ThinSoft

THINSOFT (HOLDINGS) INC
博軟(控股)有限公司

Annual Report 2003

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

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

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

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

CONTENTS

CHAIRMAN'S STATEMENT

William Michael Driscoll

Chairman

2003 was another challenging year for the Group and for all global businesses as the Iraq War, SARS and the always-present fear of terrorism further aggravated the lingering uncertain market conditions of the previous year and continued to affect worldwide spending patterns in most industries.

While most economic forecasters expressed cautious optimism towards the end of 2003, the harsh reality was that dampened spending trends would continue, especially in the information technology ("IT") arena. As such, the Group continued to experience and deal with an extremely arid business operating environment in the year under review.

FINANCIAL HIGHLIGHTS

Group turnover for the year ended 31 December 2003 increased by 23.5% to approximately HK$19.2 million when compared to turnover of approximately HK$15.6 million in the previous year.

Gross profit margin before amortisation of deferred development expenditure for the year ended 31 December 2003 eased to 41.5% reflecting increasing sales of upgrade kits and vertical market solutions that have relatively lower gross profit margins than basic software solutions.

Amortisation of deferred development expenditure represented the amortization of deferred expenditures for software and website development during the year under review.

General and administrative expenses during the year under review were reduced by 9.6% to approximately HK$12.7 million when compared to approximately HK$14 million incurred in the previous year. The improvement was the result of continued cost management and control, operating efficiencies and improved cost effectiveness.

CHAIRMAN'S STATEMENT

The Group registered a loss attributable to shareholders of approximately HK$11.6 million for the year ended 31 December 2003 but continues to be in a strong financial position. Cash and bank balances as at 31 December 2003 was approximately HK$21 million (2002: approximately HK$17.1 million) and there were no bank borrowings as at 31 December 2003 (2002: Nil).

BUSINESS REVIEW

In 2003, the Group anticipated the adverse legacy impact of the weak market conditions of the previous year and the continuing soft IT investment trend.

The Group therefore channelled its efforts and resources toward implementing proactive and prudent strategies that would nurture and yield optimal growth potential in target market sectors in the longer-term.

The strategies implemented in the year under review were designed to:

- EXPAND the breadth and depth of the global distribution network and drive penetration into target vertical markets;
- DELIVER customised and new suites of Thin Computing solutions to fuel penetration and maintain market leadership;
- RAISE product awareness and extend market reach through strategic marketing and promotional events and participation in key tradeshows; and
- OPTIMISE the reach of the e-commerce platform enhanced with e-marketing activities.

The Group continued to establish strategic market relationships with distributors, resellers and original equipment manufacturers ("OEM") in significant geographical markets to make advancement into the education, government, healthcare, retail, small, medium and large enterprises sectors. These companies included Beijing ZhongQing Elegant Technology Corporation ("Beijing ZhongQing"), Blue Star Computer Group Co Ltd ("Blue Star"), eSeSIX Computer GmbH ("eSeSIX"), IGEL Technology GmbH ("IGEL") and TRS Company LTDa ("TRS Company").


A Brazil university, Universidade de Santa Cruz do Sul, using BeTwin at its computing centres

In terms of product development, the Group propelled market penetration in target and vertical markets with focused research and development programs delivering unique, innovative Thin Computing software solutions.

The major product developments included WinConnect S software for the Sun Solaris operating system. WinConnect S is an enhanced version of the flagship software product series WinConnect which allows Sun Solaris users to create remote connections to Windows computers that seamlessly run Windows applications. Buddy B-680 Premium and Lite software suites, enabling two to five users to share the computing power and resources of a single computer, were also launched.

Increasing successes in the software solutions market place have garnered a reputation for innovativeness and versatility for the Group. On the marketing and promotional front, the Group and its market partners participated in relevant and strategic events and tradeshows to further raise product awareness and extend market reach.

CHAIRMAN'S STATEMENT

The major tradeshows participated in significant geographical markets were the International Consumer Electronics Show, Las Vegas, USA, January 2003, CeBIT 2003, Hannover, Germany, March 2003, Computer Fair, South Africa, May 2003, Comdex, Brazil, August 2003, Computer and Communication Exhibition, ChiangMai, Thailand August 2003 and Computex, Taipei, September 2003.

OUTLOOK

With signs of economic recovery at the tail end of 2003, the business operating environment appears to be more favourable in the year ahead.

The Group, however, is prepared for another challenging year.

The senior management team will prudently and proactively continue to implement its product development and market strategies to assert the Group's market presence and reach.

The Group will also aggressively explore and expand its penetration into new and vertical markets.

APPRECIATION

The Group's credible performance under extremely difficult market conditions is testament to the unwavering dedication from its business associates and team members in fulfilling the vision and objectives in 2003.

ThinSoft acknowledges the commitment and ongoing contribution of its business partners, shareholders and staff.

William Michael Driscoll
Chairman

Hong Kong
18 February 2004

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 *FCCA, AHKSA, CPA*

QUALIFIED ACCOUNTANT

Fan Kin Nang *FCCA, FHKSA, FCMA, CPA*

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
Shops 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
DBS Bank (Hong Kong) Limited

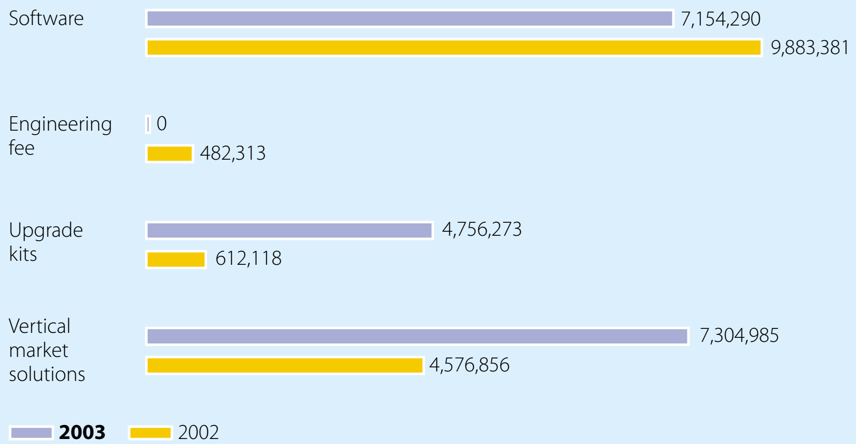
STOCK CODE

8096

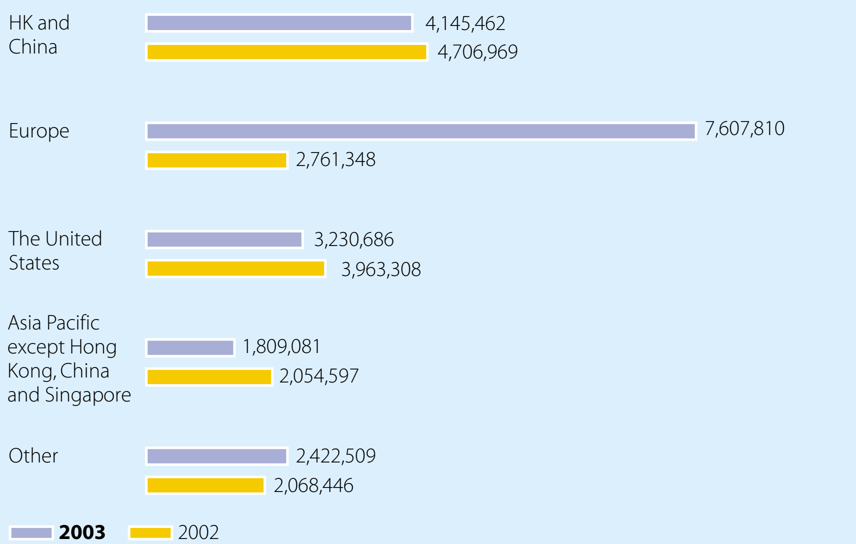
FINANCIAL HIGHLIGHTS

	Year ended 31 December 2003	2002
	HK$	HK$
Results		
Turnover	**19,215,548**	15,554,668
Loss attributable to shareholders	**11,564,364**	8,246,602
Assets and liabilities		
Total assets	**31,694,928**	44,440,176
Total liabilities	**4,915,548**	6,925,298
Shareholders' equity	**26,779,380**	37,514,878

