

乾坤燭[®] PROSTICKS[®]



Annual Report 2001

ProSticks International Holdings Limited

乾坤燭國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

* For identification only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “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 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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CORPORATE INFORMATION**Board of Directors***Executive Directors*

Mr. Goh Gen Cheung, *Chairman*

Mr. Li Ching Ping, Vincent

Mr. Ha Kee Choy, Eugene

Independent Non-Executive Directors

Mr. Ng Ge Bun

Mr. Wan Yiu Kwan, Stephen

Company secretary

Ms. Ho Wai Man, Heidi, AICPA

Authorised representatives

Mr. Goh Gen Cheung

Mr. Li Ching Ping, Vincent

Compliance officer

Mr. Li Ching Ping, Vincent

Qualified accountant

Ms. Ho Wai Man, Heidi, AICPA

Audit committee

Mr. Ng Ge Bun

Mr. Wan Yiu Kwan, Stephen

Registered office

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

**Head office and principal
place of business**

22nd Floor, Siu On Centre

188 Lockhart Road

Wanchai

Hong Kong

Principal bankers

Wing Hang Bank Ltd.

161 Queen's Road Central

Hong Kong

Dao Heng Bank Ltd.

99 Queen's Road Central

Hong Kong

The Hongkong Chinese Bank, Ltd.

M1 Lippo Centre

89 Queensway

Hong Kong

CORPORATE INFORMATION

Principal share registrar and transfer office in the Cayman Islands	Bank of Butterfield International (Cayman) Ltd. Butterfield House Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands British West Indies
Branch share registrar and transfer office in Hong Kong	Tengis Limited 4th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
Auditor	Moores Rowland 34th Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong
Sponsor	REXCAPITAL (Hong Kong) Limited Suite 3203, 32nd Floor 9 Queen's Road Central Central, Hong Kong
Legal Adviser	<i>As to Cayman Island Law:</i> Conyers Dill & Pearman, Cayman Century Yard, Cricket Square Hutchins Drive, P.O. Box 2681 GT George Town Grand Cayman British West Indies <i>As to Hong Kong Law:</i> Richards Butler 20th Floor, Alexandra House 16-20 Charter Road Central, Hong Kong
Stock Code	8055
Company homepage/website	http://www.prosticks.com

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I take great honor to present the annual reports of ProSticks International Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2001.

The Group visions to become a leading financial software provider offering (i) financial instruments analysis software products to global investors who rely on technical tools for investment analysis; and (ii) operational software applications products for financial institutions to facilitate the automation and streamlining of operational workflows.

Achievement

During the year, the Group has achieved a remarkable milestone that its shares were successfully listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong on 5 December 2001 and raised a net fund of approximately HK\$25 million. The number of subscribers of the Group's website, www.prosticks.com (the "website"), recorded significant increase when compared with the year ended 31 December 2000. ProSticks Charting System ("ProSticks"), which was invented by Mr. Vincent Li - Vice chairman of the Group, has received high market recognition. The invention of ProSticks was commented by a famous financial newspaper in Hong Kong as "The Honor of Chinese". The Group was also invited by the Chinese University of Hong Kong to give out a lecture on the principles and applications of ProSticks to students of its Executive Master of Business Administration program.

The research and development team of the Group keeps abreast of the latest applicable technology with an aim to continuously develop new products and upgrade existing functions. Existing operational software applications products were upgraded from DOS-based to Windows-based during the year under review. The upgraded version has further enhanced operational efficiency and provided better system support to our clients.

Prospects

The popularity of technical analytical tools has been increasing among the general public. More and more individual investors employ technical analytical tools in making investment decisions. As a result of the financial instabilities in the past few years, investors are now less prone to speculate and trade on impulse. Instead, they realize the importance of technical analysis and adopt a more cautious and long-term approach in making investment decisions. The change of investor behavior fosters the demand of financial instrument analytical software tools. We are confident that the proprietary ProSticks Charting System will meet the needs of investors.

CHAIRMAN'S STATEMENT

The intensified competition among financial institutions stimulated the growth in demand of operational software applications for enhancing operational efficiency and facilitating risk management. Our operational software application products, which have been developed for more than six years, are widely accepted by financial institutions in Hong Kong, and we are preparing the products to expand into the Asian markets, including the PRC. With our research and development capability, market recognition in Hong Kong and the distinctive features of our products, the Directors believe that the Group is in an advantageous position to capture business potential for operational software applications products in other Asian countries.

Even though the economic downturn continues to loom over Hong Kong and the world, we remain cautiously optimistic about the financial software industry in Hong Kong in the coming year based on the fact that Hong Kong is the financial center of Asia and the government's effort to develop Hong Kong as the high technology hub in the Asia Pacific region.

Looking ahead, the Group will continue to build on the strong business foundation of ProSticks and operational software applications products in Hong Kong. We will also explore and develop new business opportunities and strive for providing top quality services to our clients. Hong Kong market is still an important revenue generator and income source of the Company while it is expanding into overseas markets. The PRC market will be our main focus in the immediate future and we firmly believe that in time, this will bear fruit for the Group and its shareholders.

Appreciation

On behalf of the Board, we would like to express our appreciation to all management and staff members for their dedication and contribution, and to thank shareholders for their continuing support for the Group. We will make every endeavor to explore potential opportunities for our business growth and to create a promising future for the Group as well as our shareholders.

Goh Gen Cheung
Chairman

Hong Kong, 21 March 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATION REVIEW

Revenue and gross profit

In 2001, the Group recorded a significant increase in turnover of 342% over the previous year, with a turnover of approximately HK\$3,625,000 (2000: HK\$821,000). Contribution mainly came from subscription fee from members of the website and system enhancement and maintenance income of operational software applications products, each represents 22% and 78% of the Group's turnover (2000: 16%, 84%). Gross profit rose to approximately HK\$922,000 in 2001 (2000: gross loss HK\$158,000). The rise of gross profit was due to increase of customer base.

The business segment of Financial instruments analysis software products recorded a significant growth of 495% in turnover in 2001 and accounted for approximately 22% of the total turnover of the Group. Operating loss of this business segment decreased by 30% when compared with the previous year. The improvement in results was mainly attributable to the increase in number of subscribers of the Group's website.

During the year under review, four membership packages with different prices and contents were introduced to attract customers who have different needs. With the aim to develop a larger customer base and to provide good quality and comprehensive services to users, the Company continues to expand its scope of services and upgrade its products by adding new functions. Since February 2001, the analysis provided by the website has further extended to include stocks listed on stocks exchanges in Shanghai, Shenzhen and Taiwan. In June of the same year, the Company started to provide real time streaming services for HSI, HSI futures and foreign currencies through the website. Additional features such as automatic tracking function and trend breaker were launched in order to facilitate investment decision making. It is believed that the increasing popularity of technical analysis among the general public might increase the demand of financial analysis products.

