前進

ANNUAL REPORT 2002

Contents

前進

Chairman's Statement

Mr. William Michael Driscoll
Chairman and Executive Director

The Group anticipated the uncertain global market conditions and the consequently weak global information technology ("IT") investment trend to continue into 2002.

As such, the Group channeled its resources towards implementing prudent and proactive strategies that would nurture and maximize growth potential in target market sectors in the longer-term perspective while concomitantly driving optimal performance in the year under review.

The strategies were aimed at reinforcing and re-fuelling the Group's engine of growth in terms of expanding the breadth and depth of the global distribution network, enhancing the e-commerce platform complemented with e-marketing activities, promoting product awareness and enhancing reputation through participation in key tradeshows, delivering new suites of Thin Computing solutions to facilitate and enable market penetration into existing and newer markets, and establishing strategic and relevant business alliances in key market sectors. These strategies were devised based on observations of worldwide computing investment response to Thin Computing solutions, in particular the Group's unique and innovative flagship software product series, as a significant emerging technology in the IT arena.

FINANCIAL HIGHLIGHTS

For the year under review, turnover from the sales of the flagship Thin Computing software solutions increased significantly by four-fold to approximately HK$9.9 million.

Group turnover in 2002 was approximately HK$15.6 million when compared to approximately HK$28.3 million in 2001 as the turnover in the previous year accounted for approximately HK$13.7 million engineering fee provided to customers. Turnover from engineering fees decreased to approximately HK$0.5 million in 2002. As such, gross profit decreased to approximately HK$5.6 million for the year ended 31 December 2002 when compared to approximately HK$13.3 million recorded for the year ended 31 December 2001.

General and administrative expenses rose from approximately HK$8.2 million in the corresponding previous year to approximately HK$14 million for the year under review. Distribution and selling expenses also increased from approximately HK$0.3 million in the corresponding previous year to approximately HK$1.3 million for the year under review. The Group consequently registered a loss attributable to shareholders of approximately HK$8.2 million for the year under review.

Chairman's Statement

EXPANDING THE BREADTH AND DEPTH OF THE GLOBAL DISTRIBUTION NETWORK

In 2002, a prime focus was expanding the breadth and depth of the global distribution network through the appointment of distributors and resellers and driving continuous penetration into target vertical market respectively.

ENHANCING THE E-COMMERCE PLATFORM COMPLEMENTED WITH E-MARKETING ACTIVITIES

The Group enhancing the e-commerce platform with online initiatives such as Online Affiliate Program and the Online Resellers Program, complemented with e-marketing activities. Online sales gained strong growth momentum, reflected by its almost seven-fold increase to approximately HK$0.4 million when compared to 2001. Significant online initiatives included the Online Affiliate Program and the Online Resellers Program which enable the Company's website linked to popular and approved online sites to broaden the market presence and reach; and registered resellers are able to purchase software directly and conveniently online. In addition, the e-marketing communication teams were also established to aggressively promote product awareness to target market and the media community. To complement the marketing activities, the Group also participated in key international tradeshows.

CONTINUOUSLY DELIVERING NEW INNOVATIVE SUITES OF THIN COMPUTING SOLUTIONS

The Group continuously delivered new innovative suites of Thin Computing solutions to facilitate and enable penetration into existing and newer markets, sustaining growth through product innovation.

During the year under review, the Group remained committed to its product development policy of constantly upgrading its flagship software product series with new versions, and concomitantly developing and launching market relevant Thin Computing software solutions. The Group successfully developed and launched a series of new products. These products were strategically conceptualised, developed and launched to complete the spectrum of Thin Computing solutions, from client to server products. On the heels of its existing flagship software product series BeTwin and WinConnect, the Group added another flagship product series to its software stable, WinConnect Server XP and WinConnect Z during the year under review.

Chairman's Statement

ESTABLISHING STRATEGIC AND RELEVANT BUSINESS ALLIANCES IN KEY MARKET SECTORS

The Group successfully established a series of alliances with leading IT companies in global markets, based on the intrinsic value the software solutions brought to the business alliance in terms of increasing product functionality, adding application versatility and facilitating market expansion and growth. The global alliances with premier IT companies included Acer Incorporated, Micro Star International Co. Ltd, theKompany.com, Inc. and Handango.

OUTLOOK

The Group's efforts in the year under review is testament to the ongoing commitment to be an industry leader in the increasingly significant Thin Computing arena in the IT industry.

In 2003, the Group's management will prudently continue to focus on implementing the strategies to further enrich the product spectrum, drive market growth through expanding the market and online presence, and propel accelerated penetration through strategic business alliances.

Product and market accomplishments in the first quarter of 2003 indicate that the Group is on track.

The Group launched the Buddy B-680 Premium and Lite software suites in January this year. In February 2003, WinConnect S and WinConnect VX were launched.

In terms of market developments, the Group secured an approximately HK$1.4 million contract with Beijing ZhongQing Elegant Technology Corporation in January 2003 to bundle its WinConnect Server XP software on the Chinese company's Power Edu line of personal computers.

In March 2003, a strategic business alliance was established for the European market. An original equipment manufacturer ("OEM") agreement was signed with leading German Thin Computing and server-based company EseSIX Computer GmbH ("EseSIX") for the Group's WinConnect software. EseSIX will also distribute the WinConnect Server XP software.

At the backdrop of the well established global distribution network and continuously delivering new innovative suites of Thin Computing solutions and products, the Group expects the year of 2003 will have optimal performance.

Chairman's Statement

APPRECIATION

Commitment and tireless dedication are the key factors in ThinSoft's fulfillment of its vision of establishing itself as a leading Thin Computing software company.

In this quest, ThinSoft acknowledges the ongoing contribution of its business partners, shareholders and staff.

William Michael Driscoll
Chairman and Executive Director

Hong Kong, 21 March 2003

Corporate Information

EXECUTIVE DIRECTORS
William Michael Driscoll
Chairman

Ngiam Mia Hai Bernard
President

Ngiam Mia Hong Alfred
Chief Technical Officer

INDEPENDENT NON-EXECUTIVE DIRECTORS
Lee Chung Mong
Chen Tzyh-Trong

COMPLIANCE OFFICER
William Michael Driscoll

COMPANY SECRETARY
Yau Lai Man

QUALIFIED ACCOUNTANT
Yeow Mee Mooi

AUDIT COMMITTEE
Lee Chung Mong
Chen Tzyh-Trong

AUTHORISED REPRESENTATIVES
William Michael Driscoll
Yau Lai Man

REGISTERED OFFICE
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies
Cayman Islands

SPONSOR
ICEA Capital Limited

AUDITORS
Ernst & Young

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Room 2818
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
The Bank of Bermuda (Cayman) Limited
36C Bermuda House
British American Centre
Dr. Roy's Drive
George Town
Grand Cayman
British West Indies
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Hong Kong Registrars Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

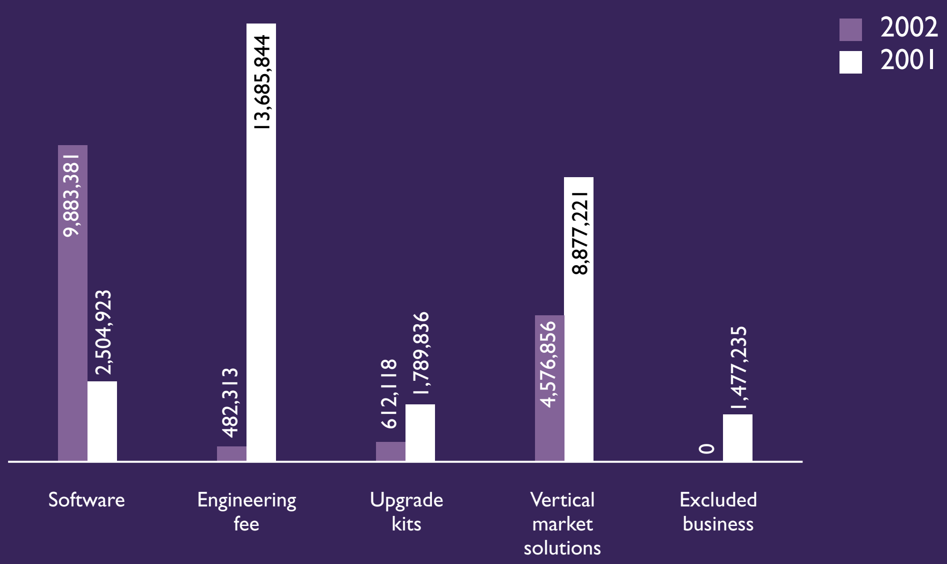
WEBSITE ADDRESSES
www.ThinSoftinc.com
www.Thincomputinginc.com
www.Austin.com.sg

PRINCIPAL BANKERS
Citibank N.A.
Union De Banques Arabes
Et Francaises
Dao Heng Bank Limited

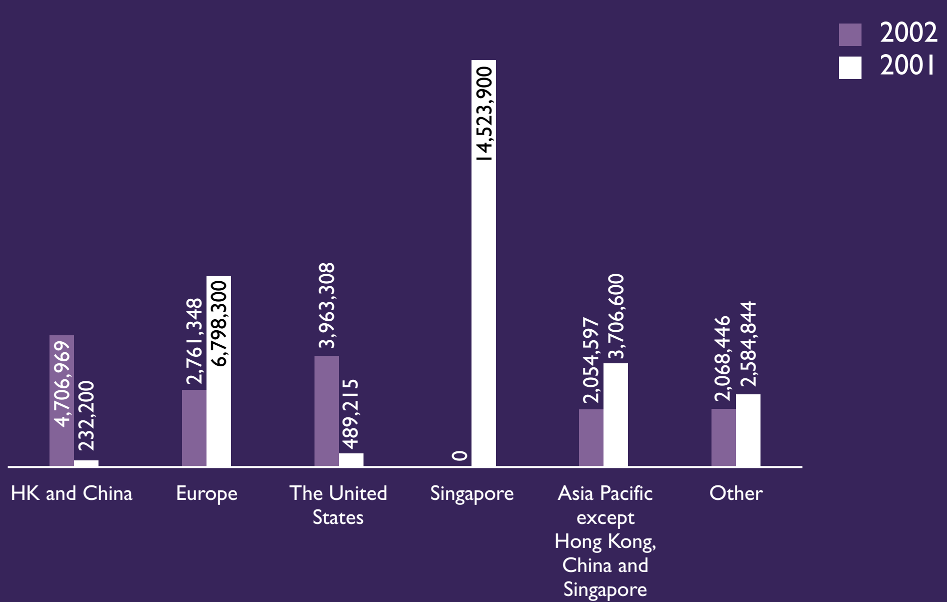
STOCK CODE
8096

Financial Highlights

TURNOVER BY PRINCIPAL ACTIVITIES



TURNOVER BY GEOGRAPHICAL AREAS



Financial Highlights

	Year ended 31 December	
	2002	2001
	HK$	HK$
Results		
Turnover:		
Thin computing solutions business	**15,554,668**	26,857,824
Excluded business	**–**	1,477,235
	15,554,668	28,335,059
(Loss)/profit attributable to shareholders:		
Thin computing solutions business	**(8,246,602)**	3,773,760
Excluded business	**–**	14,429
	(8,246,602)	3,788,189
Assets and liabilities		
Total assets	**44,440,176**	24,938,889
Total liabilities	**6,925,298**	12,548,657
Shareholders' equity	**37,514,878**	12,390,232

Management Discussion and Analysis

OPERATIONS REVIEW

The Group was principally engaged in the development and distribution of Thin Computing solutions and related products during the year under review.