TURNOVER BY PRINCIPAL ACTIVITIES



TURNOVER BY GEOGRAPHICAL AREAS



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.


Computer and Communication Exhibition, ChiangMai, Thailand, August 2003

In 2003, the Group anticipated the adverse legacy impact of the weak market conditions from the previous year and the continuing soft IT investment trend.

As such, the Group channelled its resources towards implementing proactive and prudent strategies that would nurture and yield optimal growth potential in target market sectors in the longer-term perspective.

The strategies implemented in the year under review were designed to:


ICT @ Government Thai 2003, Bangkok, Thailand

- expand the breadth and depth of the global distribution network and drive penetration into target vertical markets;
- deliver customised and new suites of Thin Computing solutions to fuel penetration and maintain market leadership;
- raise product awareness and extend market reach through strategic marketing and promotional events and participation in key tradeshows; and
- optimise the reach of the e-commerce platform enhanced with e-marketing activities.

Expanding the Breadth and Depth of the Global Distribution Network and Drive Penetration into Target Vertical Markets

The Group continued to establish strategic market relationships with distributors, resellers and OEM in significant geographical markets to make advancement into the education, government, healthcare, retail, small, medium and large enterprises sectors.


Computer and Digital Fair, Phuket, Thailand, June 2003

The market relationships established included:

- OEM agreement with eSeSIX, a German IT company, to embed the WinConnect software as the Thin Computing solution standard for eSeSIX's range of Thin Clients;
- Contract with Beijing ZhongQing to bundle the WinConnect Server XP software on one of the PRC company's line of personal computers ("PCs");

MANAGEMENT DISCUSSION AND ANALYSIS

- OEM license agreement with Blue Star, a PRC personal computer company. Blue Star bundles and markets the Group's Thin Computing solution BeTwin 2000/XP on its virtual computer range of PCs;

- OEM software license agreement with IGEL, a German IT company, to bundle the Group's WinConnect software on IGEL's operating system for its range of Clever Client Thin Clients; and

- Exclusive marketing collaboration agreement with TRS Company, a Brazilian educational software company. The agreement enables the Group and TRS Company to mutually promote each other's unique software solutions to their respective worldwide distributor and reseller channels in the education market sector.

South African distributors roadshow

Delivering Customised and New Suites of Thin Computing Solutions to Fuel Penetration and Maintain Market Leadership

The Group continued its effort to deliver unique, innovative Thin Computing software solutions that dramatically reduce the total cost of ownership without compromising computing performance and efficiency.

The ongoing drive to develop and offer new solutions enabled the Group to maintain its market leadership both as an innovative Thin Computing software solutions company as well as becoming the partner-of-choice for IT hardware manufacturers and complementary software vendors in the Thin Computing arena.

The hardware manufacturers and software vendors were able to leverage on the Group's versatile software solutions to gain the competitive edge through the ability to offer elevated suites of solutions and products in their respective markets.

The major product developments included:

- WinConnect S software for the Sun Solaris operating system – an enhanced version of the flagship software product series WinConnect which allows Sun Solaris users to create remote connections to Windows computers to seamlessly run Windows applications; and

- Buddy B-680 Premium and Lite software suites - Buddy B-680 Premium and Lite is a kit bundled with Buddy software and enables two to five users to share the computing power and resources of a single computer.

BeTwin in South Africa School

MANAGEMENT DISCUSSION AND ANALYSIS

Raising Product Awareness and Extend Market Reach through Strategic Marketing and Promotional Events, as well as Participation in Key Tradeshows

Through increased adoption in the marketplace, the Group's software solutions have gained a reputation for its innovativeness and versatility. The Thin Computing software solutions have won rave reviews in the global media that included:

- C't Magazine, January 2003 issue;
- Windows & .NET Magazine, March 25, 2003 issue;
- New Straits Times, February 20, 2003 edition;
- PC Magazine, April 8, 2003 issue;
- InfoExame, July 2003 issue;
- Small Business Computing.com, May 21, 2003;
- Spain PC World, September 2003 issue;
- Thailand Commart, November 2003 issue; and
- Pakistan Sinhala IT magazine, December 2003 issue.

Corporate users have also endorsed the Group's Thin Computing software solutions. These include:

- Michael Squires, US Air Force;
- Issac Moyo of the Gauteng Department of Education, South Africa;
- Lars Vilhuber of Cornell University, USA; and
- David Bullit, Desktop Marketing Manager for Intel, USA.

To complement the groundswell of attention, the Group and its market partners participated in relevant and strategic marketing and promotional events as well as tradeshows to further raise product awareness and reputation.

MANAGEMENT DISCUSSION AND ANALYSIS

These included:

- International Consumer Electronics Show, Las Vegas, USA, January 2003;
- CeBIT 2003, Hannover, Germany, March 2003;
- The National School Boards Association Annual Conference 2003, San Francisco, USA, April 2003;
- Computer Fair, South Africa, May 2003;
- PortugalMedia, Portugal, May 2003;
- Computer and Digital Fair, Phuket, Thailand, June 2003;
- Comdex, Brazil, August 2003;
- Computer and Communication Exhibition, ChiangMai, Thailand August 2003;
- Computer and Communication Fair, Korat, Thailand, September 2003;
- Computex, Taipei, September 2003;
- Seoul Venture Exhibition, South Korea, September 2003;
- IX 2003, Singapore, September 2003;
- ICT Expo2003, Bangkok, Thailand, October 2003;
- SME's Expo 2003, Thailand, October 2003;
- InfoBalt IT, Lithuania, October 2003;
- SME Fair, Bangkok, Thailand, November 2003; and
- ICT @ Government Thai 2003, Bangkok, Thailand.

MANAGEMENT DISCUSSION AND ANALYSIS

Optimising the Reach of the e-Commerce Platform Enhanced with e-Marketing Activities

The Group continued to enhance its e-commerce backbone to channel and extend its software products to target buyers.

The e-commerce backbone enables users to download and get a taste of the innovative Thin Computing software solutions for trial periods.

Users can also conveniently purchase and download the software solutions through the e-commerce platform that is secure and user friendly, as well as obtain technical support.

FINANCIAL REVIEW

Group turnover for the year ended 31 December 2003 increased by 23.5% to approximately HK$19.2 million when compared to turnover of approximately HK$15.6 million in the previous year.