For the business segment of operational software applications products, the revenue of system enhancement and maintenance for the year ended 31 December 2001 amounted to approximately HK\$2,822,000 representing a 311% growth when compared with the previous year (2000: HK\$686,000). This segment also turned from loss to profit in the year under review. It was mainly because a new customer of an operational software applications product was added and over 50% of our existing customers had upgraded their system during the year. Of the total revenue generated from operational software applications products, 44% represents system upgrade and enhancement fees while 56% were system maintenance fee. As the products in this segment have reached a mature stage, it is expected that this business segment will continue to contribute stable revenue and profits to the Group.

Operating expenses

Advertising and promotion cost decreased sharply from approximately HK\$2.1 million in 2000 to HK\$0.5 million in 2001. Such a decrease was mainly attributable to the non-recurring cost for the exhibition in Expo 2000 and advertising incurred in May 2000 when ProSticks Charting System and the website were first launched in the market. In 2001, the Group kept on expanding its sales and marketing team and placed advertisements regularly on newspaper in order to increase publicity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other operating expenses

Other operating expenses of approximately HK\$3.2 million in 2000 mainly comprised a loss of approximately HK\$3.4 million in respect of the disposal of investment and write-off of plant & equipment due to office removal and approximately HK\$0.2 million of surplus arose from winding up of fund business in September 2000. As these transactions are non-recurring and one-off in nature, these expenses were not incurred in the financial year of 2001.

FINANCIAL POSITION

The Group had net assets of approximately HK\$27.9 million, including cash and bank balance of approximately HK\$26.5 million as at 31 December 2001 (2000: HK\$4.6 million). The Group had a healthy liquidity position with a current ratio of 15.8 as at 31 December 2001 (2000: 19.5). The gearing ratio, defined as the ratio of total liabilities to total assets, was 12% as compared to 4% as at previous financial year ended date. The Group had no borrowings as at 31 December 2000. The increase in gearing ratio was mainly due to the issue of convertible note of HK\$2 million to a third party in August 2001. The convertible note bears interest of 4% per annum. Interests are payable by the Company in arrears on a half-year basis and the note matures on the day which is eighteen months after the date of issue. Save as disclosed above, the Group has no other borrowings as at 31 December 2001. There were no charges on group assets as at year end date of 2001 and 2000.

All transactions of the Group are denominated in Hong Kong dollars, United States dollars or Great Britain Pounds. As the exchange rates of these currencies were stable during the year under review, no hedging or other alternatives had been implemented. It is considered that the Group has no significant currency exposure.

The Group intends to finance its daily operations and product development with internal funds and the Group implements stringent control on treasury activities. Unused financial resources will be placed in bank for interest.

BUSINESS REVIEW

As the developer and distributor of the proprietary ProSticks Charting System, the Group distributed its innovative analytical tool to users through Internet initially. In order to expand its business and revenue bases, the Group developed a PC-based ProSticks software product and published a series of books and ancillary reports. The second book which illustrates the essence of ProSticks was launched in November 2001 to promote the applications of ProSticks charts and to educate investors on how to make use of the sophisticated tool to formulate investment decision.

The Group put great effort in business development in the past year. It commenced negotiation with a third party to form strategic alliance to co-develop new business in Hong Kong. With focus on the development of PRC market, the Group will establish a representative office in Beijing in April 2002 to promote products and services of the Group.

The Company will keep on searching for possibilities to form strategic alliances/partnerships with reputable organizations for new business opportunities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Research and development

With the continuous effort in research and development, the Group has successfully developed an advanced analytical system, namely ProSticks Trend-Rider System, which provides users with timely trading signals that help users track trading opportunities. The system employs state-of-the-art artificial intelligence system together with rules and parameters of ProSticks Charting System to recognize trading patterns, filter random noise and identify trendlines of underlying financial instruments.

The development of another new product namely ITATSIS was completed in September 2001. ITATSIS is designed to assist investors in formulating their investment strategies with reference to the latest changes of economic condition and investment environment through the incorporation of the most updated market information for analysis purpose.

Sales and marketing

The Group realizes the importance of after sales services and full technical and customer service support for retaining valuable clients. During the year, customer services team was expanded to provide better and more personalized service to customers of the Group. The Company is also planning to establish showrooms and recruit professional staff to promote services and products of the Group.

A large-scale seminar was launched in the PRC to promote the new product, the PC-based ProSticks Trend Rider System, to investors in the PRC. The Group has also entered into letter of intent with several software distributors in the PRC to distribute ProSticks products in the PRC.

Employee and remuneration policy

The success of the Group is attributable to the good combination of financial industry professionals and talented, energetic technical expertise. The Group had 27 employees as at 31 December 2001 (2000: 24 employees), 15 of which are R&D and technical staff. Staff costs, net of amount capitalized as development expenditure, was approximately HK\$4,520,000 for the financial year ended 31 December 2001 (2000: HK\$4,154,000). Such increase was in line with the increase of headcount. The Group rewarded employees with bonus as a gratuity for their contribution during the past year. The directors believe that the employee remuneration packages currently offered are competitive with other companies in the market. The Group also provides mandatory provident fund, medical benefits and training programs for all staff. No share options have been granted to employees during the year of 2001.

Intellectual property

The Group registered its trademark "ProSticks" in Hong Kong. In addition, the Group was granted a patent for its method of charting financial activities in Hong Kong during the year. The Group also filed patent and/or trademark applications in Japan, PRC, Taiwan, Europe and the United States to protect its innovative design. It is believed that the market position of the Group will be further strengthened with the granting of the patent and trademark.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MATERIAL INVESTMENTS AND CAPITAL ASSETS

No significant investments or material acquisitions and disposals of subsidiaries and affiliated companies which have significant impact on financial results of the Group were made in the financial years of 2001 and 2000. There have been no material changes in the Group's future plan for material investments and acquisition of material capital assets as disclosed in the Company's prospectus dated 29 November 2001 under the section headed "Business objectives and strategies".

CONTINGENT LIABILITIES

HK Finance Limited (the "Plaintiff") instigated proceedings against a subsidiary of the Company for alleged infringement of copyright of the Plaintiff in a cable program and alleged passing-off the Plaintiff's website in 2000.

Subsequent to year-end date of 2001, HK Finance Limited discontinued the litigation claim made against the subsidiary of the Company on 22 January 2002.

PROSPECTS

The Group has carefully reviewed its business strategies and set up future plan in order to achieve its ultimate goal of being a leading financial software provider. The Group intends to maximize its growth potential by implementing the following development plan.

Emphasis on research and development

The Group will continue to focus on research and development in order to stay ahead of competitors. We are committed to develop innovative products and high quality services by constantly upgrading our products and services through employment of the cutting edge technology and information technology expertise.

Large-scale promotion campaign

It is the Group's plan to launch large-scale promotion campaigns in both Hong Kong and the PRC to promote products and services of the Group. Promotion campaigns to be launched in the PRC will be arranged upon opening of our Beijing representative office in April 2002.