The Group anticipated the uncertain global market conditions and the consequently weak IT consumer spending trend to continue in the year under review. As such, the Group implemented a series of strategic investments for strengthening its operational fundamentals that will enable further market penetration and propel growth in the long-term prospective. The strategies were aimed at reinforcing and fuelling the Group's engine of growth in terms of:

- expanding the breadth and depth of the global distribution network;
- enhancing the e-commerce platform and stepping up e-marketing activities;
- promoting product awareness and enhancing reputation through participation in key tradeshows;
- continuously delivering new innovative suites of Thin Computing solutions to facilitate and enable market penetration into existing and newer markets; and
- establishing strategic and relevant business alliances in key market sectors.

Expanding the Breadth and Depth of the Global Distribution Network

In 2002, a prime focus was expanding the breadth and depth of the global distribution network.

In terms of breadth, market coverage was expanded through the strategic appointment of established distributions and resellers in the country markets. Concomitantly, market depth was extended into focused vertical market segments that included government, healthcare, retail, small, medium and large enterprises.

Management Discussion and Analysis

Enhancing the e-Commerce Platform with Online Initiatives and Stepping Up e-Marketing Activities

During the year under review, the Group successfully invigorated its e-commerce platform to facilitate a wider and enable a more comprehensive online market reach.

Online sales attained strong growth momentum, reflected by its almost seven-fold increase to approximately HK$0.4 million when compared to 2001. The online sales continue to gain momentum into 2003 and is currently running at a monthly revenue level of approximately HK$0.2 million.

Significant online initiatives included the Affiliate Program and the Resellers Program. In the Affiliate Program, the ThinSoft website is linked to popular and approved online sites to broaden the market presence and reach. In the Resellers Program, registered resellers are able to purchase software licenses directly and conveniently online.

The Group successfully accomplished the objective to establish a strong e-commerce backbone for channeling its software products to target buyers in the long-term perspective.

Together with the e-commerce platform online initatives, the Group stepped up the global e-marketing activities from its operational business hubs in US, Hong Kong and Singapore. The e-marketing communication teams were established to aggressively promote product awareness to target markets and the media community.

Enhanced Product Reputation

The strict adherence to delivering unique, innovative software solutions that dramatically reduce the Total Cost of Ownership without compromising performance and efficiency has enhanced the product reputation in the marketplace.

The Group's software solutions have won rave reviews in premier publications including LiNUXIiNKS.com, Network World Fusion, ENT News and Thin Planet. The Infotech Research Group also endorsed the flagship software product series WinConnect in an article featured in the first quarter of 2002.

At the Planet PDA show in San Francisco, USA, in October 2002, the Group's WinConnect Z won the Best Of Show Awards in the Thin Computing category.

Management Discussion and Analysis

Direct Product Exposure Initiative in Key Market Sectors

In key target market sectors that reveal high product acceptance, penetration and accelerated growth potential, the Group invested directly to promote the unique and innovative functionality of the software products.

An instance of this was the Group's presentation of approximately HK$3.7 million worth of the flagship software solution BeTwin to the Ministry of Education ("MOE") of the PRC. BeTwin was used by the MOE to establish multimedia computer centres in provincial schools across the PRC.

The BeTwin presentation also reflects the Group's strategy to nurturing key market sectors by driving the proliferation of computing access and skills training. As a result of these direct market initiatives, BeTwin has gained wide acceptance in the global education market sector. In the PRC, for example, BeTwin has been adopted in the education environments of cities including Beijing, Chongqing, Guangdong, Guizhou, Hebei, Jiangsu and Shanghai.

Other key market sectors the Group targets include government, healthcare, retail, small, medium and large enterprises.

Participation in Key International Tradeshows

To complement the online marketing activities, the Group also participated in key international tradeshows. The tradeshows included:

- Planet PDA Tradeshow in San Francisco, USA, October 2002;
- TECHXNY/PC Expo, New York, USA, June 2002;
- Computex Taipei 2002, Taiwan, June 2002; and
- CeBIT 2002, Hannover, Germany, March 2002.

Exhibited in CeBIT 2002, Hannover, Germany, an annual world-class Information Technology trade expo.

Management Discussion and Analysis

Continuously Delivering New Innovative Suites of Thin Computing Solutions

The Group continuously delivered new innovative suites of Thin Computing solutions to facilitate and enable penetration into existing and newer markets, sustaining growth through product innovation.

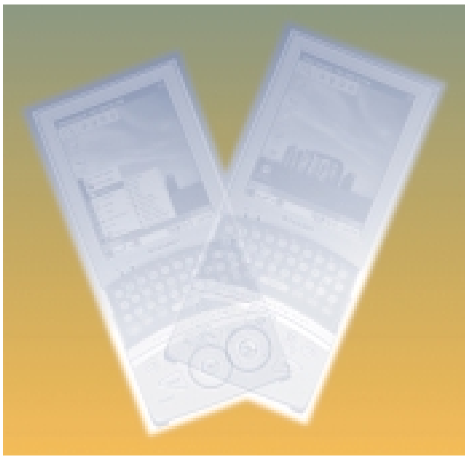
A cornerstone of the Group is its unique and innovative prism of Thin Computing software solutions. This is reflected in the popularity and high adoption rate of the flagship software product series BeTwin and WinConnect since its relatively recent launch in the second and fourth quarters of 2001 respectively.

During the year under review, the Group remained committed to its product development policy of relentlessly upgrading its flagship software product series with new versions, and concomitantly developing and launching market relevant Thin Computing software solutions.

The Group successfully developed and launched a series of new products. These products were strategically conceptualised, developed and launched to complete the spectrum of Thin Computing solutions, from client to server products. On the heels of its existing flagship software product series BeTwin and WinConnect, the Group added another flagship product series to its software stable – WinConnect Server XP – in November 2002.

The Thin Computing software solutions milestones culminating as of 31 December 2002 were:

- WinConnect Server XP – November 2002
- WinConnect Z – August 2002
- BeTwin 2000/XP – December 2001
- WinConnect – October 2001
- BeTwin 98/ME – April 2001



WinConnect Z provides the first RDP (Remote Desktop Protocol) client port for the Sharp's Zaurus

Management Discussion and Analysis

Establishing Strategic and Relevant Business Alliances in Key Market Sectors

Another major initiative the Group undertook in 2002 was expanding and reinforcing its marketing fundamentals. The impetus in this initiative was to forge strategic and relevant business alliances with leading IT companies in global markets.

The Group was successfully able to quickly establish a series of alliances based on the intrinsic value the software solutions brought to the business alliance. The value the Group's flagship software product series brought to the business alliance are:

- Increasing product functionality in market partner products;
- Adding application versatility across the operating system environments Windows and Linux; and
- Facilitating expansion and growth into existing and newer market sectors for the market partner.

The global alliances with premier IT companies included:

- Acer Incorporated;
- Micro Star International Co. Ltd;
- theKompany.com, Inc.; and
- Handango.

Group flagship software product BeTwin turns one Acer Aspire G600P PC into two independent PCs.

Management Discussion and Analysis

FINANCIAL REVIEW

The share of the Company was successfully listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 February 2002. The Company raised HK$50 million from the placing of 125,000,000 new shares (the "Placing Shares") at HK$0.40 per share (the "Placing"). The 125,000,000 Placing Shares represented 25% of the Company's issued share capital following the completion of the Placing.

For the year under review, turnover from the sales of the flagship Thin Computing software solutions in 2002 increased significantly by four-fold to approximately HK$9.9 million. The increase was a positive reflection of the Group's overall product and marketing strategies implemented.

Group turnover in 2002 was approximately HK$15.6 million when compared to approximately HK$28.3 million in 2001 as the turnover in the previous year accounted for approximately HK$13.7 million engineering fee provided to customers. Turnover from engineering fees decreased to approximately HK$0.5 million in 2002. As such, gross profit decreased to approximately HK$5.6 million for the year ended 31 December 2002 when compared to approximately HK$13.3 million for the year ended 31 December 2001.

General and administrative expenses rose from approximately HK$8.2 million to approximately HK$14 million in the year under review. The increase was mainly due to the strategic sales and marketing expenses associated with driving and promoting the new suites of BeTwin and WinConnect software solutions, investments associated with implementing the strategies of expanding the breadth and depth of the e-commerce platform and e-marketing activities, and including necessary investments in research and development to deliver new and upgraded suites of derivative products. Further, the Group incurred additional, routine and mandatory expenses incurred after the shares of the Company was listed on the GEM on 27 February 2002.

Distribution and selling expenses also increased from approximately HK$0.3 million in the corresponding previous year to approximately HK$1.3 million for the year under review.

The Group consequently registered a loss attributable to shareholders of approximately HK$8.2 million for the year under review.

Management Discussion and Analysis

USE OF PROCEEDS

The Company was listed on the GEM of the Stock Exchange on 27 February 2002 through a placement of 125,000,000 shares ("Placing"). The net proceeds from the Placing after deduction of the relevant expenses incurred were approximately HK$33 million. During the year under review, the Group utilized approximately HK$21.1 million for various purposes as detailed below; which were in line with the expected use of net proceeds as described in the prospectus of the Company ("Prospectus") dated 19 February 2002.

- Approximately HK$3 million was used in product enhancement and launching new products;
- Approximately HK$4 million was used to promote the Group's products;
- Approximately HK$1.8 million was used to upgrade the research and development facilities;
- Approximately HK$1.5 million was used to enhance the Internet platform/website and service support platform;
- Approximately HK$7.8 million was used to repay the convertible note; and
- Approximately HK$3 million was used as general working capital.

The remaining net proceeds at 31 December 2002 was approximately HK$12 million. The directors intend to use the net proceeds in the manner as disclosed in the Prospectus.

CAPITAL STRUCTURE

The shares of the Company were listed on the GEM of the Stock Exchange on 27 February 2002. There has been no change in the capital structure of the Company since that date to 31 December 2002. The capital of the Company comprises only ordinary shares. The Company and the Group has no borrowing and long-term debts.

SIGNIFICANT INVESTMENT

As at 31 December 2002, the Group did not have any significant investments.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENT

Apart from the Group reorganisation to rationalise the structure of the Group in preparation for listing of the shares of the Company on the GEM, details of which had been set out in the Prospectus, there had been no material acquisitions and disposals during the year. At present, the Company and the Group have no plans for material investments or capital assets other than those set out in the Prospectus.

GEARING RATIO

As at 31 December 2002, the Group did not have any long-term debts and its shareholders' funds amounted to approximately HK$37.5 million. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as at 31 December 2002.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cash flows, balance of proceeds from Placing and bank loans.