Europe became the largest market of the Group, whose turnover for the year ended 31 December 2003 amounted to approximately HK$7.6 million (2002: approximately HK$2.8 million) or 39.6% of the total turnover. Such increase was mainly the result of extensive marketing efforts in Europe during the year.

Gross profit margin before amortisation of deferred development expenditure for the year ended 31 December 2003 decreased to 41.5% as compared with 68.7% in the corresponding previous year. It was weighed down by the sales contribution of upgrade kits and vertical market solutions that have relatively lower gross profit margins.

Amortisation of deferred development expenditure represented the amortization of deferred expenditure for software and website development during the year under review.

General and administrative expenses in the year under review decreased by 9.6% to approximately HK$12.7 million when compared to approximately HK$14 million incurred in the previous year. The improvement was the result of continuing cost management and control, operating efficiencies and improved cost effectiveness.

The Group consequently registered a loss attributable to shareholders of approximately HK$11.6 million for the year under review.

The Group continues to be in a strong financial position. Cash and bank balances as at 31 December 2003 was approximately HK$21 million (2002: approximately HK$17.1 million). There were no bank borrowings as at 31 December 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The Company was listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 February 2002 through a placement of 125,000,000 new shares at an issue price of HK$0.40 per share (the "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$11.2 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 dated 19 February 2002 (the "Prospectus").

- Approximately HK$6.5 million was used in product enhancement and launching new products;
- Approximately HK$3.1 million was used to promote the Group's products;
- Approximately HK$0.9 million was used to upgrade the research and development facilities;
- Approximately HK$0.7 million was used to enhance the Internet platform/website and service support platform;

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares. The Company and the Group have no borrowing and long-term debts.

SIGNIFICANT INVESTMENTS

As at 31 December 2003, the Group did not have any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES/FUTURE PLANS FOR MATERIAL INVESTMENT

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 2003, the Group did not have any long-term debts and its shareholders' funds amounted to approximately HK$26.8 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 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2003, the Group had cash and cash equivalents of approximately HK$21 million as compared to approximately HK$17.1 million as at 31 December 2002.

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 2003, the Group did not have any charges on its assets.

CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31 December 2003.

EMPLOYEES

As at 31 December 2003, the Group had 19 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$8.4 million and approximately HK$8.7 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to salaries, the Group provides staff benefits including medical insurance and contributions to staff's provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending on the financial performance of the Group. Details of the share option schemes are disclosed in note 24 of the financial statements to this report.

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, 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.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES FOR THE YEAR ENDED 31 DECEMBER 2003 AS STATED IN THE PROSPECTUS DATED 19 FEBRUARY 2002	ACTUAL BUSINESS PROGRESS
Product and Technology	
Product enhancement and continue development:	
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 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 operating system software updates.
BeTwin Bundle Software	Upgrading of the BeTwin product for compatibility with certain key hardware components that will allow for bundling of BeTwin software with the hardware. This will enhance the Group's ability to broaden its marketing efforts.
WinConnect for Linux desktop platform	Enhancement of the WinConnect product to support Windows Server 2003 as well as maintaining compatibility with Microsoft Windows 2000 Server and Windows Server 2003 operating systems software updates.
WinConnect S for Solaris platform	Enhancement of the WinConnect S product to support Windows Server 2003 as well as maintaining compatibility with Microsoft Windows 2000 Server and Windows Server 2003 operating systems software updates.
WinConnect Server XP	Maintaining compatibility with Microsoft Windows operating system software updates.
License Server	Under development to enhance the Group's ability to serve its customers by implementing a licensing server with greatly improved license issuance and license security capabilities.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES FOR THE YEAR ENDED 31 DECEMBER 2003 AS STATED IN THE PROSPECTUS DATED 19 FEBRUARY 2002	ACTUAL BUSINESS PROGRESS
WinConnect – Local Drive Support	Development project undertaken to add local drive system management capability under remote Desktop Protocol. Completed during the year under review.
WinConnect – Audio Performance	Development project undertaken to improve the WinConnect audio performance. Completed during the year under review.
WinConnect VX	Development undertaken to enable the standard WinConnect to support multiple users when used under the VNC and X-Windows environment. Completed during the year under review.
WinConnect – RDP 5.2	Under development to enhance WinConnect to support RDP 5.2 specification.
WinConnect Copy Protection	Under development to enhance WinConnect copy protection.
Customize BeTwin for Acer Veriton Corporate PC	Development project undertaken to customize BeTwin for Acer's Veriton Corporate PC. Completed during the year under review.
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. Completed during the year under review.
BeTwin Copy Protection	Under development to enhance BeTwin copy protection.
WinConnect for Palm platform	Ongoing
WinConnect for Multimedia streaming	Ongoing
WinConnect for Java	Ongoing
Remote Desktop Protocol Server for Linux platform system	Ongoing
Remote Desktop Protocol Server for Windows	Ongoing
BeTwin for Linux	Ongoing

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES FOR THE YEAR ENDED 31 DECEMBER 2003 AS STATED IN THE PROSPECTUS DATED 19 FEBRUARY 2002

Marketing

Continue to create brand name awareness through promotional activities, marketing campaigns and conferences etc. to strengthen its established foothold and to penetrate further into each of the education and training centers, retail stores and Small Office/Home Office and small and medium enterprises sectors

ACTUAL BUSINESS PROGRESS

The Group and its market partners participated in relevant and strategic marketing and promotional events as well as tradeshows which include:

- International Consumer Electronics Show, Las Vegas, USA, January 2003;
- CeBIT 2003, Hannover, Germany, March 2003;
- The National School Boards Association Annual Conference 2003, San Francisco, USA, April 2003;
- Computer Fair, South Africa, May 2003;
- PortugalMedia, Portugal, May 2003;
- Computer and Digital Fair, Phuket, Thailand, June 2003;
- Comdex, Brazil, August 2003;
- Computer and Communication Exhibition, ChiangMai, Thailand August 2003;
- Computer and Communication Fair, Korat, Thailand, September 2003;
- Computex, Taipei, September 2003;
- Seoul Venture Exhibition, South Korea, September 2003;
- IX 2003, Singapore, September 2003;
- ICT Expo2003, Bangkok, Thailand, October 2003;
- SME's Expo 2003, Thailand, October 2003;
- InfoBalt IT, Lithuania, October 2003;
- SME Fair, Bangkok, Thailand, November 2003; and
- ICT @ Government Thai 2003, Bangkok, Thailand.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES FOR THE YEAR ENDED 31 DECEMBER 2003 AS STATED IN THE PROSPECTUS DATED 19 FEBRUARY 2002	ACTUAL BUSINESS PROGRESS
	The Group's wide spectrum of Thin Computing software solutions was reviewed by: – C't Magazine, January 2003 issue; – Windows & .NET Magazine, March 25, 2003 issue; – New Straits Times, February 20, 2003 edition; – PC Magazine, April 8, 2003 issue; – InfoExame, July 2003 issue; – Small Business Computing.com, May 21, 2003; – Spain PC World, September 2003 issue; – Thailand Commart, November 2003 issue; – Pakistan Sinhala IT magazine, December 2003 issue; – PC Magazine 8 April 2003 issue; and – Small Business Computing.com 21 May 2003.
Trading Broking Houses – start penetrating into and cultivate BeTwin and/or WinConnect	One of the vertical markets the Group is focusing on to expand.
Continue to assist the management team in formulating/ refining its long and medium term business and marketing strategies:	
– Research to be conducted to evaluate and identify the possibilities of establishing supporting operations in individual countries to provide more support to local distributors and further reaching out to end-customers	The appointed resellers and distributors are providing support functions in their respective countries, hence saving the need to establish own support operations.
– Continue to explore additional value-added services to be offered to distributors and end-clients including but not limited to financing an augments, technical support and sales & marketing consultancy	Ongoing