Strategic alliance with software developers and distributors

The Group recognizes the importance and benefits of establishing strategic partnership with local business partners to co-develop the PRC market. Therefore, the Group will explore cooperative opportunities with reputable PRC software developers and distributors or international software organizations which have presence in the PRC. It is the Group's strategy to leverage on strategic partners' experience, connection and reputation in the PRC to penetrate into the PRC market.

COMPARISON OF THE BUSINESS OBJECTIVES LISTED IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

Business Objectives as stated in the Prospectus dated 29 November 2001

Actual Business Progress

REVENUE AND BUSINESS DEVELOPMENT

Continue to assess the opportunities of forming alliances with mobile phone and pager services providers or content providers for distribution of ProSticks Charts through various wireless telecommunications devices

Commenced negotiation with a content provider

Assess the possibility of forming alliances with strategic partners, such as software developers and distributors and sales agents, for development of the PRC market

The Group commenced negotiations with several PRC software developers and distributors

Continue to upgrade the operational software applications products based on feedback from users

In progress

Arrange to establish a branch office in the PRC, so as to monitor and co-ordinate the distribution of ProSticks software in the PRC

Registration application of the representative office in Beijing has been submitted to the relevant authority and the representative office is expected to commence operation in April 2002

Subscription fee of the Website in Hong Kong, license fees of ProSticks software from the PRC market and maintenance fees of the operational software applications products are expected to become the major sources of revenue of the Group

Major sources of revenue of the Group are from subscription fees of the Website and maintenance fees of the operational software applications products

PRODUCTS AND SERVICES

Upgrade the existing operational software applications products from DOS-based to Windows-based and continue to upgrade the standard package of the operational software applications products based on feedback from existing users

Upgrade from DOS-based to Window-based was completed

COMPARISON OF THE BUSINESS OBJECTIVES LISTED IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

Business Objectives as stated in the Prospectus dated 29 November 2001

Actual Business Progress

SALES AND MARKETING

Organize promotion campaigns to recruit new members for the Website in Hong Kong

The second publication "Essence of ProSticks" was published and advertisements were placed on major financial newspapers to increase public awareness on ProSticks

Seek suitable locations for establishing new showrooms in Central and other major business areas in Hong Kong

The Group is searching for the right places for establishing new showrooms

Appoint public relations firm for image building

The Group has discussed with several public relations firms and it is in the process of selecting the most suitable one for image building

Arrange promotion campaign for product launching in the PRC market

A large scale seminar co-hosted by multinational software/hardware developers and distributors will be launched around April or May 2002

Enlarge the sales and marketing team of the Group to capture a larger market share in Hong Kong and recruit more professional staff for conducting seminars, workshops and roadshows for both the Hong Kong and the PRC markets

The Group is recruiting new members for the sales and marketing team

Commence to promote TAS in Hong Kong, with target customers of financial institutions comprising banks and securities houses

The Group approached several clients for promotion of TAS.

RESEARCH AND DEVELOPMENT

A. Financial instruments analysis software products

Continue the development of local version of the ProSticks software products for the PRC market

Layout and specific terms of PRC ProSticks software products have been modified to better suit the needs of the PRC market

Commence the development of the artificial intelligence trading system for ProSticks.

The research and development team is developing the prototype of the artificial intelligence trading system

COMPARISON OF THE BUSINESS OBJECTIVES LISTED IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

Business Objectives as stated in the Prospectus dated 29 November 2001

Actual Business Progress

B. Operational software applications products

Commence the development of Internet
FX Margin Trading Platform and the
Branches Central Pricing System

In progress

Commence development of upgrading the
system platform of the Group's products
from Windows-based to Linux-based

The development is in the preliminary
stage

HUMAN RESOURCES DEPLOYMENT

General management	5	General management	5
Sales and marketing	7	Sales and marketing	4
Research and development	8	Research and development	8
Technical and programming	9	Technical and programming	7
General administration and finance	<u>3</u>	General administration and finance	<u>3</u>
 Total	 <u><u>32</u></u>	 Total	 <u><u>27</u></u>

The Group is in the process of recruiting
sales and marketing executives and
technical and programming staff

COMPARISON OF THE BUSINESS OBJECTIVES LISTED IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

(from 22 November 2001 to 31 December 2001)

	Proposed (HK\$'000)	Actual (HK\$'000)
Promotion and market development in Hong Kong, the PRC, Taiwan and North America		
– advertising	100	20
– seminars/roadshows/exhibition	100	0
– promotion material/gifts	100	60
– other promotion and market development campaigns	0	0
Sub-total	300	26
Research and development		
– ProSticks software products	400	263
– Operational software applications products	200	139
Sub-total	600	402
Total	900	428

Spending in promotion and market development is deferred to the second quarter of 2002 to match with the opening of the PRC representative office and launching of new products and/or functions of existing products.

Actual spending in research and development is slightly less than the budget because of cost control measures.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Goh Gen Cheung, aged 55, is the Chairman of the Group and is responsible for the overall strategic planning and formulation of corporate policies of the Group. Mr. Goh joined the Group in 1997 after his retirement from Standard Chartered Bank where he was the Regional Head of Treasury. He has over 30 years of experience in banking, treasury, finance and trading markets. Mr. Goh is an associate member of the Chartered Institute of Bankers and has a master degree in business administration.

Mr. Li Ching Ping, Vincent, aged 54, is the Vice Chairman of the Group. He is responsible for the overall management, corporate and business development of the Group. Mr. Li graduated from the University of Manitoba, Canada with a Bachelor of Science degree in 1971. Mr. Li has years of experience in banking and finance field.

Mr. Ha Kee Choy, Eugene, aged 45, is the Managing director of the Group. Mr. Ha is responsible for the management of day-to-day operations of the Group. Mr. Ha holds a master degree in business administration. He is a Fellow of Chartered Association of Certified Accountants and The Taxation Institute of Hong Kong. He has over 15 years of experience in finance and banking industry.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Ng Ge Bun, aged 44, was appointed an independent non-executive Director of the Company in November 2001. Mr. Ng holds the degree of Bachelor of Science and of Bachelor of Laws. He obtained a postgraduate certificate in Laws from the University of Hong Kong. He is a solicitor of the Supreme Court of Hong Kong and currently serves as Senior Partner of Messrs. Ng & Lam, Solicitors.

Mr. Wan Yiu Kwan, Stephen, aged 45, was appointed an independent non-executive Director of the Company in November 2001. Mr. Wan graduated from the University of Hong Kong with a bachelor degree in social sciences in 1979. He is an associate of The Chartered Secretaries and Administrations, UK. He has over 9 years of experience in banking and finance field. He currently focuses on developing private businesses in the PRC relating to the health care industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Cheng Chi Kong, aged 29, is the Chief Technical Officer of the Group. He is primarily responsible for software development and maintenance. Mr. Cheng graduated from the University of Hong Kong with a bachelor's degree in engineering in 1995. He is a Certified Information System Auditor. He joined the Company on 1 April 2000 after working in GTL for 6 years.