As at 31 December 2002, the Group had cash and cash equivalents of HK$17.1 million as compared to HK$7.4 million as at 31 December 2001.

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy to borrow in local currencies to minimise currency risk.

CHARGES ON GROUP ASSETS

As at 31 December 2002, the Group did not have any charges on its assets.

Management Discussion and Analysis

CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31 December 2002.

EMPLOYEES

As at 31 December 2002, the Group had 26 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the year under review and the previous year amounted to approximately HK$8.7 million and approximately HK$7.4 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Each of the 3 executive directors has, on 27 February 2002, entered into a director's service agreement with the Company. Under the service agreements, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the directors and they will each be entitled to a discretionary bonus provided that the audited consolidated profit after taxation and minority interests (and after the payment of such bonus) but before extraordinary items (the "Profit") of the Group for the relevant year exceeds HK$10 million and further that the total amount of bonuses payable to all the directors for such year shall not exceed 5% of the Profit.

Pursuant to a pre-IPO share option scheme adopted by the Company on 2 February 2002, the Company had granted pre-IPO share options to 26 employees (including 3 executive directors of the Company) of the Group to subscribe for a total of 52,600,000 shares, representing in aggregate approximately 10.52% of the issued share capital of the Company immediately following the completion of the Placing and the capitalization issue, at a subscription price ranging from 20% to 70% of the issue price of HK$0.40 per share.

At the date of this report, no share options have been granted under the post-IPO share option scheme adopted by the Company on 2 February 2002.

Management Discussion and Analysis

OUTLOOK

In 2003, the Group's management will prudently continue to focus on:

- Driving market growth through expanding the global distribution network, increasing vertical market penetration and enhancing online presence;
- Propelling accelerated penetration through strategic business alliances; and
- Enriching the product spectrum.

Market and product accomplishments in the first quarter of 2003 indicate that the Group is on track.

In terms of market developments, the Group secured an approximately HK$1.4 million contract with Beijing ZhongQing Elegant Technology Corporation in January 2003 to bundle its WinConnect Server XP software on the Chinese company's Power Edu line of personal computers.

In March 2003, a strategic business alliance was established for the European market. An OEM agreement was signed with leading German Thin Computing and server-based company EseSIX for the Group's WinConnect software. EseSIX will also distribute the WinConnect Server XP software.

On the product front, the Group launched the Buddy B-680 Premium and Lite software suites in January this year. In February 2003, WinConnect S and WinConnect VNC were launched.

The Group expects optimal growth in 2003 in a perceptibly lingering fragile global market.

Comparison of Business Objectives with Actual Business Progress

BUSINESS OBJECTIVES FOR THE YEAR ENDED 31 DECEMBER 2002 AS STATED IN THE PROSPECTUS	ACTUAL BUSINESS PROGRESS DURING THE YEAR UNDER REVIEW
Product and Technology	
Product enhancement and continue development:	
BeTwin 98/ME for Windows 98/98SE and Windows ME	Upgrading of the BeTwin 98/ME product for compatibility with new software driver releases for important peripheral devices as well as maintaining compatibility with Microsoft Windows 98/98SE and Windows ME operating system software updates.
BeTwin 2000 for Windows 2000	Upgrading of the BeTwin 2000 product for compatibility with new software driver releases for important peripheral devices as well as maintaining compatibility with Microsoft Windows 2000 and 2000 Professional operating system software updates.
BeTwin XP for Windows XP	Upgrading of the BeTwin XP product for compatibility with new software driver releases for important peripheral devices as well as maintaining compatibility with Microsoft Windows XP Professional operating system software updates.
BeTwin Bundle Software Designs	Upgrading of the BeTwin product for compatibility with certain key hardware components that will allow for bundling of BeTwin software with the hardware. This project will enhance the Group's ability to broaden its marketing efforts.

Comparison of Business Objectives with Actual Business Progress

WinConnect for Linux desktop platform	Upgrading of the WinConnect product to support serial port interconnect capability as well as ensuring the WinConnect product's compatibility with the latest Microsoft operating systems software updates.
Remote Desktop Protocol and Server for Windows platform	Development project undertaken to enable multiple Windows platform Remote Desktop connections to a Windows XP PC. Completed during the year under review.
License Server	Development project undertaken to enhance the Group's ability to serve its customers by implementing a licensing server with greatly improved license issuance and license security capabilities.
WinConnect – Local Drive Support	Development project undertaken to add local drive system management capability under Remote Desktop Protocol. Expected completion in mid-2003.
WinConnect VX	Development project undertaken to enable the standard WinConnect to support multiple users when used under the VNC and X-Windows environment. Expected completion in mid-2003.
China Project	Development project undertaken to port WinConnect to work on the indigenous Chinese developed and manufactured ARCA 1 and ARCA 2 processors.

Comparison of Business Objectives with Actual Business Progress

WinConnect audio performance	Development project undertaken to improve the WinConnect audio performance. Expected completion in mid-2003.
WinConnect RDP 5.2	Development project undertaken to enhance WinConnect to support RDP 5.2 specification.
WinConnect Copy Protection	Development project undertaken to enhance WinConnect copy protection.
Customize BeTwin for Acer Veriton Corporate PC	Development project undertaken to customize BeTwin for Acer's Veriton Corporate PC. Expected completion in mid-2003.
Customize BeTwin for USB Audio Hub and USB-to-PS/2 Converter	Development project undertaken to design, develop, test and release a uniquely customized Universal Serial Bus Audio Hub and USB-to-PS/2 Converter that will enhance USB Connectivity for BeTwin software. Expected completion in mid-2003.
Copy Protection BeTwin	Development project undertaken to enhance the copy protection capabilities of BeTwin to enhance the protection of the Group's intellectual property. Expected completion in mid-2003.

Comparison of Business Objectives with Actual Business Progress

Marketing

Education & Training – To nurture and cultivate market acceptance of BeTwin and/or WinConnect	Construction of BeTwin and WinConnect customer site tables for sales and marketing reference contacts. Provide training to resellers during the year under review. Research of SFA (Sales Force Administration) system. During the year under review, the Group was successfully developed and implementation of: – Direct Sales Channel Strategic Initiatives; – Retail Sales Channel Strategic Initiatives; – Retail sales packaging scheme; – US Education system sales strategy; and – Value Added Reseller sales strategy. Implementation of sales and marketing lead opportunity reporting systems during the period under review. Implementation of sales presentation materials for all channels.
Affiliates Program Link	Project undertaken to provide an Affiliates Program where links to cooperating strategic partners websites from the Group website is enable and was completed during the year.
Reseller Program	Project undertaken to provide "BETWIN SOLUTIONS" program on the Group's website. Allied resellers will be able to offer a combined hardware/software (BeTwin) solution.
Customer Support Services Network	Implementation of first line customer support function. Implementation of engineering support center for second line customer support.

Comparison of Business Objectives with Actual Business Progress

Brand Awareness

Continue to create brand name awareness through promotional activities, marketing campaigns and conferences to strengthen established footholds and penetrate further into each of the education and training centres, retail stores, SOHO and SMEs.

Upgrading of research and development

Increase of headcount of technical engineers, depending on the progress of product development and technological research from time to time.

Development project undertaken for Sharp Laboratories in the US for a new, yet-to-be-released-or-announced Sharp product that is contractually protected under non-disclosure agreement. This project ports ThinSoft's WinConnect to the NanoX graphics environment for Personal Digital Assistants. The project makes use of outside engineering resources as an alternative to adding increased headcount as it has been determined to be a much more cost effective delivery system for the project. The development was completed in the fourth quarter of 2002.

HNT/Share Zaurus

Development project undertaken in the US and the UK to enable the use of ThinSoft's WinConnect software product on HNT and Sharp Zaurus Personal Digital PDAs by porting ThinSoft's WinConnect to the Qt graphics environment for HNT and for the Sharp Zaurus PDA. The project made use of outside engineering resources as an alternative to adding increased headcount as it has been determined to be a much more cost effective delivery system for the project. The development work was completed during the year under review.

Comparison of Business Objectives with Actual Business Progress

Customize BeTwin for Acer Aspire Home PC	Development project undertaken to customize BeTwin for Aspire Home PC. It was completed during the year under review.
Sun Solaris Project – aka WinConnect S	Project undertaken in cooperation with Sun Microsystems Inc to create a unique WinConnect product for compatibility with Sun Microsystems' Solaris operating system environment.
VPC Project	Project undertaken to design, develop and implement the BeTwin software solution for the Proview's product, Virtual Personal Computer (VPC). It was completed during the year under review.
Technical Alliances/Collaboration	Explore the opportunities in forming technical alliances with international high-tech and/or research companies. Explore the possibilities and feasibility of collaborating with outside consultancy experts in working out the concept of corporate re-engineering via Thin Client technology.

Comparison of Business Objectives with Actual Business Progress

Enhancement of e-commerce Platform

Upkeeping of existing platform. In particular, will be made to continue to revamp and/or the existing transactions on its e-Commerce trading website.

Implementation of Automated email responses to customers efforts for on-line website enhance purchases.

Migration to Verisign merchant charge authorization system for more effective transaction security and verification processes.

Implementation of capability to capture customer information from website purchases and inquiries.

Developed website customer database.
Upgraded the website registration system.

Profiles of Directors

William Michael Driscoll

Aged 56, is the chairman of the Company. He is responsible for the overall corporate strategic planning and policy making. He is also an executive director of IPC Incorporation Ltd ("IPC"), a company incorporated in Singapore and whose shares are listed on the Singapore Exchange Securities Trading Limited. Before joining the Group, he was the chief executive officer of Smith Corona Corporation, (Nasdaq: SCCO) from 28 February 1997 to 17 July 1998 and the chief executive officer of IPC Technologies, Inc. from 18 December 1995 to 30 September 1996. Mr. Driscoll currently serves on the boards of directors of various privately held technology companies.

Ngiam Mia Hai Bernard

Aged 42, is the executive director and president of the Company and is responsible for strategic business planning, overall group management and business development. He is also concurrently responsible for marketing. He is currently an executive director of IPC. Mr. Ngiam received a Bachelor of Business Administration degree from the National University of Singapore in 1985. Mr. Ngiam is the brother of Mr. Ngiam Mia Hong Alfred.

Ngiam Mia Hong Alfred

Aged 39, is an executive director and the chief technical officer of the Company and spearheads the Group's research and development programs, including initiating and overseeing all projects. He was an engineer in Essex Investments (S) Pte Ltd. from July 1986 to October 1991. Since November 1991, he has been the engineering director of IPC. Mr. Ngiam graduated from the University of Waterloo, Canada with a Bachelor of Mathematics degree and was on the Deans Honours List. Mr. Ngiam is the brother of Mr. Ngiam Mia Hai Bernard.