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES FOR THE YEAR ENDED 31 DECEMBER 2003 AS STATED IN THE PROSPECTUS DATED 19 FEBRUARY 2002	ACTUAL BUSINESS PROGRESS
Upgrading of research and development	
Explore the opportunities in forming technical alliances with international high-tech and/or research companies	Development project undertaken to customize BeTwin for Acer's Veriton Corporate PC. It was completed during the year under review.
Explore the possibilities and feasibility of collaborating with outside consultancy experts in working out the concept of "corporate re–engineering via Thin Client technology"	Development project undertaken in cooperation with Sun Microsystems Inc to create a unique WinConnect product - for compatibility with Sun Microsystems' Solaris operating system. It was completed during the year under review. Explored the opportunities in forming technical alliances with international high-tech and/or research companies. Explored the possibilities and feasibility of collaborating with outside consultancy experts in working out the concept of corporate re-engineering via Thin Client technology.
Continue to strengthen and improve quality of the core research and development team by means of continuous training of existing engineers and recruitment of high calibre and experienced engineers as and when appropriate	Ongoing
Explore the feasibility of the establishment of an additional research and development centre in the PRC to tailor-make Thin Client solutions for specific individual country market	Ongoing
Continue improvement in existing facilities	Ongoing

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES FOR THE YEAR ENDED 31 DECEMBER 2003 AS STATED IN THE PROSPECTUS DATED 19 FEBRUARY 2002	ACTUAL BUSINESS PROGRESS
Enhancement of e-commerce Platform	
Examine the possibility of implementing an online real time help function to facilitate the international customers' services	Development project undertaken to enhance the website for ease of online purchases.
Study on the implementation of additional security measures on the website	Development project undertaken to enhance the website design for ease of access to product information.
Research on the development of country specific website for potential targets like the PRC, Japan and the Middle East Countries	Development project undertaken to develop the License Server's online purchase and website registration system.
Explore the opportunities and feasibility of allying with other online businesses, including but not limited to PC manufacturers, retails and computer peripherals and accessories sellers	Promoting WinConnect by OEM partner, a German IT company, IGEL Technology GmbH on its website.
Explore the feasibility of launching additional language support on website	Ongoing

PROFILES OF DIRECTORS

William Michael Driscoll

Aged 57, joined the Group since May 2000, and is the chairman of the Company. He is responsible for overall corporate strategic planning and policy making. He is also an executive director of IPC Incorporation Limited ("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 43, joined the Group since July 1997, and 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 40, joined the Group since July 1997, and 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 appointed as 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.

Lee Chung Mong

Aged 45, joined the Group since October 2001, and is an independent non-executive director of the Company. Dr. Lee obtained 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 had also worked as an Assistant Professor of Computer Science at The Hong Kong University of Science & Technology for 8 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 46, joined the Group since October 2001, and is an independent non-executive director of the Company. Dr. Chan 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 had been working as a secretary general and a director of the Taiwan Business Association (Hong Kong) from 2000 to 2002. He was also a vice president of a financial advisory service company in Hong Kong. Currently, he is working as a city's general-affair advisor for Taiwan's Taipei City government.

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 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 29 to 63.

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

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on page 64. 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 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the Company's authorised share capital during the year. 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 notes 23 and 24 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.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity on page 31, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$1,723,671. This includes the Company's share premium account in the amount of HK$21,341,086 at 31 December 2003, 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 67% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 31% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 87% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 47% of the Group's total purchases.

None of the directors of the Company, or any of their associates or any 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:

Executive directors:

William Michael Driscoll
Ngiam Mia Hai Bernard
Ngiam Mia Hong Alfred

Non-executive director:

Wong Kui Ming (resigned on 1 February 2003)

Independent non-executive directors:

Lee Chung Mong
Chen Tzyh-Trong

In accordance with article 87(1) and (2) of the Company's articles of association, Chen Tzyh-Trong 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.

DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions as disclosed in note 27 to the financial statements, no director had a material beneficial interest, either 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.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Rule 5.40 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Type of interest	Percentage of the Company's issued share capital as at 31 December 2003
Ngiam Mia Hai Bernard	Other	*(note)*
Ngiam Mia Hong Alfred	Other	*(note)*

Note: IPC Corporation Ltd ("IPC"), the ultimate holding 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 the issued share capital of IPC is held by the public. At the date of this report, IPC holds 74.81% (or 375,000,000 ordinary shares) of the issued share capital of the Company.

As at the balance sheet date, each of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred directly held approximately 1.4% and 1.3% respectively in 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.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Interest in underlying shares of the Company:

Share options granted under the Pre-Scheme (note):

Directors of the Company	Number of share options beneficially directly held by the directors and outstanding as at 31 December 2003	Percentage of the Company's issued share capital as at 31 December 2003
William Michael Driscoll	3,600,000	0.72%
Ngiam Mia Hai Bernard	7,600,000	1.52%
Ngiam Mia Hong Alfred	7,200,000	1.44%
Directors of subsidiaries		
Ngiam Mia Je Patrick	3,600,000	0.72%
Ngiam Mia Kiat Benjamin	3,600,000	0.72%
Lauw Hui Kian	3,600,000	0.72%

Note: Please refer to note 24 to the financial statements for details of the Pre-Scheme (as defined in note 24 to the financial statements) and share options granted thereunder, including the above share options granted to the above directors.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2003, none of the directors or their associates had any personal, family, corporate or other interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 24 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the following person had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
IPC	Directly beneficially owned	375,000,000	74.81%

Save as disclosed above, as at 31 December 2003 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company) whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

SPONSOR'S INTEREST

ICEA Capital Limited (the "Sponsor") has been appointed as the continuing sponsor of the Company for the purpose of meeting the requirements of the GEM Listing Rules. Pursuant to a sponsor agreement dated 18 February 2002 between the Company and the Sponsor, the Sponsor is entitled to receiving 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) to 31 December 2004.

As updated and notified by the Sponsor up, to and as at the date of this report, none of the Sponsor nor its directors, employees or associates (as defined in the GEM Listing Rules) have any interest in any class of securities of the Company or any of member company of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) pursuant to Rules 6.36 and 18.45 of the GEM Listing Rules.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 27 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

REPORT OF THE DIRECTORS

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 businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year.