Mr. Chan Cheong Pang, aged 29, is the Senior Business Manager of the Group. He is primarily responsible for system design, analysis, development and implementation of the operational software application. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor's degree in computer science in 1994. He is a Certified Information System Auditor. He joined the Company on 1 April 2000 after working in GTL for 6 years.

Mr. Lau Chi Ming, aged 29, is the Product Development Manager of the Group. He is responsible for development and maintenance of the financial instruments analysis software products. Mr. Lau graduated from the University of Hong Kong with a bachelor's degree in computer science in 1995. He joined the Company on 1 April 2000 after working in GTL for 5 years.

Ms. Chan Oi Chi, Joyce, aged 29, is the Product Development Manager of the Group. She is responsible for system design, analysis, development and implementation of the financial instruments analysis software products. Ms. Chan graduated from the University of Hong Kong with a bachelor's degree in computer science in 1995. She joined the Company on 1 April 2000 after working in GTL for 5 years.

Ms. Ho Wai Man, Heidi, aged 31, is the Financial Controller, Qualified Accountant and Company Secretary of the Group. Ms. Ho is responsible for the overall management of the financial function of the Group. Ms. Ho is a member of American Institute of Certified Public Accountants and graduated from York University, Canada, with a bachelor's degree in Administrative Studies. Before joining the Group in August 2001, Ms. Ho had served in an international accountancy firm, and several publicly listed companies in Hong Kong.

REPORT OF THE DIRECTORS

The Directors herein present their first annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 10 July 2001 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

Pursuant to a reorganization scheme to rationalize the Group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 24 November 2001.

The shares of the Company began trading on the GEM of the Stock Exchange on 5 December 2001.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 13 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and profit/(loss) from operating activities by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 10 to the financial statements.

RESULTS AND DIVIDEND

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 26 to 28.

The directors do not recommend payment of any final dividend in respect of the year ended 31 December 2001.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined results, assets and liabilities of the Group for the last two financial periods prepared on the basis set out in note 1 below:

	Year ended 31 December 2001 HK\$'000	Year ended 31 December 2000 HK\$'000
TURNOVER	3,625	821
LOSS BEFORE TAX	7,383	12,884
NET LOSS AFTER TAX	7,383	12,884
TOTAL ASSETS	31,738	7,212
TOTAL LIABILITIES	3,798	302

1. The summary of the combined results, assets and liabilities for the year ended 31 December 2000 has been extracted from the Company's prospectus dated 29 November 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group as if the current group structure had been in existence throughout the financial period, or since the date of incorporation of the companies where this is a shorter period and is presented on the basis set out in note 2 to the financial statements.
2. To date, the only published audited consolidated balance sheet of the Group is that set out on page 27 of the financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 11 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 13 to the financial statements.

REPORT OF THE DIRECTORS

BORROWINGS

Details of the borrowings of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the period from 10 July 2001 (date of incorporation) to 31 December 2001, together with the reasons therefore, and details of the Company's share option schemes are set out in note 17 to the financial statements.

RESERVES

Details of movements in the reserve of the Company and of the Group during the year are set out in note 18 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company's reserve available for distribution amounted to approximately HK\$20,938,000. In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provision of pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Other than in connection with the Company's initial public offering, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

– the largest customer	23.3%
– five largest customers	62.6%

Purchases

– the largest supplier	45%
– five largest suppliers	81%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors

Mr. Goh Gen Cheung	(appointed on 20 July 2001)
Mr. Li Ching Ping, Vincent	(appointed on 26 November 2001)
Mr. Ha Kee Choy, Eugene*	(appointed on 10 January 2002)

Independent non- executive directors

Mr. Ng Ge Bun	(appointed on 26 November 2001)
Mr. Wan Yiu Kwan, Stephen	(appointed on 26 November 2001)

In accordance with Article 89 of the Company's Article of Association, Mr. Li will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

* Mr. Ha Kee Choy, Eugene was appointed on 26 November 2001 and resigned on 10 January 2002 as a non-executive director of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of directors and senior management are set out on pages 15 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the three executive directors has entered into a service contract with the Company for an initial term of 2 years commencing from 1 December 2001, except for Mr. Ha Kee Choy, Eugene's service contract which was commenced from 10 January 2002, and shall continue, thereafter until terminated by either party giving to the other not less than 3 months notice in writing.

Each of the independent non-executive directors was appointed for a period commencing on his appointment date of one year.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries was a party during the year.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' remuneration and of the five highest paid employees in the Group are set out in note 6 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") were as follows:

Name of directors	Number of shares held and nature of interests		
	Personal	Corporation	Total
Mr. Goh Gen Cheung (<i>Note 1</i>)	—	58,571,982	58,571,982
Mr. Li Ching Ping, Vincent (<i>Note 2</i>)	—	90,479,242	90,479,242

Notes:

- These shares are held by New Dragon Ventures Limited, a company wholly owned by Mr. Goh Gen Cheung.
- These shares are held by Great Power Associates Limited, a company wholly owned by Mr. Li Ching Ping, Vincent.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Pursuant to the Company's Pre-IPO share option scheme, on 24 November 2001, the Company granted certain options to the following director which entitle the holder to subscribe for ordinary shares of the Company. Details of the Pre-IPO share option scheme are set out in note 17 to the financial statements. No share option was exercised during the year.

Details of the share options granted to the director is shown as follows:

Name	Date of grant	No. of Options	Exercise price
		outstanding at 31 December 2001	of options HK\$
Mr. Ha Kee Choy, Eugene	27 November 2001	40,000,000	0.12

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares	Percentage of share holding
Great Power Associates Limited*	90,479,242	22.62%
Frankie Dominion International Limited	75,260,986	18.82%
New Dragon Ventures Limited*	58,571,982	14.64%

* The shareholding is duplicated in the directors' interest in shares disclosed above.

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

SPONSOR'S INTEREST

As confirmed by the Company's sponsor, REXCAPITAL (Hong Kong) Limited (the "Sponsor"), as at 31 December 2001 and as at the date of this report, the Sponsor, its directors, employees or associates, did not have any interest in the securities of the Company and any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group. Pursuant to the agreement dated 28 November 2001 entered into between the Company and the Sponsor, the sponsor received, and will receive, fees for acting as the Company's retainer Sponsor for the period from 28 November 2001 to 31 December 2003.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, none of the directors nor the substantial shareholders of the Company had any interest in any business that directly or indirectly competed with the business of the Group.

BOARD PRACTICE AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since the listing of its share on GEM of the Stock Exchange on 5 December 2001.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Company has established an audit committee on 26 November 2001 with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. The committee comprises the two independent non-executive directors, namely Mr. Ng Ge Bun and Mr. Wan Yiu Kwan, Stephen. The committee has met two times since its formation. The Group's financial statements for the year ended 31 December 2001 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards, the listing rules of the Stock Exchange and legal requirements, and that adequate disclosures had been made.