Profiles of Directors

Lee Chung Mong

Aged 44, is an independent non-executive director of the Company. Dr. Lee obtained a Ph.D. Degree in Computer Science from the University of Minnesota, USA in 1989. In the same year, he was appointed as Associate, Research Staff in the Institute of Systems Science at National University of Singapore. He was also an Assistant Professor of Computer Science at The Hong Kong University of Science & Technology for eight years. In 1999, he was awarded a Teaching Excellence Appreciation Award by the Dean of the School of Engineering of The Hong Kong University of Science and Technology and was elevated as a Senior Member of the Institute of Electrical and Electronics Engineers. He invented the "Method and Apparatus for Verifying a Container Code" and the "Method for Identifying a Sequence of Alphanumeric Characters", which were patented in the United Kingdom and the United States respectively. He is now the chairman and chief executive officer of Asia Vision Technology Ltd.

Chen Tzyh-Trong

Aged 45, is an independent non-executive director of the Company. Dr. Chen holds a bachelor degree in Laws, from National Taiwan University in Taiwan and a degree of Doctor of Philosophy, from the Faculty of Laws, University of London in the United Kingdom. He was a researcher of a trade organization in London. He served as a chairman's assistant of a public listed company in Hong Kong for several years. He was also a secretary general and is now a director of the Taiwan Business Association (Hong Kong). He is a vice president of a financial advisory service company in Hong Kong.

Report of the Directors

The directors present their report and the audited financial statements of ThinSoft (Holdings) Inc (the "Company") and of the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2002.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 28 September 2001. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 23 February 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1, 17 and 25 to the financial statements.

Pursuant to a placing, the shares of the Company were listed on the GEM on 27 February 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's consolidated loss for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 42 to 82.

The directors do not recommend the payment of any dividends in respect of the year.

Report of the Directors

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past four financial years is set out on pages 83 to 84. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 16 to the financial statements.

CONVERTIBLE NOTE PAYABLE

Details of the convertible note payable of the Group are set out in note 24 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital, together with the reasons thereof, and details of the Company's share option schemes are set out in note 25 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, 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

The Company's shares were listed on the GEM on 27 February 2002. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities between that date and 31 December 2002.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity on page 44, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserve available for distribution, calculated in accordance with the Companies' Law of the Cayman Islands, amounted to HK$17,438,825. This includes the Company's share premium account in the amount of HK$21,207,586 at 31 December 2002, which may be distributable 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 debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 66% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 20% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 63% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 27% of the Group's total purchases.

None of the directors of the Company, or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

Report of the Directors

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors:
William Michael Driscoll
Ngiam Mia Hai Bernard
Ngiam Mia Hong Alfred

Non-executive director:
Wong Kui Ming*

Independent non-executive directors:
Lee Chung Mong
Chen Tzyh-Trong

* *Mr. Wong Kui Ming, who was formerly an executive director of the Company, was re-appointed as a non-executive director of the Company on 16 October 2002 and resigned on 1 February 2003.*

In accordance with article 87(1) and (2) of the Company's articles of association, Lee Chung Mong will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 27 February 2002 and expiring on 26 February 2005 unless terminated by either party giving not less than six month's prior written notice to the other.

The term of appointment for each of the independent non-executive directors commences from 2 February 2002 and will expire on the date on which the annual general meeting of the Company for the year of 2003 is held subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions in connection with the Group Reorganisation in preparation for the Placing and as disclosed in note 25 to the financial statements, no director had a significant beneficial interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year.

DIRECTORS' INTEREST IN SHARES

On 27 February 2002, the share of the Company was listed on the GEM. At the balance sheet date, the interests of the directors and their associates in the listed 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 set out below:

Name of director	Type of interest	Percentage of holding
Mr. Ngiam Mia Hai Bernard	other	*(note)*
Mr. Ngiam Mia Hong Alfred	other	*(note)*

Note: IPC Corporation Ltd ("IPC"), the ultimate company of the Company, is a company incorporated under the laws of Singapore and whose securities are listed on the Singapore Exchange Securities Trading Limited. At the balance sheet date, approximately 65.3% of its issued share capital is held by the public. At the date of this report, IPC holds approximately 75% (or 375,000,000 shares) of the issued share capital of the Company.

As at the balance date, each of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred directly held approximately 1.4% and 1.3% respectively of the issued share capital of IPC and each of them further owned approximately 0.001% of IPC's issued share capital as a result of the conversion shares received by each of them pursuant to a scheme of arrangement of IPC.

Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin are the brothers of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred. As at the date of this report, Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Essex Investment (Singapore) Pte Ltd (whose entire issued share capital is held by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in the proportion of 50:50) together beneficially owned approximately 22.2% of the issued share capital of IPC.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Share option scheme" below, and other than in connection with the Group Reorganisation in preparation for the Placing at no time since its incorporation was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTIONS SCHEMES

(i) Rights to acquire ordinary shares of the Company

On 2 February 2002, a pre-IPO share option scheme (the "Pre-Scheme") was approved by written resolution of the then sole shareholder of the Company. The purpose of the Pre-Scheme is to recognise the contribution of certain directors and employees of the Group to the growth of the Group and/or the listing of shares of the Company on the GEM. The Company had granted pre-IPO share options to 26 employees (including 4 executive directors of the Company) of the Group to subscribe for a total of 52,600,000 shares, representing in aggregate approximately 10.52% of the then issued share capital of the Company immediately following the completion of the Placing and the capitalisation issue, at a subscription price ranging from 20% to 70% of the issue price of HK$0.40 per share.

Each grantee has paid HK$1 to the Company as the consideration for such grant.

Report of the Directors

SHARE OPTIONS SCHEMES (continued)

(i) Rights to acquire ordinary shares of the Company (continued)

The following share options were outstanding under the Pre-Scheme:

Name of participant	Number of share options granted on 2 February 2002	Cancelled during the year	At 31 December 2002	Exercise period of share options	Exercise price per share HK$
Directors					
William Michael Driscoll	1,800,000	–	1,800,000	27 February 2003 to 1 February 2008	0.08
	900,000	–	900,000	27 February 2004 to 1 February 2008	0.08
	900,000	–	900,000	27 February 2005 to 1 February 2008	0.08
	3,600,000	–	3,600,000		
Ngiam Mia Hai Bernard	3,800,000	–	3,800,000	27 February 2003 to 1 February 2008	0.08
	1,900,000	–	1,900,000	27 February 2004 to 1 February 2008	0.08
	1,900,000	–	1,900,000	27 February 2005 to 1 February 2008	0.08
	7,600,000	–	7,600,000		
Ngiam Mia Hong Alfred	3,600,000	–	3,600,000	27 February 2003 to 1 February 2008	0.08
	1,800,000	–	1,800,000	27 February 2004 to 1 February 2008	0.08
	1,800,000	–	1,800,000	27 February 2005 to 1 February 2008	0.08
	7,200,000	–	7,200,000		

Report of the Directors

SHARE OPTIONS SCHEMES (continued)

(i) Rights to acquire ordinary shares of the Company (continued)

Name of participant	Number of share options granted on 2 February 2002	Cancelled during the year	At 31 December 2002	Exercise period of share options	Exercise price per share HK$
Mr. Wong Kui Ming	1,800,000	–	1,800,000	27 February 2003 to 1 February 2008	0.20
	900,000	–	900,000	27 February 2004 to 1 February 2008	0.20
	900,000	–	900,000	27 February 2005 to 1 February 2008	0.20
	3,600,000	–	3,600,000		
Directors of subsidiaries					
Mr. Ngiam Mia Je Patrick	1,800,000	–	1,800,000	27 February 2003 to 1 February 2008	0.08
	900,000	–	900,000	27 February 2004 to 1 February 2008	0.08
	900,000	–	900,000	27 February 2005 to 1 February 2008	0.08
	3,600,000	–	3,600,000		
Mr. Ngiam Mia Kiat Benjamin	1,800,000	–	1,800,000	27 February 2003 to 1 February 2008	0.08
	900,000	–	900,000	27 February 2004 to 1 February 2008	0.08
	900,000	–	900,000	27 February 2005 to 1 February 2008	0.08
	3,600,000	–	3,600,000		

Report of the Directors

SHARE OPTIONS SCHEMES (continued)

(i) Rights to acquire ordinary shares of the Company (continued)

Name of participant	Number of share options granted on 2 February 2002	Cancelled during the year	At 31 December 2002	Exercise period of share options	Exercise price per share HK$
Ms. Lauw Hui Kian	1,800,000	–	1,800,000	27 February 2003 to 1 February 2008	0.08
	900,000	–	900,000	27 February 2004 to 1 February 2008	0.08
	900,000	–	900,000	27 February 2005 to 1 February 2008	0.08
	3,600,000	–	3,600,000		
Other employees					
In aggregate	8,550,000	–	8,550,000	27 February 2003 to 1 February 2008	0.08
	4,275,000	–	4,275,000	27 February 2004 to 1 February 2008	0.08
	4,275,000	–	4,275,000	27 February 2005 to 1 February 2008	0.08
	17,100,000	–	17,100,000		
	1,300,000	–	1,300,000	27 February 2003 to 1 February 2008	0.20
	650,000	–	650,000	27 February 2004 to 1 February 2008	0.20
	650,000	–	650,000	27 February 2005 to 1 February 2008	0.20
	2,600,000	–	2,600,000		

Report of the Directors

SHARE OPTIONS SCHEMES (continued)

(i) Rights to acquire ordinary shares of the Company (continued)

Name of participant	Number of share options granted on 2 February 2002	Cancelled during the year	At 31 December 2002	Exercise period of share options	Exercise price per share HK$
	50,000	(50,000)	–	27 February 2003 to 1 February 2008	0.28
	25,000	(25,000)	–	27 February 2004 to 1 February 2008	0.28
	25,000	(25,000)	–	27 February 2005 to 1 February 2008	0.28
	100,000	(100,000)	–		
	52,600,000	(100,000)	52,500,000		

No valuation of the options granted under the Pre-Scheme is included in these financial statements as the directors considered that, in the absence of a readily available market value of the options on the Company's shares, they are unable to arrive at an accurate assessment of the value of the options granted.

No further options would be granted under the Pre-Scheme after the listing of the shares on the GEM. The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 52,500,000 additional shares of HK$0.05 each.

On the same date as the adoption of the aforesaid Pre-Scheme, a further share option scheme (the "Post-Scheme") was also approved by the Company. Details of the Post-Scheme are set out in note 25 of the financial statements.

No share options were granted by the Company under the Post-Scheme up to the date of approval of these financial statements.

Report of the Directors

SHARE OPTIONS SCHEMES (continued)

Save as disclosed above, and other than in connection with the Group Reorganisation in preparation for the Placing, at no time since its incorporation was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Approximate percentage of holding
IPC	375,000,000	75%

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in shares" above, 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

On 27 February 2002, the shares of the Company were listed on the GEM of the Stock Exchange by way of placing of 125,000,000 new shares at an issue price of HK$0.40. The sponsor of the Placing was ICEA Capital Limited (the "Sponsor").

Save as disclosed herewith, the Sponsor has confirmed, up to and as at 20 March 2003, none of the Sponsor nor its associates, directors or employees may have, as a result of the Placing, have any interest in any class of securities of the Company or any of member company of the Group (including options or rights to subscribe for such securities).

