

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 2009

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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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

- During the year ended 31 December 2009, the Group's profit attributable to the owners of the company was HK\$2,367,000, as compared with a loss of HK\$822,000 in the same period of 2008.
- The Group recorded a turnover of HK\$172,545,000 in 2009, representing a decrease of 53% compared with a turnover of HK\$364,206,000 for 2008. The decrease of turnover was largely due to the drop in systems integration business and professional services.
- The improvement in profitability in 2009, despite a drop in turnover comparing to 2008, was partly contributed by a fair value gain on financial assets at fair value through profit or loss.
- Sales of enterprise software products dropped by 10% to HK\$75,258,000 (2008: HK\$83,304,000). Revenue on professional services decreased by 28% to HK\$15,487,000 (2008: HK\$21,606,000). The systems integration business decreased by 70% to HK\$77,253,000 (2008: HK\$254,729,000). The ASP business remained stable with revenue of HK\$4,547,000 (2008: HK\$4,567,000).
- Earnings per share for the profit attributable to the owners of the Company during the year of 2009 was HK0.24 cents.

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 2009, together with the comparative figures for the corresponding period in 2008, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Revenue	3	172,545	364,206
Other revenue	4	5,284	1,148
Change in inventories of hardware and software		23,103	1,283
Purchase of hardware and software		(96,517)	(247,300)
Professional fee		(1,503)	(7,453)
Employee benefits expense		(83,239)	(88,608)
Depreciation		(2,535)	(3,146)
Other expenses		(15,346)	(22,069)
Finance costs	6	(55)	(48)
Share of loss of an associate		—	(5)
Profit/(Loss) before income tax	5	1,737	(1,992)
Income tax expense	7	(38)	(47)
Profit/(Loss) for the year		1,699	(2,039)
Other comprehensive income, including reclassification adjustments			
Available-for-sale financial assets		—	893
Exchange gain on translation of financial statements of foreign operations		170	1,914
Other comprehensive income for the year, including reclassification adjustments and net of tax		170	2,807
Total comprehensive income for the year		1,869	768
Profit/(Loss) for the year attributable to:			
Owners of the Company		2,367	(822)
Non-controlling interest		(668)	(1,217)
		1,699	(2,039)
Total comprehensive income attributable to:			
Owners of the Company		2,537	1,521
Non-controlling interest		(668)	(753)
		1,869	768
Earnings/(Loss) per share for profit/(loss) attributable to the owners of the Company during the year			
– Basic	8	HK0.24 cents	HK(0.08) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		9,508	11,909
Interest in associates		–	–
Available-for-sale financial assets		3,684	4,352
Goodwill		1,691	1,691
Development cost		–	–
Finance lease receivables		885	–
		<u>15,768</u>	<u>17,952</u>
Current assets			
Inventories		25,223	2,120
Finance lease receivables		291	–
Amounts due from customers for contract work		19,538	18,458
Trade receivables	11	28,663	84,932
Other receivables, deposits and prepayments		10,167	18,107
Financial assets at fair value through profit or loss		7,579	4,528
Tax recoverable		73	–
Cash and cash equivalents		51,892	47,741
		<u>143,426</u>	<u>175,886</u>
Current liabilities			
Trade payables	12	22,750	66,221
Other payables and accrued charges		20,235	19,001
Borrowings		6,837	6,560
Amounts due to customers for contract work		3,499	5,984
Amount due to an associate		445	–
		<u>53,766</u>	<u>97,766</u>
Net current assets		<u>89,660</u>	78,120
Total assets less current liabilities		<u>105,428</u>	96,072
Non-current liabilities			
Borrowings		4,348	219
Net assets		<u>101,080</u>	<u>95,853</u>
EQUITY			
Share capital		98,505	98,505
Reserves		(3,724)	(6,261)
Equity attributable to owners of the Company		<u>94,781</u>	92,244
Non-controlling interest		<u>6,299</u>	3,609
Total equity		<u>101,080</u>	<u>95,853</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

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

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

NOTES TO CONSOLIDATED FINANCIAL INFORMATION

1 BASIS OF PREPARATION

These financial statements 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 have been consistently applied to all the years presented unless otherwise stated.

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.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

2 ADOPTION OF NEW OR AMENDED HKFRSs

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

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

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

HKAS 1 (Revised 2007) Presentation of financial statements

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

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

HKFRS 7 (Amendments) Improving disclosures about financial instruments

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

HKFRS 8 Operating segments

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

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

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

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

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

3 REVENUE AND TURNOVER

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

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

4 OTHER REVENUE

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

5 PROFIT/(LOSS) BEFORE INCOME TAX

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

6 FINANCE COSTS

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest charges on:		
Finance charges on obligations under finance leases	33	48
Other interest expense	<u>22</u>	<u>–</u>
	<u>55</u>	<u>48</u>

7 INCOME TAX EXPENSE

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

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current tax		
– Overseas		
Tax for the year	<u>38</u>	<u>47</u>
Total income tax expense	<u>38</u>	<u>47</u>

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

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

8 EARNINGS/(LOSS) PER SHARE

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

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

9 SEGMENT INFORMATION

The business components in the internal financial information reported to the executive directors are determined by the Group's major geographical areas. The Group has identified Hong Kong, PRC and South East Asia as the reportable segments. Each of these operating segments is managed separately as each of the geographical areas requires different resources as well as marketing approaches.

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

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

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

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

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Reportable segment assets	245,195	270,271
Consolidation	<u>(86,001)</u>	<u>(76,433)</u>
Group assets	<u>159,194</u>	<u>193,838</u>

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Reportable segment liabilities	144,115	174,418
Consolidation	<u>(86,001)</u>	<u>(76,433)</u>
Group liabilities	<u>58,114</u>	<u>97,985</u>

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

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

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

10 DIVIDENDS

The Directors have resolved not to recommend the payment of a final dividend by the Company for the financial year ended 31 December 2009.

11 TRADE RECEIVABLES

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

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 on their inception. All trade receivable are expected to be recovered within one year.

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

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

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

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Balance at the beginning of the year	–	–
Impairment loss recognised	<u>503</u>	<u>–</u>
Balance at the end of the year	<u><u>503</u></u>	<u><u>–</u></u>

12 TRADE PAYABLES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

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

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

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

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

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

OPERATION REVIEW

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

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

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

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

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

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

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

FUTURE PROSPECTS

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

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

CAPITAL STRUCTURE

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

INVESTMENT

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

SEGMENTAL PERFORMANCES

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

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

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

EMPLOYEES

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

CORPORATE GOVERNANCE

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

The Company has adopted the Code on Corporate Governance Practice and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16 with effective from the accounting periods from 1 January 2005, save as disclosed in 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 internal controls in place 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 2009.

The Company's financial statements for the year ended 31 December 2009 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 2009, 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 2009.

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

Hong Kong, 23 March 2010

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*)

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.