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 for the year ended 31 December 2003.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.23 and 5.24 of the 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, Dr. Lee Chung Mong ("Dr. Lee") and Dr. Chen Tzyh-Trong ("Dr. Chen"). Dr. Lee and Dr. Chen are the independent non-executive directors of the Company. The audit committee held four meetings during the year ended 31 December 2003. The Group's audited results for the year ended 31 December 2003 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 is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

William Michael Driscoll
Chairman

Hong Kong
18 February 2004

REPORT OF THE AUDITORS

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

We have audited the financial statements on pages 29 to 63 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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
18 February 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Notes	**2003** HK$	2002 HK$
TURNOVER	5	**19,215,548**	15,554,668
Cost of sales (before amortisation of deferred development expenditure)		**(11,247,379)**	(4,863,742)
Amortisation of deferred development expenditure		**(7,087,569)**	(5,091,721)
		(18,334,948)	(9,955,463)
Gross profit		**880,600**	5,599,205
Other income	5	**286,533**	492,307
Distribution and selling expenses		**(282,116)**	(1,275,472)
General and administrative expenses		**(12,680,828)**	(14,025,955)
Other operating expenses		**–**	(32,768)
LOSS FROM OPERATING ACTIVITIES	6	**(11,795,811)**	(9,242,683)
Finance costs, net	9	**–**	452,494
LOSS BEFORE TAX		**(11,795,811)**	(8,790,189)
Tax	10	**231,447**	543,587
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(11,564,364)**	(8,246,602)
LOSS PER SHARE	12		
Basic		**HK(2.31) cents**	HK(1.72) cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 December 2003

		2003	2002
	Notes	**HK$**	HK$
NON-CURRENT ASSETS			
Deferred development expenditure	*14*	**8,257,683**	15,311,637
Fixed assets	*15*	**251,313**	369,867
		8,508,996	15,681,504
CURRENT ASSETS			
Inventories	*17*	**636,111**	182,423
Accounts receivable	*18*	**1,249,623**	4,221,005
Prepayments, deposits and other receivables		**336,474**	1,033,643
Tax recoverable		**–**	254,173
Other investment	*19*	**–**	6,000,000
Cash and cash equivalents	*20*	**20,963,724**	17,067,428
		23,185,932	28,758,672
CURRENT LIABILITIES			
Accounts payable	*21*	**206,925**	1,518,946
Accrued liabilities and other payables		**4,680,250**	4,796,740
Due to the ultimate holding company	*22*	**–**	55,302
Tax payable		**28,373**	554,310
		4,915,548	6,925,298
NET CURRENT ASSETS		**18,270,384**	21,833,374
		26,779,380	37,514,878
CAPITAL AND RESERVES			
Issued capital	*23*	**25,062,500**	25,000,000
Reserves	*25*	**1,716,880**	12,514,878
		26,779,380	37,514,878

Ngiam Mia Hai Bernard
Director

William Michael Driscoll
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

		Reserves					
	Issued capital	Share premium account	Exchange translation reserve	Capital reserve	Retained profits/ (accumulated losses)	Reserves Total	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
	(Note 23)	*(Note 25(a))*		*(Note 25(a))*			
At 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 dollar	–	–	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 and 1 January 2003	25,000,000	8,500,948	(26,762)	6,840,000	(2,799,308)	12,514,878	37,514,878
Arising on consolidation of subsidiaries with functional currencies other than Hong Kong dollar	–	–	632,866	–	–	632,866	632,866
Net gains and losses not recognised in the profit and loss account	–	–	632,866	–	–	632,866	632,866
Exercises of share options	62,500	133,500	–	–	–	133,500	196,000
Net loss for the year	–	–	–	–	(11,564,364)	(11,564,364)	(11,564,364)
At 31 December 2003	**25,062,500**	**8,634,448**	**606,104**	**6,840,000**	**(14,363,672)**	**1,716,880**	**26,779,380**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

		2003	2002
	Notes	**HK$**	HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(11,795,811)**	(8,790,189)
Adjustments for:			
Interest income	*6*	**(286,533)**	(410,407)
Depreciation of fixed assets	*6*	**122,086**	96,689
Amortisation of deferred development expenditure	*6*	**7,087,569**	5,091,721
Provision for inventory obsolescence	*6*	**–**	51,600
Operating loss before working capital changes		**(4,872,689)**	(3,960,586)
Decrease/(increase) in inventories		**(453,688)**	203,592
Decrease/(increase) in accounts receivable		**2,971,382**	(2,784,685)
Decrease in prepayments, deposits and other receivables		**697,169**	1,420,224
Increase/(decrease) in accounts payable		**(1,312,021)**	514,919
Increase/(decrease) in accrued liabilities and other payables		**(116,490)**	2,910,185
Decrease in balances with fellow subsidiaries		**–**	(37,014)
Increase/(decrease) in balances with the ultimate holding company		**(55,302)**	1,204,271
Cash used in operations		**(3,141,639)**	(529,094)
Singapore income tax refunded/(paid), net		**44,811**	(744,334)
United States of America federal and state income tax paid		**(85,128)**	(211,972)
Net cash outflow from operating activities		**(3,181,956)**	(1,485,400)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		**–**	(211,754)
Additions to deferred development expenditure		**–**	(8,663,186)
Decrease/(increase) in other investment		**6,000,000**	(6,000,000)
Interest received		**286,533**	410,407
Net cash inflow/(outflow) from investing activities		**6,286,533**	(14,464,533)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 HK$	2002 HK$
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		–	50,000,000
Share issuance expenses		–	(16,649,052)
Exercise of share options		**196,000**	–
Repayment of convertible note		–	(7,800,000)
Net cash inflow from financing activities		**196,000**	25,550,948
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,300,577**	9,601,015
Cash and cash equivalents at beginning of year		**17,067,428**	7,446,113
Effect of foreign exchange rate changes, net		**595,719**	20,300
CASH AND CASH EQUIVALENTS AT END OF YEAR		**20,963,724**	17,067,428
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*20*	**759,032**	1,223,638
Time deposits with original maturity of less than three months when acquired	*20*	**20,204,692**	15,843,790
		20,963,724	17,067,428

Major non-cash transaction:

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 listing of the Company's shares on 27 February 2002, to the then existing shareholders of the Company in proportion to their respective shareholdings.

BALANCE SHEET

31 December 2003

	Notes	2003 HK$	2002 HK$
NON-CURRENT ASSETS			
Interests in subsidiaries	16	**11,694,208**	12,856,638
CURRENT ASSETS			
Prepayments, deposits and other receivables		**297,477**	986,841
Due from a subsidiary	16	**8,161,928**	17,532,365
Other investment	19	**–**	6,000,000
Cash and cash equivalents	20	**9,922,668**	8,541,274
		18,382,073	33,060,480
CURRENT LIABILITIES			
Accrued liabilities and other payable		**3,290,110**	3,478,293
NET CURRENT ASSETS		**15,091,963**	29,582,187
		26,786,171	42,438,825
CAPITAL AND RESERVES			
Issued capital	23	**25,062,500**	25,000,000
Reserves	25	**1,723,671**	17,438,825
		26,786,171	42,438,825

Ngiam Mia Hai Bernard
Director

William Michael Driscoll
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

The principal place of business of ThinSoft (Holdings) Inc (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.

2. IMPACT OF REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The adoption of this revised SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures of deferred tax assets and liabilities are now more extensive than previously required. These disclosures are presented in note 10 to the financial statements and include a reconciliation between the accounting loss and the tax income for the year.

Further details of these changes are included in the accounting policy for deferred tax in notes 3 and 10 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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.

