in note to the financial statements was fairly stated under the HKFRS.

In forming their opinion, Moores Rowland have also evaluated the overall adequacy of the presentation of information in the financial statements. Moores Rowland believe that their audit provides a reasonable basis for their opinion.

Except for any adjustments that might have been found to be necessary had Moores Rowland been able to obtain sufficient evidence concerning the Group's interest in Camelot and share of Camelot's profit, in their opinion the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2005 and of the Group's loss for the year then ended. In all respects, in their opinion the financial statements give a true and fair view of the Group's cash flows for the year ended 31 December 2005 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the year ended 31 December 2005, the Group recorded a satisfactory increase of 38% in turnover of HK$224,242,000, compared with a turnover of HK$162,888,000 for 2004.

The overall sales of enterprise software products increased by 34% to HK$68,166,000 (2004: HK$50,748,000). The growth from sales of enterprise software products is largely attributed to the contribution from Hong Kong and Southeast Asia.

Systems Integration rose by 29% to HK$121,922,000 (2004: HK$94,824,000). This is mainly due to the contribution from Mainland China's transaction in software services.

Revenue on professional services surged more than double to HK$29,044,000, with 133% increase compared with HK$12,450,000 in 2004 as a result of the rapid growth of the IT outsourcing business.

The Group's ASP operation is stable with revenue slightly increased to HK$5,110,000 (2004: HK$4,866,000).

The Group's loss attributable to equity holders in 2005 was reduced by 21% to HK$16,566,000 (2004: HK$20,962,000). The loss from operation of HK$19,768,000 (2004: HK$26,845,000) included the impairment loss on goodwill of HK$4,162,000. The loss before interest, taxation, depreciation, amortisation, impairment, provision for obsolete inventories and share of results of associates (EBITDA Loss) in 2005 was HK$7,539,000, a 58% reduction from 2004 loss of HK$18,099,000.

OPERATION REVIEW

In 2005, the Group further stepped up our sales network, product offerings, and development capability. This expansion plan has contributed to both our top line and bottom line with revenue increase of HK$61,354,000 and loss attributable to equity holders of the parent narrowed by HK$4,396,000 over 2004. Our expansion is largely directed at the China market, which has marked a large contribution to the Group.

Our China business saw a 62% increase in turnover in 2005, comparing to 2004. The major contributor was the systems integration business, which gave us the business volume as well as valuable access to influential customers. We brought in important clients like China Life Insurance, China Petro Chemical, and Bohai Bank with various products and services. Our enterprise software business also sees steady growth in China, reaping in several major implementations among large Chinese commercial banks and foreign invested banks.

Our China subsidiary did exceptionally well in 2005 and caught the attention of researchers and industry watchers. It received the "2005 Deloitte Technology Fast 50 China" award from the renowned Deloitte Touche Tohmatsu recognizing its fast growth.

The Group added the Dalian and Hangzhou Software Centers, in addition to the Shenzhen Software Center, to boost up our capability and capacity to handle offshore development services. We expect these two offices to bring in outsourcing business opportunities from large companies from Japan and Taiwan, which want to reduce IT costs, or have expansion plans in China.

The Hong Kong operation remains stable with increase of enterprise software sales. Cost continues to be a challenge for Hong Kong management, and with a conscious effort to migrate our development teams to Shenzhen, we want to mitigate the high staff cost in Hong Kong.

Southeast Asia started to make contribution to the Group with several regional deployments of our Wealth Management Suite of products in Singapore and Malaysia. This shows that our regional footprints have helped us to land more business, especially from those multinational banks, which prefer to deal with suppliers and partners on a regional basis. The sales in the region are expected to grow steadily with positive contribution.

To capture the business opportunities in the de-regulating banking industry in Malaysia, we have set up a small office in Kuala Lumpur. Managed by our general manager in Singapore, this Malaysia office will work closely with our Singapore office to bring back regional deals in the coming future as most of our prospects do have presence in both countries.