Report of the Directors

SPONSOR'S INTEREST (continued)

Pursuant to a sponsor agreement dated 18 February 2002 between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 27 February 2002 (date of commencement of the dealing in the Company's shares on the GEM) and ending on (and including) the last day of the second full (and not part thereof) financial year after listing of the Company's shares on the GEM.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 28 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected or related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 27 February 2002.

Report of the Directors

AUDIT COMMITTEE

The Company established an audit committee on 2 February 2002 with written terms of reference in compliance with Rules 5.23 and 5.24 of GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises two members, Lee Chung Mong and Chen Tzyh-Trong, both are independent non-executive directors of the Company. The Group's audited results for the year ended 31 December 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

William Michael Driscoll
Chairman

Hong Kong, 21 March 2003

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

Certified Public Accountants
15/F Hutchison House
10 Harcourt Road
Central, Hong Kong

To the members
ThinSoft (Holdings) Inc
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 42 to 82 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 an 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 of the Group as at 31 December 2002 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.

Ernst & Young
Certified Public Accountants

Hong Kong, 21 March 2003

Consolidated Profit and Loss Account

Year ended 31 December 2002

	Notes	2002 HK$	2001 HK$
TURNOVER	5	**15,554,668**	28,335,059
Cost of sales		**(9,955,463)**	(15,032,286)
Gross profit		**5,599,205**	13,302,773
Other income	5	**492,307**	1,122,806
Distribution and selling expenses		**(1,275,472)**	(297,345)
General and administrative expenses		**(14,025,955)**	(8,171,825)
Other operating expenses		**(32,768)**	(380,971)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	**(9,242,683)**	5,575,438
Finance costs, net	9	**452,494**	(472,364)
PROFIT/(LOSS) BEFORE TAX		**(8,790,189)**	5,103,074
Tax	10	**543,587**	(1,314,885)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(8,246,602)**	3,788,189
EARNINGS/(LOSS) PER SHARE	12		
Basic		**HK(1.72) cents**	HK1.01 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December 2002

	Notes	2002 HK$	2001 HK$
NON-CURRENT ASSETS			
Deferred development expenditure	15	**15,311,637**	11,740,172
Fixed assets	16	**369,867**	254,802
		15,681,504	11,994,974
CURRENT ASSETS			
Inventories	18	**182,423**	437,615
Accounts receivable	19	**4,221,005**	1,436,320
Prepayments, deposits and other receivables		**1,033,643**	2,453,867
Tax recoverable		**254,173**	–
Due from the ultimate holding company	20	**–**	1,170,000
Other investment	21	**6,000,000**	–
Cash and cash equivalents	22	**17,067,428**	7,446,113
		28,758,672	12,943,915
CURRENT LIABILITIES			
Accounts and bills payable	23	**1,518,946**	1,004,027
Accrued liabilities and other payables		**4,796,740**	1,886,555
Due to fellow subsidiaries	20	**–**	37,014
Due to the ultimate holding company	20	**55,302**	21,031
Tax payable		**554,310**	1,800,030
Convertible note payable	24	**–**	7,800,000
		6,925,298	12,548,657
NET CURRENT ASSETS		**21,833,374**	395,258
		37,514,878	12,390,232
CAPITAL AND RESERVES			
Issued capital	25	**25,000,000**	150,000
Reserves	26	**12,514,878**	12,240,232
		37,514,878	12,390,232

Ngiam Mia Hong Alfred
Director

Ngiam Mia Hai Bernard
Director

Consolidated Statement of Changes in Equity

31 December 2002

			Reserves				
	Issued capital HK$ (Note 25)	Share premium account HK$ (Note 25)	Exchange translation reserve HK$	Capital reserve HK$ (Note a)	Retained profits/ (accumulated losses) HK$	Reserves Total HK$	Total HK$
At 1 January 2001	–	–	389,531	6,840,000	1,659,105	8,888,636	8,888,636
Arising on consolidation of subsidiaries with functional currencies other than Hong Kong dollars	–	–	(436,593)	–	–	(436,593)	(436,593)
Net gains and losses not recognised in the profit and loss account	–	–	(436,593)	–	–	(436,593)	(436,593)
Arising on acquisition of ThinSoft BVI	50,000	–	–	–	–	–	50,000
Applied in payment of 2,000,000 shares allotted nil paid on incorporation	100,000	–	–	–	–	–	100,000
Net profit for the year	–	–	–	–	3,788,189	3,788,189	3,788,189
At 31 December 2001 and 1 January 2002	150,000	–	(47,062)	6,840,000	5,447,294	12,240,232	12,390,232
Arising on consolidation of subsidiaries with functional currencies other than Hong Kong dollars	–	–	20,300	–	–	20,300	20,300
Net gains and losses not recognised in the profit and loss account	–	–	20,300	–	–	20,300	20,300
Capitalisation issue	18,600,000	(18,600,000)	–	–	–	(18,600,000)	–
New issue of shares	6,250,000	43,750,000	–	–	–	43,750,000	50,000,000
Share issuance expenses	–	(16,649,052)	–	–	–	(16,649,052)	(16,649,052)
Net loss for the year	–	–	–	–	(8,246,602)	(8,246,602)	(8,246,602)
At 31 December 2002	**25,000,000**	**8,500,948**	**(26,762)**	**6,840,000**	**(2,799,308)**	**12,514,878**	**37,514,878**

Note:

(a) The capital reserve of the Group represents the difference between the aggregate nominal value of share capital of subsidiaries acquired by the Company and the nominal value of share capital of the Company issued as consideration in exchange therefor.

Consolidated Cash Flow Statement

Year ended 31 December 2002

	2002 HK$	2001 HK$ (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**(8,790,189)**	5,103,074
Adjustments for:		
Interest income	**(410,407)**	(771,182)
Interest expense	**–**	452,494
Depreciation of fixed assets	**96,689**	174,622
Amortisation of deferred development expenditure	**5,091,721**	1,819,157
Provision for inventory obsolescence	**51,600**	–
Operating profit/(loss) before working capital changes	**(3,960,586)**	6,778,165
Decrease in inventories	**203,592**	773,136
Increase in accounts receivable	**(2,784,685)**	(488,145)
Decrease/(increase) in prepayments, deposits and other receivables	**1,420,224**	(1,981,654)
Increase/(decrease) in accounts and bills payable	**514,919**	(53,911)
Increase/(decrease) in accrued liabilities and other payables	**2,910,185**	(467,240)
Decrease in balances with fellow subsidiaries	**(37,014)**	(1,784,168)
Increase/(decrease) in balances with the ultimate holding company	**1,204,271**	(15,475,375)
Cash used in operations	**(529,094)**	(12,699,192)
Interest paid	**–**	(452,494)
Singapore income tax paid	**(744,334)**	(779,953)
United States of America federal and state income tax paid	**(211,972)**	–
Net cash outflow from operating activities	**(1,485,400)**	(13,931,639)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	**(211,754)**	(74,599)
Additions to deferred development expenditure	**(8,663,186)**	(3,094,673)
Addition in other investment	**(6,000,000)**	–
Interest received	**410,407**	771,182
Net cash outflow from investing activities	**(14,464,533)**	(2,398,090)

Consolidated Cash Flow Statement

Year ended 31 December 2002

	2002 HK$	2001 HK$ (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	**50,000,000**	–
Share issuance expenses	**(16,649,052)**	–
Repayment of convertible note	**(7,800,000)**	–
Net cash inflow from financing activities	**25,550,948**	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**9,601,015**	(16,329,729)
Cash and cash equivalents at beginning of year	**7,446,113**	24,818,777
Effect of foreign exchange rate changes, net	**20,300**	(1,042,935)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**17,067,428**	7,446,113
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**1,223,638**	1,665,404
Time deposits with original maturity of less than three months when acquired	**15,843,790**	5,780,709
	17,067,428	7,446,113

Major non-cash transactions:

(a) Pursuant to a written resolution of the sole shareholder of the Company passed on 2 February 2002, an aggregate of 372,000,000 shares were allotted and issued, credited as fully paid at par by the capitalisation of HK$18,600,000 from the share premium account arising from the Placing, to the then existing shareholders of the Company in proportion to their respective shareholdings.

(b) During the year ended 31 December 2001, the convertible note in the principal amount of US$1,000,000 (equivalent to approximately HK$7,800,000) was issued by ThinSoft (USA) Inc in favour of an independent French software house whose shares are listed on The Paris Stock Exchange for part of the consideration of the software development expenditure *(note 24)*.

Balance Sheet

31 December 2002

	Notes	2002 HK$	2001 HK$
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**12,856,638**	–
CURRENT ASSETS			
Prepayments, deposits and other receivables		**986,841**	–
Due from subsidiaries	17	**17,532,365**	–
Other investment	21	**6,000,000**	–
Cash and cash equivalents	22	**8,541,274**	–
		33,060,480	–
CURRENT LIABILITIES			
Accrued liabilities and other payable		**3,478,293**	–
NET CURRENT ASSETS		**29,582,187**	–
		42,438,825	–
CAPITAL AND RESERVES			
Issued capital	25	**25,000,000**	–
Reserves	26	**17,438,825**	–
		43,438,825	–

Ngiam Mia Hong Alfred
Director

Ngiam Mia Hai Bernard
Director

Notes to Financial Statements

31 December 2002

1. GROUP REORGANISATION AND CORPORATE INFORMATION

The Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 28 September 2001. On incorporation, the Company had authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each, of which 1,000,000 shares were allotted and issued nil paid on 9 October 2001. Apart from the foregoing, no other transactions were carried out by the Company during the period from 28 September 2001 (date of incorporation) to 31 December 2001. Accordingly, the Company did not have any profits and losses for the period.

Group reorganisation

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of its shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 February 2002 (the "Listing"), the Company became the holding company of the companies now comprising the Group on 23 February 2002. This was accomplished by acquiring the entire issued share capital of ThinSoft Investment Inc ("ThinSoft BVI"), which is, at the date of this report, the intermediate holding company of other subsidiaries set out in note 17 to the financial statements, in consideration of and in exchange for the allotment and issue of a total of 1,000,000 shares of HK$0.05 each in the share capital of the Company, credited as fully paid, to the former shareholder of ThinSoft BVI.

Corporate information

The principal place of business of the Company is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168 – 200 Connaught Road, Central, Hong Kong.

During the year, the Group's principal activities are the development and distribution of Thin Computing solutions and related products. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company of the Company is IPC Corporation Ltd ("IPC"), a company incorporated in Singapore and listed on the Singapore Exchange Securities Trading Limited.

Notes to Financial Statements

31 December 2002

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing Operations"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 44 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions in the financial statements. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

SSAP 33 establishes principles for reporting information about discontinuing operations. This SSAP has not had any significant impact on the consolidated financial statements.