The consolidated financial statements for the year ended 31 December 2002 have been prepared using the merger basis of accounting in accordance with SSAP 27 "Accounting for group reconstructions" as a result of the recognisation scheme (the "Group Reorganisation") for the rationalisation of 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"). On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation throughout the period from 1 January 2002, 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 2002 to 31 December 2002 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, where this is a shorter period. In the opinion of the directors, the consolidated financial statements for the year ended 31 December 2002 prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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 products have commercial value. Development expenditure which does not meet these criteria is expensed when incurred.

Costs so deferred are stated at cost less any impairment losses and 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.

The software development expenditure is amortised for the period of three years whereas the website development expenditure is amortised for the period of five years.

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 2003

3. 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.

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.

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.

Accounts and other receivables

Accounts and other receivables, which generally have 30 to 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 account as incurred.

Accounts and other payables

Liabilities for trade and other amounts payable, which are normally settled on 30 to 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, 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 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Retirement benefits scheme

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes 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 schemes

The Company operates share option schemes 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 schemes 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 nominal 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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 offer 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; and

(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.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segment based on the location of the assets/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 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Software		Engineering fee		Upgrade kits		Vertical market solutions		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Segment revenue:												
Sales to external customers	7,154,290	9,883,381	–	482,313	4,756,273	612,118	7,304,985	4,576,856	–	–	19,215,548	15,554,668
Intersegment transfers	–	–	1,365,000	–	–	–	–	–	(1,365,000)	–	–	–
Total	7,154,290	9,883,381	1,365,000	482,313	4,756,273	612,118	7,304,985	4,576,856	(1,365,000)	–	19,215,548	15,554,668
Segment results	(5,878,252)	225,886	–	(2,214,461)	445,942	(1,276,491)	(1,108,930)	(776,109)	–	–	(6,541,240)	(4,041,175)
Interest and unallocated gains											286,533	492,307
Unallocated expenses											(5,541,104)	(5,693,815)
Loss from operating activities											(11,795,811)	(9,242,683)
Finance costs											–	452,494
Loss before tax											(11,795,811)	(8,790,189)
Tax											231,447	543,587
Net loss from ordinary activities attributable to shareholders											(11,564,364)	(8,246,602)
Segment assets	1,933,648	7,865,582	–	3,568	–	4,528	636,111	216,280	–	–	2,569,759	8,089,958
Unallocated assets											29,125,169	36,350,218
Total assets											31,694,928	44,440,176
Segment liabilities	29,007	793,416	–	–	–	–	177,918	725,530	–	–	206,925	1,518,946
Unallocated liabilities											4,708,623	5,406,352
Total liabilities											4,915,548	6,925,298
Other segment information:												
Depreciation and amortisation	7,133,024	5,153,157	–	2,998	30,219	3,805	46,412	28,450	–	–	7,209,655	5,188,410
Capital expenditures	–	8,797,734	–	6,566	–	8,333	–	62,307	–	–	–	8,874,940
Provision for inventory obsolescence	–	–	–	–	–	51,600	–	–	–	–	–	51,600

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Segment revenue:																
Sales to external customers	4,145,462	4,706,969	7,607,810	2,761,348	3,230,686	3,963,308	–	–	1,809,081	2,054,597	2,422,509	2,068,446	–	–	19,215,548	15,554,668
Intersegment transfers	–	–	–	–	760,212	–	1,365,000	3,354,000	–	–	–	–	(2,125,212)	(3,354,000)	–	–
Total	4,145,462	4,706,969	7,607,810	2,761,348	3,990,898	3,963,308	1,365,000	3,354,000	1,809,081	2,054,597	2,422,509	2,068,446	(2,125,212)	(3,354,000)	19,215,548	15,554,668
Other segment information:																
Segment assets	11,386,964	17,658,284	–	–	408,384	971,022	11,641,897	9,512,390	–	–	–	–	–	–	23,437,245	28,141,696
Unallocated assets															8,257,683	16,298,480
Total assets															31,694,928	44,440,176
Unallocated capital expenditure															–	8,874,940

5. TURNOVER AND OTHER INCOME

Turnover represents the net invoiced sales and services rendered, less discounts, returns, and applicable goods and services taxes. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

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

	2003	2002
	HK$	HK$
Turnover:		
Sales of goods	19,215,548	15,072,355
Rendering of services	–	482,313
	19,215,548	15,554,668
Other income:		
Interest income	286,533	410,407
Sundry income	–	81,900
	286,533	492,307
Total income	19,502,081	16,046,975

NOTES TO FINANCIAL STATEMENTS

31 December 2003

6. LOSS FROM OPERATING ACTIVITIES

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

	2003	2002
	HK$	HK$
Costs of inventory sold and services provided	**18,334,948**	9,955,463
Auditors' remuneration	**384,660**	344,830
Depreciation	**122,086**	96,689
Research and development costs:		
Deferred expenditure amortised	**7,087,569**	5,091,721
Current year expenditure	**–**	505,924
	7,087,569	5,597,645
Staff costs, excluding directors' remuneration *(note 7)*:		
Wages and salaries	**5,375,244**	5,374,179
Pension scheme contributions	**269,296**	287,689
	5,644,540	5,661,868
Minimum lease payments under operating leases in respect of land and buildings to:		
The ultimate holding company *(note 27)*	**324,000**	298,687
A related company *(note 27)*	**938,580**	782,150
An independent third party	**288,374**	152,537
	1,550,954	1,233,374
Provision for inventory obsolescence	**–**	51,600
Exchange loss, net	**287,808**	448,383
Interest income	**(286,533)**	(410,407)

The costs of inventory sold and services provided for the year ended 31 December 2003 include HK$8,500,968 (2002: HK$5,726,956), relating to amortisation of deferred development expenditure, direct staff costs 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, 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:

	2003	2002
	HK$	HK$
Fees:		
Non-executive director	**16,731**	41,936
Independent non-executive directors	**300,000**	250,000
Other emoluments:		
Salaries, allowances and benefits in kind	**2,369,104**	2,677,659
Pension scheme contributions	**98,820**	107,689
	2,784,655	3,077,284

Three executive directors of the Company received emoluments of HK$993,960, HK$993,960 and HK$480,004 for the year (2002: four executive directors received emoluments of HK$884,845, HK$884,845, HK$438,826 and HK$576,832). The independent non-executive directors of the Company received directors' fees of HK$150,000 (2002: HK$125,000) each for the year.

The remuneration of each of the directors for the years ended 31 December 2003 and 2002 fell within the Nil to HK$1,000,000 band.

No share option was granted to the directors during the year ended 31 December 2003. During the year ended 31 December 2002, 22,000,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 24 to the financial statements. No value in respect of the share options granted during that year had been included in the emoluments disclosed above.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

8. FIVE HIGHEST PAID EMPLOYEES

Three directors of the Company were included in the five highest paid individuals of the Group during the year (2002: two directors), details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2002: three) non-director, highest paid employees of the Group for the year are as follows:

	2003	2002
	HK$	HK$
Salaries, allowances and benefits in kind	**1,249,599**	2,747,222

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

	2003	2002
	Number of employees	Number of employees
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**–**	1
	2	3

No share option was granted to the non-director, highest paid employees during the year ended 31 December 2003. During the year ended 31 December 2002, 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 in note 24 to the financial statements. No value in respect of the share options granted during that year had been included in the emoluments disclosed above.