AUDITORS

RSM Nelson Wheeler resigned as the auditors of the Company on 31 January 2002 and Moores Rowland were appointed as the auditors of the Company for the year ended 31 December 2001 on 18 February 2002. Moores Rowland will retire at the forthcoming annual general meeting and a resolution for reappointment will be proposed in the same meeting.

ON BEHALF OF THE BOARD

Goh Gen Cheung

Chairman

AUDITORS' REPORT

To the members

ProSticks International Holdings Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Chartered Accountants

Certified Public Accountants

Hong Kong, 21 March 2002

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2001

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
Turnover	3	3,625	821
Cost of sales		(2,703)	(979)
Gross profit (loss)		922	(158)
Other revenue	3	80	795
Other income		172	41
Advertising and promotion expenses		(469)	(2,108)
Administrative expenses		(8,060)	(8,240)
Other operating expenses		—	(3,214)
Loss from operations		(7,355)	(12,884)
Finance costs	4	(28)	—
Loss from ordinary activities before taxation	4	(7,383)	(12,884)
Taxation	7	—	—
Net loss attributable to shareholders	8	(7,383)	(12,884)
Dividends		—	—
Loss per share			
Basic	9	2.40 cents	4.29 cents

Separate statement of recognised gains and losses required by the Statement of Standard Accounting Practice 1 "Presentation of financial statements" issued by the Hong Kong Society of Accountants has not been prepared as the only component of such statement is the net loss for the year.

CONSOLIDATED BALANCE SHEET

At 31 December 2001

	<i>Note</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	<i>11</i>	1,548	1,324
Intangible assets	<i>12</i>	1,821	—
		<hr/> 3,369 <hr/>	<hr/> 1,324 <hr/>
Current assets			
Trade and other receivables	<i>14</i>	1,843	1,288
Cash and cash equivalents		26,526	4,600
		<hr/> 28,369 <hr/>	<hr/> 5,888 <hr/>
Current liabilities			
Trade and other payables	<i>15</i>	(1,798)	(302)
Net current assets		<hr/> 26,571 <hr/>	<hr/> 5,586 <hr/>
Total assets less current liabilities		<hr/> 29,940 <hr/>	<hr/> 6,910 <hr/>
Non-current liabilities			
Non-current interest-bearing borrowings	<i>16</i>	(2,000)	—
NET ASSETS		<hr/> 27,940 <hr/>	<hr/> 6,910 <hr/>
CAPITAL AND RESERVES			
Issued capital	<i>17</i>	4,000	12
Reserves	<i>18</i>	23,940	6,898
		<hr/> 27,940 <hr/>	<hr/> 6,910 <hr/>

Approved by the Board of Directors on 21 March 2002 and signed on behalf of the Board by

LI CHING PING, VINCENT
Director

HA KEE CHOY, EUGENE
Director

BALANCE SHEET*At 31 December 2001*

	<i>Note</i>	2001 HK\$'000
ASSETS AND LIABILITIES		
Non-current assets		
Interests in subsidiaries	13	<u>12</u>
Current assets		
Trade and other receivables	14	1,241
Cash and cash equivalents		<u>26,460</u>
		<u>27,701</u>
Current liabilities		
Trade and other payables	15	<u>(775)</u>
Net current assets		<u>26,926</u>
Total assets less current liabilities		<u>26,938</u>
Non-current liabilities		
Non-current interest-bearing borrowings	16	<u>(2,000)</u>
NET ASSETS		<u><u>24,938</u></u>
CAPITAL AND RESERVES		
Issued capital	17	4,000
Reserves	18	<u>20,938</u>
		<u><u>24,938</u></u>

Approved by the Board of Directors on 21 March 2002 and signed on behalf of the Board by

LI CHING PING, VINCENT
Director

HA KEE CHOY, EUGENE
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash outflow from operating activities	20	(6,182)	(11,640)
Returns on investments and servicing of finance			
Interest received		66	235
Dividend received		—	560
Net cash inflow from returns on investments and servicing of finance		66	795
Taxation			
Tax paid		—	—
Investing activities			
Purchase of plant and equipment		(553)	(1,495)
Additions to intangible assets		(1,818)	—
Sale of other investments		—	3,838
Net cash (outflow) inflow from investing activities		(2,371)	2,343
Net cash outflow before financing		(8,487)	(8,502)
Financing	21		
Issue of a convertible note		2,000	—
Issue of options by a subsidiary		—	—
Issue of shares		—	—
Issue of shares by subsidiaries		3,427	13,000
Issue of placing shares		33,000	—
Issue expenses paid		(8,014)	—
Net cash inflow from financing activities		(30,413)	13,000
Increase in cash and cash equivalents		21,926	4,498
Cash and cash equivalents brought forward		4,600	102
Cash and cash equivalents carried forward		26,526	4,600
Analysis of the balance of cash and cash equivalents			
Bank balances and cash		26,526	4,600

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (Revised) of the Cayman Islands on 10 July 2001. Pursuant to a group reorganisation scheme ("Group Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 24 November 2001. The shares of the Company were listed on the GEM of the Stock Exchange on 5 December 2001.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 13 to the financial statements.

The Group underwent a reorganisation to rationalise its structure in preparation for the listing of the Company's shares on the GEM. Details of the Group Reorganisation have been set out in the section headed "Corporate Reorganisation" in Appendix IV of the prospectus issued by the Company on 29 November 2001 (the "Prospectus").

The Group after the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group.

All significant inter-company balances and transactions have been eliminated on consolidation.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of Hong Kong Exchanges and Clearing Limited ("GEM listing rules"). A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably.

System services and maintenance income is recognised in the period when services are rendered.

Membership subscription fees are recognised on the straight-line basis over the term of the subscription period.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, which include the estimated cost for dismantling, removing the asset and restoring the site.

In situations where expenditure incurred to replace a separate component of an item of property, plant and equipment, including major inspection and overhaul expenditure, is capitalised and accounted for as a component of the assets. Other subsequent expenditure is capitalised as an additional cost of that assets only when it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of property, plant and equipment, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvement	10%
Equipment	20%
Furniture and fixtures	20%

No depreciation is provided in respect of construction in progress until it is completed and put into commercial operation.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at revalued amount under another Statement of Standard Accounting Practice ("SSAP"), in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currencies

The Group maintains its accounting records in Hong Kong dollars and transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Intangible assets

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Costs incurred on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Retirement benefits scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are recognised as an expense as they become payable in accordance with the rules of the scheme.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. TURNOVER AND REVENUE

The Group is principally engaged in the development, production and distribution of financial software products in Hong Kong.