SSAP 34 prescribes the accounting and disclosure requirement for employee benefits. The new SSAP requires an enterprise to recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits. This SSAP has not had any significant impact on the consolidated financial statements.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with SSAP 27 "Accounting for group reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the financial years presented, rather than from the date of their acquisitions on 23 February 2002. Accordingly, the consolidated results and cash flows of the Group for the period from 1 January 2001 to 31 December 2002 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation, where this is a shorter period. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole, as the principal activities of the Group were carried out by those subsidiaries summarised in note 17 to the financial statements prior to and after the Group Reorganisation.

All significant transactions and balances within the Group are eliminated on consolidation.

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2002

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred development expenditure

All research costs are charged to the profit and loss account as incurred.

Development costs are capitalised and deferred only when the projects are clearly defined, the costs are separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible and the underlying products have commercial value. Development expenditure which does not meet these criteria is expensed when incurred.

Costs so deferred are amortised using the straight-line basis over the expected economic useful lives of the underlying products, subject to a maximum period of five years commencing in the year when the products are put into commercial production.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any 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. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on a straight-line basis to write off the cost of each asset over their estimated useful lives of five years.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Notes to Financial Statements

31 December 2002

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Other investment

Other investment represents a fixed rate deposit, of which the Group intends to hold until maturity, is stated at cost less any impairment.

Notes to Financial Statements

31 December 2002

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts and other receivables

Accounts and other receivables, which generally have 30-90 day credit terms, are recognised and carried at original invoice amount. An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off to the profit and loss accounts as incurred.

Accounts and other payables

Liabilities for trade and other amounts payable, which are normally settled on 30-90 day credit terms, are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Group.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, on the following bases:

– from the provision of services, when the services are rendered;

– from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and

– interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Notes to Financial Statements

31 December 2002

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contributions as required by the MPF Scheme and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Company's employer voluntary contributions, which are refunded to the Company when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the subsidiary in Singapore, ThinSoft Pte Ltd, are members of the Central Provident Fund operated by the government of Singapore. The subsidiary and the employees are required to contribute a certain percentage of the employees' payroll to the Central Provident Fund. The subsidiary has no further obligations for the actual pension payments or post-retirement benefits beyond its contributions.

Apart from the retirement benefits scheme provided by ThinSoft Pte Ltd and the Company, other subsidiaries of the Group do not have a pension scheme for their employees.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the normal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Notes to Financial Statements

31 December 2002

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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. Related parties may be individuals or corporate entities.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Foreign currencies

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the period are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains and losses are dealt with in the profit and loss accounts of the individual companies.

The Group prepares the consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all of the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the respective balance sheet dates; all of the income and expense items of individual companies within the Group with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average applicable exchange rates during each of the periods. Exchange differences arising from such translations are dealt with in the exchange translation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2002

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the software segment is a supplier of the Group's software solutions;

(b) the engineering fee segment engages in the provision of engineering services;

(c) the upgrade kits segment comprises the sales of the Group's thin client solutions related to hardware peripherals and accessories;

(d) the vertical market solutions segment provides the Group's thin client solutions for several vertical market applications such as call centres, kiosks, point-of-sale and industrial applications; and

(e) the trading sales of computer parts, peripherals and accessories and installation service (the "Excluded Business") *(note 14)*.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

Intersegment transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31 December 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenue, profit and certain expenditure information for the Group's business segments.

	Software		Engineering fee		Upgrade kits		Vertical market solutions		Excluded Business		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Segment revenue:														
Sales to external customers	**9,883,381**	2,504,923	**482,313**	13,685,844	**612,118**	1,789,836	**4,576,856**	8,877,221	**-**	1,477,235	**-**	–	**15,554,668**	28,335,059
Segment results	**225,886**	948,140	**(2,214,461)**	814,741	**(1,276,491)**	677,472	**(776,109)**	3,360,122	**-**	14,429	**-**	–	**(4,041,175)**	5,814,904
Interest and unallocated gains													**492,307**	1,122,806
Unallocated expenses													**(5,693,815)**	(1,362,272)
Profit/(loss) from operating activities													**(9,242,683)**	5,575,438
Finance costs, net													**452,494**	(472,364)
Profit/(loss) before tax													**(8,790,189)**	5,103,074
Tax													**543,587**	(1,314,885)
Net profit/(loss) from ordinary activities attributable to shareholders													**(8,246,602)**	3,788,189
Segment assets	**7,865,582**	1,436,320	**3,568**	–	**4,528**	73,428	**216,280**	364,187	**-**	–	**-**	–	**8,089,958**	1,873,935
Unallocated assets													**36,350,218**	23,064,954
Total assets													**44,440,176**	24,938,889
Segment liabilities	**793,416**	128,177	**-**	–	**-**	–	**725,530**	875,850	**-**	–	**-**	–	**1,518,946**	1,004,027
Unallocated liabilities													**5,406,352**	11,544,630
Total liabilities													**6,925,298**	12,548,657
Other segment information:														
Depreciation and amortisation	**5,153,157**	–	**2,998**	–	**3,805**	–	**28,450**	–	**-**	–	**-**	–	**5,188,410**	–
Capital expenditures	**8,797,734**	–	**6,566**	–	**8,333**	–	**62,307**	–	**-**	–	**-**	–	**8,874,940**	–

Notes to Financial Statements

31 December 2002

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong and China		Europe		The United States		Singapore		Asia Pacific except Hong Kong, China and Singapore		Others		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Segment revenue:																
Sales to external customers	**4,706,969**	232,200	**2,761,348**	6,798,300	**3,963,308**	489,215	**-**	14,523,900	**2,054,597**	3,706,600	**2,068,446**	2,584,844	**-**	–	**15,554,668**	28,335,059
Intersegment transfers	**-**	–	**-**	–	**-**	–	**3,354,000**	3,510,000	**-**	–	**-**	–	**(3,354,000)**	(3,510,000)	**-**	–
Total	**4,706,969**	232,200	**2,761,348**	6,798,300	**3,963,308**	489,215	**3,354,000**	18,033,900	**2,054,597**	3,706,600	**2,068,446**	2,584,844	**(3,354,000)**	(3,510,000)	**15,554,668**	28,335,059
Other segment information:																
Segment assets	**17,658,284**	–	**-**	–	**971,022**	1,433,586	**9,512,390**	10,595,131	**-**	–	**-**	–	**-**	–	**28,141,696**	12,028,717
Unallocated assets															**16,298,480**	12,910,172
Total assets	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**44,440,176**	24,938,889
Unallocated capital expenditure															**8,874,940**	–

Notes to Financial Statements

31 December 2002

5. TURNOVER AND OTHER INCOME

Turnover represents the net invoiced sales and services rendered, less discounts, returns, and applicable goods and services taxes.

An analysis of the Group's turnover and other income is as follows:

	2002	2001
	HK$	HK$
Turnover:		
Sales of goods	**15,072,355**	14,649,215
Rendering of services	**482,313**	13,685,844
	15,554,668	28,335,059
Other income:		
Interest income	**410,407**	771,182
Exchange gains, net	**–**	351,624
Sundry income	**81,900**	–
	492,307	1,122,806
Total income	**16,046,975**	29,457,865

Notes to Financial Statements

31 December 2002

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2002 HK$	2001 HK$
Costs of inventory sold and services provided	**9,955,463**	15,032,286
Auditors' remuneration	**344,830**	465,121
Depreciation	**96,689**	174,622
Research and development costs:		
Deferred expenditure amortised	**5,091,721**	1,819,157
Current year expenditure	**505,924**	3,875,196
	5,597,645	5,694,353
Staff costs, excluding directors' remuneration – *note 7*:		
Wages and salaries	**5,374,179**	6,650,169
Pension scheme contributions	**287,689**	258,039
	5,661,868	6,908,208
Minimum lease payments under operating leases in respect of land and buildings to:		
The ultimate holding company – *note 28*	**298,687**	243,905
A related company – *note 28*	**782,150**	–
An independent third party	**152,537**	480,254
	1,233,374	724,159
Provision for inventory obsolescence	**51,600**	–
Provision for doubtful debts:		
Trade	**–**	–
Non-trade	**–**	380,971
Exchange loss/(gains), net	**448,383**	(351,624)
Interest income on bank balances and time deposits	**(410,407)**	(771,182)

Notes to Financial Statements

31 December 2002

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (continued)

The costs of sales for the year ended 31 December 2002 include HK$5,726,956 (2001: HK$5,096,233), relating to direct staff costs, amortisation and provision for inventory obsolescence, which are also included in the respective total amounts disclosed separately above for each of these types of expenses for the year.

The research and development costs for the year ended 31 December 2002 include HK$Nil (2001: HK$1,803,820), relating to staff costs, which are also included in the total amounts of staff costs disclosed separately above for the year.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the GEM and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2002	2001
	HK$	HK$
Fees		
Non-executive director	**41,936**	–
Independent non-executive directors	**250,000**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**2,677,659**	516,000
Pension scheme contributions	**107,689**	–
	3,077,284	516,000

Four executive directors of the Company received emoluments of HK$884,845, HK$884,845, HK$438,826 and HK$576,832 for the year (2001: two executive directors received emoluments of HK$258,000 each). The independent non-executive directors of the Company received directors' fees of HK$125,000 each for the year. There were no emoluments payable to the other executive directors and non-executive directors of the Company during the year ended 31 December 2001.

The remuneration of each of the directors for the year ended 31 December 2002 and 2001 fall within the Nil to HK$1,000,000 band.

Notes to Financial Statements

31 December 2002

7. DIRECTORS' REMUNERATION (continued)

During the year, 22,000,000 share options were granted to certain directors in respect of their services to the Group, further details of which are set out under the heading "Share options schemes" in the Report of the Directors. In the absence of the readily available market value for the options granted. No estimated value of such options has been charged to the profit and loss account as at the date of the grant.

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. None of the directors waived or agreed to waive any emoluments during the current and prior years.

8. FIVE HIGHEST PAID EMPLOYEES

Two directors were included in the five highest paid individuals during the year (2001: Nil directors), details of whose remuneration are set out in note 7 above. Details of the remuneration of the three (2001: five) non-director, highest paid employees are as follows:

	2002	2001
	HK$	HK$
Salaries, allowances and benefits in kind	**2,747,222**	4,118,354
Pension scheme contributions	**–**	–
	2,747,222	4,118,354

Notes to Financial Statements

31 December 2002

8. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2002 Number of employees	2001 Number of employees
Nil to HK$1,000,000	**2**	4
HK$1,000,001 to HK$1,500,000	**1**	1
	3	5

During the year, 5,600,000 share options of exercise price HK$0.08 per share were granted to the remaining three non-director, highest paid employees in respect of their services to the Group, further details of which are set out under the heading "Share options schemes" in the Report of the Directors. In the absence of a readily available market value for the options granted. No estimated value of such options has been charged to the profit and loss account as at the date of the grant.