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 2003

9. FINANCE COSTS, NET

	Group	
	2003	2002
	HK$	HK$
Wavier of interest payable on a convertible note	**–**	(452,494)

10. TAX

	Group	
	2003	2002
	HK$	HK$
Current:		
Hong Kong	**–**	–
Outside Hong Kong	**19,884**	202,100
	19,884	202,100
Overprovision in previous years, net	**(251,331)**	(745,687)
	(231,447)	(543,587)

Hong Kong profits tax has not been provided (2002: 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% (2002: 22%) on the estimated assessable profits arising in Singapore for the year ended 31 December 2003.

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 of between 15% to 39%, and California state corporate tax at a rate of 8.84% for the years ended 31 December 2002 and 2003, on its estimated assessable profits arising on a world wide basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

10. TAX (continued)

A reconciliation of the tax credit applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax credit at the effective tax rates are as follows:

	Group	
	2003	2002
	HK$	HK$
Loss before tax	**(11,795,811)**	(8,790,189)
Tax at the applicable rates to profits/(losses) in the countries concerned	**(58,133)**	106,767
Income not subject to tax	**(16,281)**	(49,665)
Expenses not deductible for tax	**94,298**	144,998
Tax charge at the Group's effective rate	**19,884**	202,100
Adjustments in respect of current tax of previous years	**(251,331)**	(745,687)
Tax credit at the Group's effective rate	**(231,447)**	(543,587)

The Group has tax losses arising in the United States of America of HK$14,645,000 (2002: HK$5,538,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 31 December 2002. Accordingly, no prior year adjustment is included in the financial statements.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK$15,848,654 (2002: HK$3,768,761).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$11,564,364, and the weighted average of 500,925,480 ordinary shares in issue during the year.

The calculation of basic loss per share for the year ended 31 December 2002 is based on the net loss from ordinary activities attributable to shareholders of HK$8,246,602 and 480,136,986 ordinary 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 ordinary shares of the Company had been effective on 1 January 2002. The weighted average number of shares used also included the 125,000,000 ordinary shares issued on the public listing.

Diluted loss per share amounts for the years ended 31 December 2003 and 2002 have not been presented, as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

13. DIVIDENDS

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the year (2002: Nil).

14. DEFERRED DEVELOPMENT EXPENDITURE

Group

	Software development expenditure HK$	Website development expenditure HK$	Total HK$
Cost:			
At beginning of year	20,461,088	1,761,427	22,222,515
Exchange adjustment	56,021	–	56,021
At 31 December 2003	**20,517,109**	**1,761,427**	**22,278,536**
Accumulated amortisation:			
At beginning of year	6,625,133	285,745	6,910,878
Provided during the year	6,568,949	518,620	7,087,569
Exchange adjustment	22,406	–	22,406
At 31 December 2003	**13,216,488**	**804,365**	**14,020,853**
Net book value:			
At 31 December 2003	**7,300,621**	**957,062**	**8,257,683**
At 31 December 2002	13,835,955	1,475,682	15,311,637

NOTES TO FINANCIAL STATEMENTS

31 December 2003

15. FIXED ASSETS

Group

	Renovations	Office equipment	Plant and machinery	Furniture and fittings	Total
	HK$	HK$	HK$	HK$	HK$
Cost:					
At beginning of year	240,349	730,000	203,105	121,410	1,294,864
Write off	(251,528)	(326,929)	–	(102,569)	(681,026)
Exchange adjustment	11,179	17,046	9,446	4,559	42,230
At 31 December 2003	**–**	**420,117**	**212,551**	**23,400**	**656,068**
Accumulated depreciation:					
At beginning of year	240,349	436,668	138,270	109,710	924,997
Provided during the year	–	74,896	42,510	4,680	122,086
Write off	(251,528)	(326,929)	–	(102,569)	(681,026)
Exchange adjustment	11,179	16,529	6,431	4,559	38,698
At 31 December 2003	**–**	**201,164**	**187,211**	**16,380**	**404,755**
Net book value:					
At 31 December 2003	**–**	**218,953**	**25,340**	**7,020**	**251,313**
At 31 December 2002	–	293,332	64,835	11,700	369,867

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$	HK$
Unlisted investments, at cost	**12,856,638**	12,856,638
Due from a subsidiary	**11,837,570**	–
	24,694,208	12,856,638
Provision for impairment	**(13,000,000)**	–
	11,694,208	12,856,638

The amount due from a subsidiary included in the Company's current assets is unsecured, interest-free and has no fixed terms of repayment. The amount due from a subsidiary included in the Company's non-current assets of HK$11,837,570 is unsecured, interest-free and is repayable after one year.

Particulars of the subsidiaries as at 31 December 2003 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 ("ThinSoft BVI")	British Virgin Islands ("BVI")/ Hong Kong	US$100 ordinary	100 *	Investment holding
ThinSoft Inc	BVI/ Hong Kong	US$1 ordinary	100	Holding of intellectual properties
ThinSoft Pte Ltd	Singapore	S$1,500,000 ordinary	100	Development and distribution of Thin Computing solutions and related products
ThinSoft (USA) 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 2003

17. INVENTORIES

	Group	
	2003	2002
	HK$	HK$
Raw materials	**595,553**	148,453
Finished goods	**40,558**	33,970
	636,111	182,423

At 31 December 2003, no inventories were stated at net realisable value (2002: Nil).

18. 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	
	2003	2002
	HK$	HK$
Within 30 days	**84,582**	1,024,475
Between 31 to 60 days	**13,199**	85,643
Between 61 to 90 days	**12,231**	2,460
Between 91 to 180 days	**1,139,611**	–
Between 181 to 365 days	**–**	3,108,427
	1,249,623	4,221,005

19. 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. This investment was secured by a guarantee executed by a registered securities dealer on the Stock Exchange. The balance bore interest at a rate of 6% per annum and was fully repaid during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$	HK$	**HK$**	HK$
Cash and bank balances	**759,032**	1,223,638	**396,931**	246,155
Time deposits	**20,204,692**	15,843,790	**9,525,737**	8,295,119
	20,963,724	17,067,428	**9,922,668**	8,541,274

21. ACCOUNTS PAYABLE

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

	Group	
	2003	2002
	HK$	HK$
Within 30 days	**71,974**	1,448,658
Between 31 to 60 days	**17,035**	40,571
Between 61 to 90 days	**2,340**	–
Between 91 to 180 days	**20,736**	29,717
Between 181 to 365 days	**94,840**	–
	206,925	1,518,946

22. DUE TO THE ULTIMATE HOLDING COMPANY

The amount due to the ultimate holding company, which was trade in nature, was unsecured, interest-free and was fully settled during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

23. SHARE CAPITAL

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	Number of shares: Ordinary shares of HK$0.05 each	Nominal Value HK$
Authorised:				
On incorporation	*(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 and 2003		–	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	18,600,000
New issue of shares	*(vi)*	–	125,000,000	6,250,000
At 31 December 2002		–	500,000,000	25,000,000
Exercises of share options *(note 24(i))*		–	1,250,000	62,500
At 31 December 2003		**–**	**501,250,000**	**25,062,500**

NOTES TO FINANCIAL STATEMENTS

31 December 2003

23. SHARE CAPITAL (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 of Company's shares 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

24. SHARE OPTION SCHEMES

(i) Pre-IPO share option scheme

The Company operates a pre-IPO share option scheme (the "Pre-Scheme"). 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 Company's 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 share options would be granted under the Pre-Scheme after listing of the Company's shares on the GEM. All these share options were granted on 2 February 2002 and may be exercised in the following manner:

(a) 50% of the share 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 share 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 share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 36 months from 27 February 2002.