Turnover and revenue recognised by category are as follows:

	2001 HK\$'000	2000 HK\$'000
Membership subscription fees	803	135
System services and maintenance income	2,822	686
Turnover	3,625	821
Dividend income from listed securities	—	560
Interest income	80	235
Other revenue	80	795
Revenue	3,705	1,616

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2001 HK\$'000	2000 HK\$'000
(a) Finance costs		
Interest on borrowings wholly repayable within five years	<u>28</u>	<u>—</u>
	2001 HK\$'000	2000 HK\$'000
(b) Other items		
Staff costs, excluding directors' emoluments and net of amount of approximately HK\$953,000 (2000: nil) capitalised as development costs	4,520	4,154
Cost of services provided	2,703	979
Auditors' remuneration	204	100
Depreciation of plant and equipment, net of amount of approximately HK\$3,000 (2000: nil) capitalised as development costs	326	170
Operating lease charges, net of amount of approximately HK\$118,000 (2000: nil) capitalised as development costs	760	784
Loss on disposal of other investments	—	3,163
Research and development expenditure (included in administrative expenses)	<u>1,827</u>	<u>2,674</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

5. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance and the GEM listing rules are as follows:

	The Group	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
Fees	32	—
Basis salaries, housing allowance, other allowances and benefits in kind	1,200	1,000
Discretionary bonuses	480	135
Contributions to pension schemes	24	2
	1,736	1,137

During the year, the two executive directors were paid individual emoluments of HK\$1,278,000 (2000: HK\$796,000) and HK\$426,000 (2000: HK\$341,000) respectively.

A non-executive director was paid a director's fee approximately to HK\$10,000 (2000: Nil) during the year. Each of the two independent non-executive directors was paid a director's fee of approximately HK\$11,000 (2000: nil) during the year. The non-executive director and all independent non-executive directors did not receive any other emoluments.

In addition to the above emoluments, a director was granted share options under the Company's Pre-IPO Share Option Scheme. The details of these benefits in kind are disclosed in the section of "Directors' interest in shares" in the report of the directors. In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the director.

There was no agreement under which a director waived or agreed to waive any emoluments during the year.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

6. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include two (2000: two) directors, details of whose emoluments are set out in note 5 above. The details of the emoluments paid to the remaining highest paid employees are as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Basis salaries, housing allowance, other allowances and benefits in kind	1,200	1,071
Discretionary bonuses	156	182
Contributions to pension schemes	36	3
	<u>1,392</u>	<u>1,256</u>

The number of the remaining highest paid employees whose emoluments fell within the following bands are as follows:

	No. of employees	
	2001	2000
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>

No emoluments were paid by the Group to any of the remaining highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

7. TAXATION

Hong Kong Profits Tax has not been provided as the Group has no assessable profit for the year (2000: nil).

The major components of deferred taxation not credited (provided) for the year are as follows:

	2001	2000
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	(137)	(167)
Tax losses arising	1,440	1,603
	<u>1,303</u>	<u>1,436</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

8. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders included a loss of approximately HK\$60,000 which has been dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of approximately HK\$7,383,000 (2000: loss of HK\$12,884,000) and the weighted average of 307,671,233 ordinary shares (2000: 300,000,000 shares) in issue during the year.

The weighted average number of shares used to calculate the current and prior year's loss per share includes the pro forma issued share capital of the Company, comprising 21 shares issued and fully paid before the Group Reorganisation, 1,235,679 shares issued as consideration for the acquisition of entire share capital of ProSticks (B.V.I.) Limited and the capitalisation issue of 298,764,300 shares set out in note 17. Additionally, the weighted average number of shares used for the current year's loss per share calculation also includes the 100,000,000 shares issued on the placement.

No amounts have been presented for the diluted loss per share because the Pre-IPO Share Options and convertible note outstanding during the years ended 31 December 2001 and 2000 (in accordance with the basis set out in note 1) had an anti-dilutive effect on the basic loss per share for the years.

10. SEGMENT REPORTING

(a) Primary reporting format – business segments

The Group comprises two main business segments:

Financial instruments analysis software products

They are designed to provide analytical solutions to both institutional and individual investors.

Operational software applications products

They are designed to provide solutions to financial institutions for the automation and integration of various operational functions.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

10. SEGMENT REPORTING (Continued)

(a) Primary reporting format — business segments (Continued)

	Financial instruments analysis		Operational software		Consolidated	
	software products	products	application products	products		
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
Segment revenue	<u>803</u>	<u>135</u>	<u>2,822</u>	<u>686</u>	<u>3,625</u>	<u>821</u>
Result						
Segment result	<u>(3,645)</u>	<u>(5,196)</u>	<u>2,012</u>	<u>(134)</u>	<u>(1,633)</u>	<u>(5,330)</u>
Unallocated operating income and expenses					<u>(5,722)</u>	<u>(7,554)</u>
Loss from operations					<u>(7,355)</u>	<u>(12,884)</u>
Finance costs					<u>(28)</u>	<u>—</u>
Loss from ordinary activities before taxation					<u>(7,383)</u>	<u>(12,884)</u>
Taxation					<u>—</u>	<u>—</u>
Loss attributable to shareholders					<u>(7,383)</u>	<u>(12,884)</u>
Assets and liabilities						
Segment assets	<u>3,184</u>	<u>1,015</u>	<u>204</u>	<u>322</u>	<u>3,388</u>	<u>1,337</u>
Unallocated assets					<u>28,350</u>	<u>5,875</u>
Total assets					<u>31,738</u>	<u>7,212</u>
Segment liabilities	<u>366</u>	<u>106</u>	<u>278</u>	<u>181</u>	<u>644</u>	<u>287</u>
Unallocated liabilities					<u>3,154</u>	<u>15</u>
Total liabilities					<u>3,798</u>	<u>302</u>
Other information						
Capital expenditure incurred during the year	<u>2,175</u>	<u>834</u>	<u>74</u>	<u>245</u>		
Depreciation for the year	<u>219</u>	<u>103</u>	<u>51</u>	<u>30</u>		

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

10. SEGMENT REPORTING (Continued)

(b) Secondary reporting format — geographical segments

The Group's operations are located in Hong Kong throughout the year. No analysis by geographical segments is provided.

11. PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group				
Cost				
At beginning of year	293	1,079	122	1,494
Additions	125	428	—	553
At balance sheet date	<u>418</u>	<u>1,507</u>	<u>122</u>	<u>2,047</u>
Accumulated depreciation				
At beginning of year	20	134	16	170
Charge for the year	35	270	24	329
At balance sheet date	<u>55</u>	<u>404</u>	<u>40</u>	<u>499</u>
Net book value				
At balance sheet date	<u><u>363</u></u>	<u><u>1,103</u></u>	<u><u>82</u></u>	<u><u>1,548</u></u>
At beginning of year	<u><u>273</u></u>	<u><u>945</u></u>	<u><u>106</u></u>	<u><u>1,324</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

12. INTANGIBLE ASSETS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Development costs		
Cost and gross carrying amount		
Additions from internal development and at the balance sheet date	1,821	—

13. INTERESTS IN SUBSIDIARIES

	2001 HK\$'000
Unlisted shares, at cost	12

Details of the subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation and operations	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiary	
ProSticks (B.V.I.) Limited	British Virgin Islands	US\$1,235,700 Ordinary	100%	100%	—	Investment holding
ProSticks.com Limited	Hong Kong	HK\$1,235,700 Ordinary	100%	—	100%	Development and provision of financial market software applications
ProSticks Technology Limited	Hong Kong	HK\$2 Ordinary	100%	—	100%	Dormant
ProSticks Publication Limited	Hong Kong	HK\$2 Ordinary	100%	—	100%	Dormant
World Funding Investment Limited	Hong Kong	HK\$2 Ordinary	100%	—	100%	Development and provision of financial market software applications

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

14. TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2001	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Trade receivables			
From third parties	—	107	—
Other receivables			
Deposits, prepayments and other debtors	1,843	1,181	1,241
	1,843	1,288	1,241

Debts are due within 30 days from the date of billing.

The ageing analysis of trade receivables of the Group as at the balance sheet date is as follows:

	2001	2000
	HK\$'000	HK\$'000
Within 30 days	—	8
Over 60 days	—	64
Over 120 days	—	35
	—	107

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

15. TRADE AND OTHER PAYABLES

	The Group		The Company
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000
Other payables			
Receipts in advance			
– membership subscription fees	150	106	–
– system services and maintenance income	198	181	–
– others	2	–	–
Accrued charges and other creditors	1,448	15	775
	<u>1,798</u>	<u>302</u>	<u>775</u>

16. NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group		The Company
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000
Convertible note, unsecured	<u>2,000</u>	<u>–</u>	<u>2,000</u>

	The Group		The Company
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000
The maturity of the above borrowings is as follows:			
In the second year	<u>2,000</u>	<u>–</u>	<u>2,000</u>

The convertible note was issued on 27 August 2001. The note is convertible into ordinary shares of the Company between 28 August 2002 and 27 February 2003 at a rate of HK\$0.231 per share. If the note has not been converted, it will be redeemed on 27 February 2003 at par.

The note bears interest from and including the date of issue of the note at the rate of 4% per annum on the principal amount of the note, which will be payable by the Company in arrears on a half-year basis from the date of issue of the note.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

17. ISSUED CAPITAL

	2001 HK\$'000
<i>Authorised:</i>	
8,000,000,000 ordinary shares of HK\$0.01 each	80,000 <hr style="border: 1px solid black;"/>
<i>Issued by fully paid:</i>	
400,000,000 ordinary shares of HK\$0.01 each	4,000 <hr style="border: 1px solid black;"/>

The following changes in the Company's authorised and issued share capital took place during the period from 10 July 2001 (date of incorporation) to 31 December 2001:

- (a) The Company was incorporated on 10 July 2001 in the Cayman Islands with authorized share capital of HK\$80,000,000 divided into 800,000,000 shares with a nominal value of HK\$0.10 each. On the same day, one share of HK\$0.10 each was allotted and issued at par to the initial subscriber.
- (b) Pursuant to the written resolution passed by the sole shareholder on 24 August 2001, each of the issued and unissued share of HK\$0.10 each of the Company was subdivided into 10 shares of HK\$0.01 each.
- (c) On 23 November 2001, the issued share capital of the Company was increased to HK\$0.21 by allotting 11 ordinary shares of HK\$0.01 each, for cash at a premium of HK\$0.99 per share. These shares rank *pari passu* with the existing shares in all respects.
- (d) Pursuant to the contract entered with the then existing shareholders of ProSticks (B.V.I.) Limited on 24 November 2001, the Company agreed to issue 1,235,679 new shares to acquire the entire issued share capital of ProSticks (B.V.I.) Limited held by them.
- (e) As a result of the placement, an amount of HK\$2,987,643 standing in the credit of the share premium account of the Company was applied to pay up in full at par a total of 298,764,300 shares for allotment and issue to holders of shares whose name appeared on the register of members of the Company as at the close of business on 28 November 2001, or as they may direct, in proportion to their then existing shareholdings in the Company.
- (f) On 4 December 2001, 100,000,000 shares of HK\$0.01 each were issued to public by way of placement at HK\$0.33 per share.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

17. ISSUED CAPITAL (Continued)

A summary of the above movements in the issued share capital of the Company is as follows:

	Number of shares issued	Issued and fully paid share capital
		<i>HK\$'000</i>
Share allotted and issued and fully paid at par on incorporation	1	—
Increase on subdivision of each share into 10 shares	9	—
Shares allotted and issued and fully paid at premium	11	—
Shares issued as consideration for the acquisition of entire issued share capital of ProSticks (B.V.I.) Limited	1,235,679	12
Pro-forma issued share capital as at 1 January 2000 and 31 December 2000	1,235,700	12
New issue by way of placement	100,000,000	1,000
Capitalisation of the share premium arising from new issue by way of placement	298,764,300	2,988
Issued share capital as at 31 December 2001	<u>400,000,000</u>	<u>4,000</u>

Share Option Scheme

Pursuant to the Share Option Scheme adopted by the Company on 24 November 2001, the Company may, at its discretion, grant options to any employee of the Group or any other person who have contributed or will contribute to the Group to subscribe for shares of the Company at a subscription price determined by the Board of Directors and notified to each grantee and shall be no less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant of the option, which must be a business day, (ii) the average closing price of the Company's shares as stated as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the option, and (iii) the nominal value of a Company's share. An option may be exercised at any time during the period notified by the Board of directors to each grantee provided that the period within which the option must be exercised shall not be more than 10 years from the date of grant of the option.

NOTES TO THE FINANCIAL STATEMENTS*Year ended 31 December 2001***17. ISSUED CAPITAL** *(Continued)***Share Option Scheme** *(Continued)*

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company must not, in aggregate, exceed 10% of the shares in issue on 5 December 2001.

As at 31 December 2001, no options under this scheme had been granted.

Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 24 November 2001, the Company may, at its discretion, grant options to any employee of the Group or any other person who have contributed or will contribute to the Group to subscribe for shares of the Company at a subscription price of HK\$0.12 per share, representing a discount of approximately 64% of the placing price. On 27 November 2001, a director of the Group was granted options to subscribe for 40,000,000 shares in the Company (where details are disclosed in the section of "Directors' interest in shares" in the report of the directors), and an ex-employee of the Group was granted options to subscribe for 4,000,000 shares in the Company.

Each of the grantee to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise these options any time between 5 December 2001 and 4 December 2011 (both dates inclusive). Upon acceptance of the grant of these options, the share options of a subsidiary previously granted to each grantee were cancelled. No other consideration was received by the Company.