During the current and prior years, no emoluments were paid by the Group to any of the remaining non-director, highest paid employees as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

Notes to Financial Statements

31 December 2002

9. FINANCE COSTS, NET

	Group 2002 HK$	2001 HK$
Waiver of interest payable on a convertible note – *note 24*	**(452,494)**	–
Interest on a convertible note – *note 24*	**–**	452,494
Other charges	**–**	19,870
	(452,494)	472,364

10. TAX

	Group 2002 HK$	2001 HK$
Current:		
Hong Kong	**–**	–
Outside Hong Kong	**202,100**	1,314,885
	202,100	1,314,885
Overprovision in previous year	**(745,687)**	–
	(543,587)	1,314,885

Hong Kong profits tax has not been provided (2001: Nil) as the Group did not generate any assessable profits in Hong Kong during the year.

ThinSoft Pte Ltd, a company incorporated in Singapore, is subject to Singapore income tax. Singapore income tax has been provided at the rate of 22% (2001: 24.5%) on the estimated assessable profits arising in Singapore for the year ended 31 December 2002.

Notes to Financial Statements

31 December 2002

10. TAX (continued)

ThinSoft (USA) Inc, a company incorporated in the State of Delaware in the United States of America and operating in the State of California in the United States of America, is subject to the United States federal income tax at progressive rates ranging from 15% to 39%, and California state corporate tax at a rate of 8.84% (2001: 8%) for the year ended 31 December 2002, on its estimated assessable profits arising on a world wide basis.

There was no unprovided deferred tax in respect of the year (2001: Nil). The principal component of the Group's deferred tax asset not recognised in the financial statements amounted to HK$365,939 (2001: HK$1,754) and related to accelerated capital allowances.

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK$3,768,761 (2001: Nil).

12. EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per share for the year is calculated based on the consolidated net loss from ordinary activities attributable to shareholders of the Company for the year of HK$8,246,602 (2001: net profit of HK$3,788,189) and 480,136,986 shares (2001: 375,000,000 shares) deemed to have been issued and issuable during the year on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 372,000,000 shares of the Company had been effective on 1 January 2000. The weighted average number of shares used in the current year's loss per share calculation also includes the 125,000,000 shares issued on the public listing.

No diluted loss per share is presented for the year ended 31 December 2002 because the share options outstanding had an anti-dilutive effect on the basic loss per share for the year.

The diluted earnings per share amount for the year ended 31 December 2001 has not been shown as there were no dilutive potential ordinary shares issued for the year ended 31 December 2001.

Notes to Financial Statements

31 December 2002

13. DIVIDENDS

No dividend has been paid or declared by the Company or any of the companies comprising the Group since their respective dates of incorporation.

14. EXCLUDED BUSINESS

After 31 December 2001, the Group has no longer carried out the Excluded Business. Excluded Business included the trading sales of computer parts, peripherals and accessories and installation services.

The net result of the Excluded Business is further analysed as follows:

	2002	2001
	HK$	HK$
Revenue	–	1,477,235
Operating costs	–	(1,407,285)
Distribution and selling expenses	–	(19,148)
General and administrative expenses	–	(36,373)
Net profit for the Excluded Business	–	14,429

Notes to Financial Statements

31 December 2002

14. EXCLUDED BUSINESS (continued)

For information purposes only, had the results of the Excluded Business been excluded from the Group's results for the periods under review, the adjusted consolidated profit and loss accounts of the Group for each of the years ended 31 December 2001 and 2002, presented on the aforesaid basis, would have been analysed as follows:

	Notes	2002 HK$	2001 HK$
Turnover		**15,554,668**	26,857,824
Cost of sales		**(9,955,463)**	(13,625,001)
Gross profit		**5,599,205**	13,232,823
Other income		**492,307**	1,122,806
Distribution and selling expenses		**(1,275,472)**	(278,197)
General and administrative expenses		**(14,025,955)**	(8,135,452)
Other operating expenses		**(32,768)**	(380,971)
Profit/(loss) from operating activities		**(9,242,683)**	5,561,009
Finance costs, net		**452,494**	(472,364)
Profit/(loss) before tax		**(8,790,189)**	5,088,645
Tax		**543,587**	(1,314,885)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**(8,246,602)**	3,773,760
EARNINGS/(LOSS) PER SHARE	*12*		
Basic		**HK(1.72) cents**	HK1.01 cents
Diluted		**N/A**	N/A

Notes to Financial Statements

31 December 2002

15. DEFERRED DEVELOPMENT EXPENDITURE

Group

	Software development expenditure HK$	Website development expenditure HK$	Total HK$
Cost:			
At beginning of year	13,294,262	265,067	13,559,329
Additions	7,166,826	1,496,360	8,663,186
At 31 December 2002	**20,461,088**	**1,761,427**	**22,222,515**
Accumulated amortisation:			
At beginning of year	1,756,297	62,860	1,819,157
Provided during the year	4,868,836	222,885	5,091,721
At 31 December 2002	**6,625,133**	**285,745**	**6,910,878**
Net book value:			
At 31 December 2002	**13,835,955**	**1,475,682**	**15,311,637**
At 31 December 2001	11,537,965	202,207	11,740,172

Notes to Financial Statements

31 December 2002

16. FIXED ASSETS

Group

	Renovations HK$	Office equipment HK$	Plant and machinery HK$	Furniture and fittings HK$	Total HK$
Cost:					
At beginning of year	240,349	518,246	203,105	121,410	1,083,110
Additions	–	211,754	–	–	211,754
At 31 December 2002	**240,349**	**730,000**	**203,105**	**121,410**	**1,294,864**
Accumulated depreciation:					
At beginning of year	240,349	385,281	97,648	105,030	828,308
Provided during the year	–	51,387	40,622	4,680	96,689
At 31 December 2002	**240,349**	**436,668**	**138,270**	**109,710**	**924,997**
Net book value:					
At 31 December 2002	**–**	**293,332**	**64,835**	**11,700**	**369,867**
At 31 December 2001	–	132,965	105,457	16,380	254,802

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 HK$	2001 HK$
Unlisted investments, at cost	**12,856,638**	–

The balances due from subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

Notes to Financial Statements

31 December 2002

17. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries as at 31 December 2002 are as follows:

	Place of incorporation and operations	Nominal value of paid-up share capital	Percentage of equity attributable to the Group	Principal activities
ThinSoft Investment Inc (formerly Creative Etrade Investments Limited)	British Virgin Islands ("BVI")	US$100 ordinary	100*	Investment holding
ThinSoft Inc (formerly IT Essential Limited)	BVI	US$1 ordinary	100	Holding of intellectual properties
ThinSoft Pte Ltd (formerly Austin Federation(S) Pte Ltd)	Singapore	S$1,500,000 ordinary	100	Development and distribution of Thin Computing solutions and related products
ThinSoft (USA) Inc (formerly Thin Computing, Inc.) #	United States of America	US$0.01 ordinary	100	Development and distribution of Thin Computing solutions and related products

* *Shares held directly by the Company*

\# *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms*

Notes to Financial Statements

31 December 2002

18. INVENTORIES

	Group 2002 HK$	2001 HK$
Raw materials	**148,453**	362,528
Finished goods	**33,970**	75,087
	182,423	437,615

At 31 December 2002, no inventories were stated at net realisable value (2001: Nil).

19. ACCOUNTS RECEIVABLE

The Group has a policy of allowing an average credit period of 30 to 90 days to its trade customers.

An aged analysis of accounts receivable at the balance sheet date, based on invoice date, is as follows:

	Group 2002 HK$	2001 HK$
Within 30 days	**1,024,475**	1,434,484
Between 31 to 60 days	**85,643**	–
Between 61 to 90 days	**2,460**	–
Between 91 to 180 days	**–**	–
Between 181 to 365 days	**3,108,427**	1,836
	4,221,005	1,436,320

20. BALANCES WITH FELLOW SUBSIDIARIES AND THE ULTIMATE HOLDING COMPANY

The balances with fellow subsidiaries and the ultimate holding company, which are trade in nature, were unsecured, interest-free and had no fixed term of repayment.

Notes to Financial Statements

31 December 2002

21. OTHER INVESTMENT

Other investment represented a fixed-rate deposit of HK$6,000,000 placed in an independent venture capital company principally engaged in fund and capital management. The balance bears interest at a rate of 6% per annum and will be repaid on 27 June 2003. Such deposit was financed by the internally generated fund of the Group. The directors of the Company are of the opinion that the return on such deposit would be much higher than prevailing fixed deposit rates and therefore was fair, reasonable and was in the interest of the Company and its shareholders. This investment is secured by a guarantee executed by a registered securities dealer on the Stock Exchange of Hong Kong Limited.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$	HK$	**HK$**	HK$
Cash and bank balances	**1,223,638**	1,665,404	**246,155**	–
Time deposits	**15,843,790**	5,780,709	**8,295,119**	–
	17,067,428	7,446,113	**8,541,274**	–

23. ACCOUNTS AND BILLS PAYABLE

An aged analysis of accounts and bills payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2002	2001
	HK$	HK$
Within 30 days	**1,448,658**	975,122
Between 31 to 60 days	**40,571**	12,225
Between 61 to 90 days	**–**	718
Between 91 to 180 days	**29,717**	15,962
	1,518,946	1,004,027

Notes to Financial Statements

31 December 2002

24. CONVERTIBLE NOTE PAYABLE

The convertible note (the "Note") in the principal amount of US$1,000,000 (equivalent to approximately HK$7,800,000) was issued by ThinSoft (USA) Inc in June 2001 in favour of an independent third party as the settlement of part of the Group's software development expenditure.

Pursuant to the conversion terms and conditions of the Note, the Note holder may at its election at any time prior to the payment in full of the Note, convert the Note into certain non-assessable shares of common stock of ThinSoft (USA) Inc. Such conversion privileges shall only commence immediately prior to the closing of (a) an initial public offering of the common stock of ThinSoft (USA) Inc, or (b) a sale or acquisition of ThinSoft (USA) Inc reflecting a price per share of the common stock of ThinSoft (USA) Inc higher than US$1 per share. Neither (a) nor (b) has happened up to the date of approval of previous financial statements and it is perceived by the directors that such events will not happen prior to the maturity date of the Note on 29 June 2002. The Note was fully redeemed in November 2002 by applying part of the Listing proceeds.

The Note bore interest at 10.5% per annum which was subsequently waived by the Note holder upon the redemption of the Note in November 2002.

Notes to Financial Statements

31 December 2002

25. SHARE CAPITAL

Shares

The following is a summary of movements in the authorised and issued share capital of the Company:

	Notes	Number of shares Ordinary shares of HK$0.10 each	 Ordinary shares of HK$0.05 each	Value HK$
Authorised:				
On incorporation and at 31 December 2001	*(i)*	1,000,000	–	100,000
Sub-division of each share of HK$0.10 each into 2 shares of HK$0.05 each	*(ii)*	(1,000,000)	2,000,000	–
Increase in authorised share capital	*(ii)*	–	1,998,000,000	99,900,000
At 27 February 2002, the Listing date and 31 December 2002		–	2,000,000,000	100,000,000
Issued and fully paid:				
Allotted and issued at nil paid	*(i)*	1,000,000	–	–
Sub-division of each share of HK$0.10 each into 2 shares of HK$0.05 each	*(ii)*	(1,000,000)	2,000,000	–
On acquisition of ThinSoft BVI				
– consideration share issues	*(iii)*	–	1,000,000	50,000
– nil paid shares credited as fully paid	*(iii)*	–	–	100,000
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public by way of placement	*(iv)*	–	372,000,000	–
Pro forma share capital of the Group at 31 December 2001		–	375,000,000	150,000
Capitalisation of the share premium account as set out above	*(iv)*	–	–	18,600,000
New issue of shares	*(vi)*	–	125,000,000	6,250,000
At 27 February 2002, the Listing date and 31 December 2002		–	500,000,000	25,000,000

Notes to Financial Statements

31 December 2002

25. SHARE CAPITAL (continued)

Shares (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 28 September 2001 (date of incorporation) to 31 December 2002:

(i) On 28 September 2001 (date of incorporation), the authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.10 each, 1,000,000 shares of which were allotted and issued at nil paid on 9 October 2001. The shares were subsequently credited as fully paid as described in (iii) below.

