

# Excel

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 2006**

### **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 2006, the Group recorded an increase of 26% in turnover of HK\$282,823,000, compared with a turnover of HK\$224,242,000 for 2005.
- Revenue from sales of enterprise software products increased by 16% to HK\$79,102,000 (2005: HK\$68,166,000).
- Revenue from systems integration income jumped by 44% to HK\$175,766,000 (2005: HK\$121,922,000).
- Revenue from professional services dropped by 20% to HK\$23,163,000, compared with HK\$29,044,000 in 2005.
- The Group's ASP business remained stable with revenue slightly decreased to HK\$4,792,000 (2005: HK\$5,110,000).
- The profit from operation was HK\$3,822,000 for 2006 (2005: loss of HK\$19,768,000).
- The Group's profit attributable to equity holders for the year ended 31 December 2006 was HK\$1,457,000 (2005: loss of HK\$16,566,000).
- Earnings per share is 0.15 cents for the year ended 31 December 2006.

## 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 2006, together with the comparative figures for the corresponding period in 2005, as follows:

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	2	<b>282,823</b>	224,242
Other net operating income	3	<b>3,213</b>	688
Change in inventories of hardware and software		<b>924</b>	(6,757)
Purchase of hardware and software		<b>(167,260)</b>	(108,521)
Professional fee		<b>(10,798)</b>	(15,463)
Staff costs		<b>(82,507)</b>	(82,038)
Depreciation and amortisation		<b>(5,093)</b>	(8,338)
Other expenses		<b>(17,480)</b>	(19,690)
Impairment loss recognised in respect of goodwill		–	(4,162)
Reversal of impairment of property, plant and equipment		–	816
Provision for obsolete inventories		–	(545)
Profit (Loss) from operations		<b>3,822</b>	(19,768)
Finance costs	5	<b>(185)</b>	(316)
Share of results of associates		<b>(30)</b>	4,517
Loss on disposal of an associate		<b>(3,237)</b>	–
Profit (Loss) before taxation	4	<b>370</b>	(15,567)
Taxation	6	<b>(56)</b>	(139)
Profit (Loss) for the year		<b><u>314</u></b>	<b><u>(15,706)</u></b>
Attributable to:			
Equity holders of the Company		<b>1,457</b>	(16,566)
Minority interests		<b>(1,143)</b>	860
		<b><u>314</u></b>	<b><u>(15,706)</u></b>
Earnings (Loss) per share – Basic	7	<b><u>0.15 cents</u></b>	<b><u>(1.68 cents)</u></b>

## CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

### 1 Basis of preparation

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

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

This financial statements also complies with 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.

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

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.

### 2 Turnover

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

### 3 Other net operating income

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

### 4 Profit (Loss) before taxation

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

### 5 Finance costs

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	<u>185</u>	<u>316</u>

## 6 Taxation

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

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

### Reconciliation of tax charge

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

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

	<b>THE GROUP</b>			
	<b>Accelerated tax depreciation</b>	<b>Development costs</b>	<b>Tax losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2005	(201)	884	(683)	–
(Credit) Charge for the year	<u>238</u>	<u>(295)</u>	<u>57</u>	<u>–</u>
At 31 December 2005	<u><b>37</b></u>	<u><b>589</b></u>	<u><b>(626)</b></u>	<u><b>–</b></u>
At 1 January 2006	37	589	(626)	–
(Credit) Charge for the year	<u>(71)</u>	<u>(294)</u>	<u>365</u>	<u>–</u>
At 31 December 2006	<u><b>(34)</b></u>	<u><b>295</b></u>	<u><b>(261)</b></u>	<u><b>–</b></u>

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



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

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Year of expiry		
2006	–	1,089
2007	<b>3,956</b>	4,028
2008	<b>1,243</b>	2,683
2009	<b>3,349</b>	4,407
2010	<b>6,017</b>	5,866
2011	<b>2,578</b>	–
	<u><b>17,143</b></u>	<u>18,073</u>

## **7 Earnings (Loss) per share**

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

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

## 8 Segment information

### (a) Geographical segments

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

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

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

(ii) Other information:

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

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

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

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

(b) *Business segments*

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

Principal activities of the operating divisions are as follows:

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

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

	Enterprise software products		Systems integration		Professional services		ASP services		Unallocated assets		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	79,102	68,166	175,766	121,922	23,163	29,044	4,792	5,110	-	-	282,823	224,242
Segment assets	34,207	39,418	14,665	17,115	9,719	41,541	279	582	71,889	34,578	130,759	133,234
Capital additions	897	2,287	-	-	154	180	8	37	-	-	1,059	2,504

## 9 Dividends

The Directors have resolved not to recommend the payment of a final dividend by the Company for the financial year ended 31 December 2006.

## 10 Trade receivables

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Trade receivables from:		
third parties	22,958	27,835
a related party	2,509	1,184
	<u>25,467</u>	<u>29,019</u>

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

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

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

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Within 1 month	14,657	22,197
1 to 3 months	5,779	5,085
Over 3 months	5,031	1,737
	<u>25,467</u>	<u>29,019</u>

## 11 Trade payables

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

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Within 1 month	2,380	10,827
1 to 2 months	4,792	599
2 to 3 months	792	1,517
Over 3 months	598	1,885
	<u>8,562</u>	<u>14,828</u>

### SCOPE OF WORK OF THE AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2006 have been agreed by the Group's auditors, Moores Rowland Mazars, ("the Auditors") to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditors on the preliminary announcement.

### QUALIFIED OPINION ON AUDITORS' REPORT

The Auditors will issue a qualified opinion arising from limitation of audit scope on the consolidated financial statements as at 31 December 2006.

#### Basis of qualified opinion

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

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

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL PERFORMANCE**

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

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

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

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

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

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

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

## **OPERATION REVIEW**

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

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

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

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

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

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

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

## **PRODUCTS AND SERVICES**

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

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

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

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

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

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

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

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

## **CAPITAL STRUCTURE**

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



## **SIGNIFICANT INVESTMENTS AND DISPOSAL**

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

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

## **SEGMENTAL PERFORMANCES**

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

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

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

## **EMPLOYEES**

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

## **EXPOSURE TO FOREIGN EXCHANGE RISK**

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

## **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 Ms. Zee Chan Mei Chu, Peggy serving the dual role of Chairman and Chief Executive Officer.

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

- The Company size is relatively small and thus not justified in separating the role of chairman and chief executive officer.
- The Company has in place internal controls to provide check and balance on the functions.

#### **AUDIT COMMITTEE**

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

The Company's financial statements for the year ended 31 December 2006 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 2006, 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 2006.

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, 19 March 2007

*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](http://www.excel.com.hk).*