No options had been exercised, cancelled or lapsed during the period from the date of grant to 31 December 2001.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

18. RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group				
At 1 January 2000	—	988	(1,206)	(218)
Issue of options by a subsidiary	—	—	—	—
Issue of shares by a subsidiary	—	20,000	—	20,000
Net loss for the year	—	—	(12,884)	(12,884)
At 1 January 2001	—	20,988	(14,090)	6,898
Issue of shares by subsidiaries	—	3,427	—	3,427
Issue of shares	—	—	—	—
Issue of placing shares	32,000	—	—	32,000
Capitalisation issue of shares	(2,988)	—	—	(2,988)
Issue expenses	(8,014)	—	—	(8,014)
Net loss for the year	—	—	(7,383)	(7,383)
At 31 December 2001	<u>20,998</u>	<u>24,415</u>	<u>(21,473)</u>	<u>23,940</u>
	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>	
The Company				
Issue of shares	—	—	—	—
Issue of placing shares	—	32,000	—	32,000
Capitalisation issue of shares	—	(2,988)	—	(2,988)
Issue expenses	—	(8,014)	—	(8,014)
Net loss for the year	—	—	(60)	(60)
At 31 December 2001	<u>20,998</u>	<u>(60)</u>	<u>20,938</u>	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

18. RESERVES (Continued)

The capital reserve of the Group represents the excess of the nominal value of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group Reorganisation set out in note 1 to the financial statements over the nominal value of the share capital of the Company issued in exchange therefor.

Pursuant to the Companies Law of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business. At 31 December 2001, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted in total to approximately HK\$20,938,000 (2000: Not applicable).

19. DEFERRED TAXATION

At the balance sheet date, the major components of the deferred taxation assets (liabilities) unprovided are as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	(304)	(167)
Tax losses carried forward	3,242	1,802
	2,938	1,635

A potential deferred tax asset has not been recognised in the financial statements in respect of tax losses available to set off future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

20. RECONCILIATION OF LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 <i>HK\$'000</i>
Loss from ordinary activities before taxation	(7,383)	(12,884)
Depreciation	326	170
Interest income	(80)	(235)
Interest expenses	28	—
Dividend income	—	(560)
Loss on disposal of plant and equipment	—	51
Loss on disposal of other investments	—	3,163
Changes in working capital:		
Trade and other receivables	(541)	(1,234)
Trade and other payables	1,468	(111)
Net cash outflow from operating activities	<u>(6,182)</u>	<u>(11,640)</u>

21. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Convertible note <i>HK\$'000</i>
At 1 January 2000	12	988	—
Issue of options by a subsidiary	—	—	—
Issue of shares by a subsidiary	—	20,000	—
At 31 December 2000	12	20,988	—
Issue of a convertible note	—	—	2,000
Issue of shares by subsidiaries	—	3,427	—
Issue of shares	—	—	—
Issue of placing shares	33,000	—	—
Issue expenses	(8,014)	—	—
At 31 December 2001	<u>24,998</u>	<u>24,415</u>	<u>2,000</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

22. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases, which are payable as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Within one year	796	784
In the second to fifth years inclusive	196	980
	992	1,764

23. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties.

	<i>Note</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
Purchase of software from a director	<i>(a)</i>	—	—
Purchase of software from a company controlled by the Company's shareholders	<i>(b)</i>	—	—
Purchase of plant and equipment from a company controlled by the Company's shareholders		—	150

- (a) According to an assignment agreement dated 12 April 2000 entered into between the Group, a director of the Company, and a shareholder of the Company, the director and the shareholder transferred the intellectual property rights subsisting in ProSticks Charting System to the Group for a cash consideration of HK\$1.
- (b) According to an assignment agreement dated 12 April 2000 entered into between the Group and a company controlled by the Company's shareholders, the intellectual property rights and subsisting sales and maintenance contracts of three operational software application products were sold by that company to the Group at a total consideration of HK\$2,000,000. The consideration was paid to that company by a director of the Company and the director who has acknowledged that the operational software applications products were given to the Group as a gift, received from the Group a consideration of HK\$1 thereon.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

24. RETIREMENT BENEFITS SCHEMES

According to the Mandatory Provident Fund (the "MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group is required to participate in the MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation. Total contributions paid by the Group into the MPF for the year ended 31 December 2001 amounted to approximately HK\$209,000 (2000: HK\$15,000).

Save as aforesaid, the Group did not contribute to any retirement benefits scheme for its employees prior to 30 November 2000.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2001 Annual General Meeting of the Company will be held at Basement Function Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Monday, 22 April 2002 at 10:30 a.m. for the following purposes:

1. To consider and adopt the audited financial statements and the reports of the directors and auditors for the year ended 31 December 2001.
2. To re-elect retiring director and to authorize the board of directors to fix their remuneration.
3. To re-appoint auditors and to authorize the board of directors to fix their remuneration.
4. As Special Business, to consider and, if thought fit, pass the following resolutions with or without amendments as Ordinary Resolutions:
 - A. **“THAT:**
 - (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants, or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
 - (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise), issued or dealt with by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) of this Resolution), (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to eligible persons of options to subscribe for, or rights to acquire, shares of the Company or, (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the capital of the Company in lieu of the whole or part of the cash payment for any dividend on shares of the

NOTICE OF ANNUAL GENERAL MEETING

Company pursuant to the Articles of Association of the Company from time to time, shall not in aggregate exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:—

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:—

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in a general meeting.

“Rights Issue” means the allotment, issue or grant of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the Directors made to holders of shares of the Company or any class thereof whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in or in any territory applicable to the Company).”

B. “THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its own issued shares in the capital of the Company in accordance with laws and requirements and regulations of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchanges on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution:—

“Relevant Period” means the period from the passing of this Resolution until whichever is earlier of:—

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of the Cayman Islands to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in General Meeting.”

- C. **“THAT** subject to the passing of the Ordinary Resolution Nos. 4A and 4B, the general mandate granted to the Directors to allot, issue and deal with additional securities pursuant to Resolution No. 4A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 4B, provided that such amount of shares so repurchased shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing this Resolution.”

By Order of the Board

Goh Gen Cheung

Chairman

Hong Kong, 21 March 2002

Principal Place of Business in Hong Kong:

22nd Floor

Siu On Centre

188 Lockhart Road

Wanchai

Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. The Register of Members of the Company will be closed from, Wednesday, 17 April 2002 to Monday, 22 April 2002, both days inclusive, during which no transfer of shares can be registered. In order to qualify for attending and voting at the forthcoming Meeting of the Company, all shares transfer, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch registrar in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on 16 April 2002.
2. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the Meeting. A proxy need not be a member of the Company.
3. To be valid, a form of the proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be delivered at the Company's branch registrar in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting.
4. An Explanatory Statement containing further details regarding Ordinary Resolution No. 4B above as required by the Rules Governing the Listing of Securities on the Stock Exchange will be dispatched to members of the Company together with the 2001 Annual Report.