PRODUCTS AND SERVICES

Our enterprise software will continue to be a major revenue generator in our China, Hong Kong and Southeast Asia locations. It will also help us to generate systems integration and professional services business, as many of our customers would prefer to deal with one single integrator instead of multiple suppliers.

The Group completed the localization of REAPS (Reserve and Treasury Processing System) for China and successfully completed its first implementation with a China regional bank. It not only has state-of-the-art risk management engine and straight-through-processing for sophisticated financial instruments, but also processes RMB bonds, making it a unique treasury system for the China financial market. Given that China will continue to open up its banking industry, we believe there exists many opportunities in which we can sell this treasury solution to the new and upcoming banks in China as well as existing regional banks.

The Unit Trust System from our Wealth Management Platform was successfully localized and launched in Singapore and Malaysia with a multinational bank, thus proving another success of our geographic expansion for regional support. The Wealth Management System (also from our Wealth Management Platform) was implemented in China and Malaysia with major statewide banks.

The Group invested heavily in setting up a subsidiary in development outsourcing with software centers in Dalian and Hangzhou to target the Japan and Taiwan market. It is expected that this professional services income will become a major contribution to the Group in the coming years.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group held cash and cash equivalents of HK$14,464,000 (2004: HK$20,196,000), plus pledged deposit of HK$10,484,000 (2004: HK$11,622,000).

The computer hardware inventory level was reduced to HK$279,000 (2004: HK$7,036,000)

In prior years, the Group had fully paid up its capital commitment of US$1,000,000 to a private equity investment fund. As at 31 December 2005, the investment was stated at fair value. There is no more outstanding capital commitment from the Group.

As of 31 December 2005, the gearing ratio of the Group was 8.6% (2004: 5.3%) on the basis of bank borrowing divided by equity attributable to equity holders of the parent.

CAPITAL STRUCTURE

As at 31 December 2005, the Group's outstanding issued shares were 985,050,000, which was the same as last year.

SIGNIFICANT INVESTMENTS/ACQUISITIONS AND PERFORMANCES

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

SEGMENTAL PERFORMANCES

Hong Kong region's turnover was HK$86,190,000 (2004: HK$75,924,000).

The China operations recorded a total turnover of HK$145,303,000 (2004: HK$89,587,000).

South East Asia region recorded a turnover of HK$11,901,000 (2004: HK$4,109,000).

EMPLOYEES

The total number of employees as at 31 December 2005 was 442 (beginning of 2005: 361), largely representing the need to staff up staff force for project delivery in 2005 and the professional service business for large scale development outsourcing.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

CORPORATE GOVERNANCE

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

The Company has adopted the Code of Corporate Governance Practice and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16 with effective from the accounting periods from 1 January 2005, save as disclosed in the following exception:

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

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

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

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

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

AUDIT COMMITTEE

The Company established an audit committee on 11 August 2000 with written terms of reference in accordance with Rule 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three members – Cheong Ying Chew, Henry, Chang Ka Mun and Wong Mee Chun, all of whom are independent non-executive directors. Cheong Ying Chew, Henry is the chairman of the audit committee. Its 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 2005.

The Company's financial statements for the year ended 31 December 2005 have been reviewed by the audit committee. The audit committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange, and disclosures have been fully made.

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

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the year ended 31 December 2005.

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

The Board comprises of:
Zee Chan Mei Chu, Peggy *(Executive Director)*
Leung Lucy, Michele *(Executive Director)*
Fung Din Chung, Rickie *(Executive Director)*
Ng Wai King, Steve *(Executive Director)*
Ip Tak Chuen, Edmond *(Non-executive Director)*
Cheong Ying Chew, Henry *(Independent non-executive Director)*
Chang Ka Mun *(Independent non-executive Director)*
Wong Mee Chun *(Independent non-executive Director)*

Hong Kong, 29 March 2006

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least seven days from the date of its posting and on the website of the Company at www.excel.com.hk.