(ii) Pursuant to a written resolution of the sole shareholder of the Company passed on 30 January 2002, every issued and unissued share of HK$0.10 each in the share capital of the Company was sub-divided into two shares of HK$0.05 each. Pursuant to a further written resolution of the sole shareholder of the Company passed on 1 February 2002, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of 1,998,000,000 additional shares of HK$0.05 each.

(iii) Pursuant to a written resolution of the sole shareholder of the Company passed on 1 February 2002, the directors were authorised, subject to the approval of the shareholders of IPC at the extraordinary general meeting held on 21 February 2002, to acquire the entire share capital of ThinSoft BVI.

(iv) Pursuant to a written resolution of the sole shareholder of the Company passed on 2 February 2002, an aggregate of 372,000,000 shares were allotted and issued, credited as fully paid at par by the capitalisation of HK$18,600,000 from the share premium account arising from the Placing, to the existing shareholders of the Company in proportion to their respective shareholdings.

(v) On 23 February 2002, after obtaining the approval of the shareholders of IPC at the extraordinary general meeting held on 21 February 2002, the Company acquired the entire share capital of ThinSoft BVI and became the holding company of the Group in exchange for the Company's allotted and issued 1,000,000 shares of HK$0.05 each, credited as fully paid, and credited as fully paid another 2,000,000 nil paid shares held by the shareholders for the acquisition of the entire issued share capital of ThinSoft BVI.

(vi) Pursuant to the Listing on the GEM on 27 February 2002, the Company issued 125,000,000 shares of HK$0.05 each at HK$0.40 per share to the public by way of the Placing.

25. SHARE CAPITAL (continued)

Share options

(i) The Company operates a pre-IPO share option scheme (the "Pre-Scheme"), further details of which are set out under the heading "Share option schemes" in the report of the directors on pages 33 to 38.

On 2 February 2002, the Pre-Scheme was approved pursuant to a written resolution of the sole shareholder of the Company. The purpose of the Pre-Scheme is to recognise the contribution of certain directors, employees, consultants and advisers of the Group to the growth of the Group and/or the Listing of shares on the GEM. The Company had granted pre-IPO share options to 26 employees (including four executive directors of the Company) of the Group to subscribe for a total of 52,600,000 shares, representing in aggregate approximately 10.52% of the then issued share capital of the Company immediately following the completion of the Placing and the capitalisation issue, at a subscription price ranging from 20% to 70% of HK$0.40 per share, the issue price. No further options would be granted under the Pre-Scheme after Listing of the shares on the GEM. All these options were granted on 2 February 2002 and may be exercised in the following manner:

(a) 50% of the options so granted to him/her (rounded down to the nearest whole number) after the expiry of 12 months from 27 February 2002 on which the shares are first listed on the GEM;

(b) 25% of the options so granted to him/her (rounded down to the nearest whole number) after the expiry of 24 months from 27 February 2002; and

(c) the remaining 25% of the options so granted to him/her (rounded down to the nearest whole number) after the expiry of 36 months from the 27 February 2002.

and in each case, not later than five years from 2 February 2002 (date of acceptance of the options).

Each grantee has paid HK$1 to the Company as the consideration for such grant.

As at 31 December 2002, the Company had 52,500,000 share options outstanding under the Pre-Scheme, with exercise periods ranging from 27 February 2003 to 1 February 2008 and exercise prices ranging from HK$0.08 to HK$0.20. The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 52,500,000 additional shares of HK$0.05 each and proceeds of HK$4,944,000.

The Pre-Scheme remains in force for a period of 10 years with effect from 2 February 2002.

Notes to Financial Statements

31 December 2002

25. SHARE CAPITAL (continued)

Share options (continued)

(ii) On 2 February 2002, a further share option scheme (the "Post-Scheme") was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Post-Scheme include directors of the Company or any of its subsidiaries, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries.

The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue from time to time. A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (iii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option.

Any grant of share options to a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting. In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Notes to Financial Statements

31 December 2002

25. SHARE CAPITAL (continued)

Share options (continued)

The options granted may be exercised at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the board of directors which shall not be more than 10 years from the date on which the option is deemed to be granted and accepted. The Post-Scheme remains in force for a period of 10 years with effect from 2 February 2002.

No share options were granted by the Company under the Post-Scheme up to the date of approval of these financial statements.

(iii) No valuation of the options granted under the Pre-Scheme is included in these financial statements as the directors considered that, in the absence of a readily available market value of the options on the Company's shares, they are unable to arrive at an accurate assessment of the valued of the options granted.

Notes to Financial Statements

31 December 2002

26. RESERVES

(a) Group

The movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 44 to the financial statements.

(b) Company

	Share premium account HK$ *(Note a)*	Accumulated losses HK$	Total HK$
Arising on acquisition of ThinSoft BVI – *note 25*	12,806,638	–	12,806,638
Applied in payment of 2,000,000 shares allotted nil paid on incorporation – *note 25*	(100,000)	–	(100,000)
Capitalisation issue – *note 25(iv)*	(18,600,000)	–	(18,600,000)
New issue of shares – *note 25(vi)*	43,750,000	–	43,750,000
Share issuance expenses – *note 25(vi)*	(16,649,052)	–	(16,649,052)
Net loss for the year	–	(3,768,761)	(3,768,761)
At 31 December 2002	**21,207,586**	**(3,768,761)**	**17,438,825**

Note:

(a) The share premium account of the Company includes: (i) the shares of the Company issued at a premium; and (ii) the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2001 Revision) of the Cayman Islands, the 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 debts as and when they fall due in the ordinary course of business.

Notes to Financial Statements

31 December 2002

27. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to three years.

The total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as at the balance sheet date fall due as follows:

	Group	
	2002	2001
	HK$	HK$
Within one year	**731,314**	480,636
In the second to fifth years, inclusive	**295,932**	793,416
	1,027,246	1,274,052

Save as aforesaid, the Group did not have any other commitment at 31 December 2002.

At 31 December 2002, the Company had no significant commitment.

Notes to Financial Statements

31 December 2002

28. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

	Notes	2002 HK$	2001 HK$
IPC Corporation Ltd*:			
Purchases	*(i)*	**79,365**	403,948
Operating lease rentals in respect of land and buildings	*(ii)*	**298,687**	244,120
Management fee	*(iv)*	**129,000**	–
Engineering fees	*(iii)*	**–**	13,556,400
Essex Electronics (Singapore) Pte Ltd*:			
Purchases	*(i)*	**–**	830,224
Sales	*(i)*	**473**	2,928
Essex Bio-Pharmacy Limited@:			
Operating lease rentals in respect of land and buildings	*(ii)*	**782,150**	–

* *Essex Electronics (Singapore) Pte Ltd is a wholly-owned subsidiary of IPC, the ultimate holding company of the Group of which Mr. Ngiam Mia Hai Bernard and Mr. Ngiam Mia Hong Alfred, two directors of the Company, are also directors and shareholders.*

@ *Essex Bio-Pharmacy Limited is a related company in which the substantial shareholders and their associates of IPC are the controlling shareholders.*

Notes:

(i) The directors of the Company have confirmed that the prices and terms of the sales and purchase transactions with the holding company and the fellow subsidiaries approximated to those with independent third parties.

(ii) The rental expense was determined based on the fair market value. A firm of professional property valuers has confirmed that the rental expense approximated to the fair market value.

Notes to Financial Statements

31 December 2002

28. RELATED PARTY TRANSACTIONS (continued)

(iii) The engineering fees were based on a cost-plus basis for work performed on the projects, with a net profit margin ranging from 10% to 40%. The directors of the Company have confirmed that the transactions ceased after 31 December 2001.

(iv) The management fees were paid at S$3,000 (approximately HK$12,900) per month from March to December 2002, inclusive. The management fees are charged with reference to the costs incurred in respect of, inter alia, the provision of office space and equipment and other overheads.

In the opinion of the directors of the Company, the above related party transactions were entered into by the Group in the ordinary course of business.

29. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2003.

Financial Summary

The following is a summary of the consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 and 2 below:

RESULTS

	Year ended 31 December			
	2002	2001	2000	1999
	HK$	HK$	HK$	HK$
TURNOVER	**15,554,668**	28,335,059	68,202,269	49,794,154
Cost of sales	**(9,955,463)**	(15,032,286)	(54,908,619)	(34,639,946)
Gross profit	**5,599,205**	13,302,773	13,293,650	15,154,208
Other income	**492,307**	1,122,806	1,536,806	401,617
Distribution and selling expenses	**(1,275,472)**	(297,345)	(499,226)	(1,024,452)
General and administrative expenses	**(14,025,955)**	(8,171,825)	(6,905,532)	(4,497,310)
Other operating expenses	**(32,768)**	(380,971)	(2,828,396)	(3,680,000)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(9,242,683)**	5,575,438	4,597,302	6,354,063
Finance costs, net	**452,494**	(472,364)	(1,080)	(65,375)
PROFIT/(LOSS) BEFORE TAX	**(8,790,189)**	5,103,074	4,596,222	6,288,688
Tax	**543,587**	(1,314,885)	(1,702,530)	(1,676,792)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(8,246,602)**	3,788,189	2,893,692	4,611,896

Financial Summary

ASSET AND LIABILITIES

	31 December		
	2002	2001	2000
	HK$	HK$	HK$
Non-current assets	**15,681,504**	11,994,974	3,087,099
Current assets	**28,758,672**	12,943,915	27,751,989
Current liabilities	**6,925,298**	12,548,657	21,800,452
	37,514,878	12,390,232	9,038,636

Notes:

1. The summary of consolidated results of the Group includes the results of the companies now comprising the Group as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period, and is presented on the basis set out in note 3 to the financial statements. The consolidated results of the Group for the two years ended 31 December 2002 are also set out on page 42 of the audited financial statements.

2. The only consolidated balance sheets are those as at 31 December 2000, 2001 and 2002. The consolidated balance sheet as at 31 December 2000 is extracted from the audited financial statements for the year ended 31 December 2000, prepared on the basis as if the Group had been in existence for this year. The consolidated balance sheets of the Group as at 31 December 2001 and 2002 are also set out on page 43 of the audited financial statements.