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

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

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

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

	Number of share options					
Name of participant	**At 1 January 2003**	**Exercised during the year**	**At 31 December 2003**	**Exercise period of share options**	**Exercise price per share** *(Note a)* HK$	**Price of Company's shares at exercise date of share options** *(Note b)* 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			

NOTES TO FINANCIAL STATEMENTS

31 December 2003

24. SHARE OPTION SCHEMES (continued)

(i) Pre-IPO share option scheme (continued)

Name of participant	Number of share options: At 1 January 2003	Number of share options: Exercised during the year	Number of share options: At 31 December 2003	Exercise period of share options	Exercise price per share *(Note a)* HK$	Price of Company's shares at exercise date of share options *(Note b)* HK$
Directors (continued)						
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			
Former director						
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			

NOTES TO FINANCIAL STATEMENTS

31 December 2003

24. SHARE OPTION SCHEMES (continued)

(i) Pre-IPO share option scheme (continued)

Name of participant	Number of share options: At 1 January 2003	Number of share options: Exercised during the year	Number of share options: At 31 December 2003	Exercise period of share options	Exercise price per share (*Note a*) HK$	Price of Company's shares at exercise date of share options (*Note b*) HK$
Directors of subsidiaries						
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			
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			
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			

NOTES TO FINANCIAL STATEMENTS

31 December 2003

24. SHARE OPTION SCHEMES (continued)

(i) Pre-IPO share option scheme (continued)

Name of participant	Number of share options: At 1 January 2003	Exercised during the year	At 31 December 2003	Exercise period of share options	Exercise price per share *(Note a)* HK$	Price of Company's shares at exercise date of share options *(Note b)* HK$
Other employees						
In aggregate	8,550,000	(450,000)	8,100,000	27 February 2003 to 1 February 2008	0.08	0.40
	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	(450,000)	16,650,000			
	1,300,000	(800,000)	500,000	27 February 2003 to 1 February 2008	0.20	0.52
	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	(800,000)	1,800,000			
	52,500,000	(1,250,000)	51,250,000			

(a) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

(b) The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

1,250,000 share options exercised during the year resulted in the issue of 1,250,000 ordinary shares of the Company and additional share capital of HK$62,500 and share premium account of HK$133,500 (before issue expenses).

At the balance sheet date, the Company had 51,250,000 share options outstanding under the Pre-Scheme, which represented approximately 10.2% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 51,250,000 additional ordinary shares of the Company and additional share capital of HK$2,562,500 and share premium account of HK$2,185,500 (before issue expenses).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

24. SHARE OPTION SCHEMES (continued)

(ii) Post-IPO share option scheme

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 share 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 share 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.

The share 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 share 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 during the year and up to the date of approval of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

25. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

The share premium account of the Group represents the excess of proceeds received over the nominal value of the Company's shares issued, less amounts of the capitalisation issue and share issue expenses.

The capital reserve of the Group represents the difference between the aggregate nominal value of share capital of the subsidiaries acquired by the Company and the nominal value of share capital of the Company issued as consideration in exchange therefor (note 23).

(b) Company

	Share premium account	**Accumulated losses**	**Total**
	HK$	HK$	HK$
	(Note)		
Arising on acquisition of ThinSoft BVI	12,806,638	–	12,806,638
Applied in payment of 2,000,000 shares allotted nil paid on incorporation	(100,000)	–	(100,000)
Capitalisation issue	(18,600,000)	–	(18,600,000)
New issue of shares	43,750,000	–	43,750,000
Share issuance expenses	(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
Exercises of share options *(note 24(i))*	133,500	–	133,500
Net loss for the year	–	(15,848,654)	(15,848,654)
At 31 December 2003	21,341,086	(19,617,415)	1,723,671

Note: 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 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 2003

26. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$	HK$
Within one year	**280,800**	731,314
In the second to fifth years, inclusive	**608,400**	295,932
	889,200	1,027,246

Save as aforesaid, the Group did not have any other commitment at 31 December 2003.

At 31 December 2003, the Company had no significant commitment.

27. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		2003	2002
	Notes	**HK$**	HK$
IPC:			
Purchases	*(i)*	**16,951**	79,365
Operating lease rentals in respect of land and buildings	*(ii)*	**324,000**	298,687
Management fees	*(iii)*	**162,000**	129,000
Essex Electronics (Singapore) Pte Ltd *:			
Sales	*(i)*	**–**	473
Essex Bio-Pharmacy Limited #:			
Operating lease rentals in respect of land and buildings	*(ii)*	**938,580**	782,150

NOTES TO FINANCIAL STATEMENTS

31 December 2003

27. RELATED PARTY TRANSACTIONS (continued)

* *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 these sale and purchase transactions approximated to those with independent third parties.

(ii) The rental expenses were determined based on the then fair market value.

(iii) The management fees were paid at S$3,000 (approximately equivalent to HK$13,500) per month. 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.

28. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation. This includes that the amortisation of deferred development expenditure, previously included in cost of sales, has been reclassified and separately disclosed as "amortisation of deferred development expenditure" on the face of the profit and loss account. In the opinion of the directors, such reclassification provides a more appropriate presentation of the Group's operating results.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 February 2004.

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				
	2003	2002	2001	2000	1999
	HK$	HK$	HK$	HK$	HK$
TURNOVER	**19,215,548**	15,554,668	28,335,059	68,202,269	49,794,154
Cost of sales	**(18,334,948)**	(9,955,463)	(15,032,286)	(54,908,619)	(34,639,946)
Gross profit	**880,600**	5,599,205	13,302,773	13,293,650	15,154,208
Other income	**286,533**	492,307	1,122,806	1,536,806	401,617
Distribution and selling expenses	**(282,116)**	(1,275,472)	(297,345)	(499,226)	(1,024,452)
General and administrative expenses	**(12,680,828)**	(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	**(11,795,811)**	(9,242,683)	5,575,438	4,597,302	6,354,063
Finance costs	**–**	452,494	(472,364)	(1,080)	(65,375)
PROFIT/(LOSS) BEFORE TAX	**(11,795,811)**	(8,790,189)	5,103,074	4,596,222	6,288,688
Tax	**231,447**	543,587	(1,314,885)	(1,702,530)	(1,676,792)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(11,564,364)**	(8,246,602)	3,788,189	2,893,692	4,611,896

ASSET AND LIABILITIES

	31 December			
	2003	2002	2001	2000
	HK$	HK$	HK$	HK$
Non-current assets	**8,508,996**	15,681,504	11,994,974	3,087,099
Current assets	**23,185,932**	28,758,672	12,943,915	27,751,989
Current liabilities	**4,915,548**	6,925,298	12,548,657	21,800,452
	26,779,380	37,514,878	12,390,232	9,038,636

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries 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 years ended 31 December 2003 and 2002 are also set out on page 29 of the audited financial statements.

2. The consolidated balance sheets as at 31 December 2001 and 2000 are extracted from the published audited financial statements for the years ended 31 December 2001 and 2000, prepared on the basis as if the Group had been in existence for these years. The consolidated balance sheets of the Group as at 31 December 2003 and 2002 are also set out on page 30 of the audited financial statements.