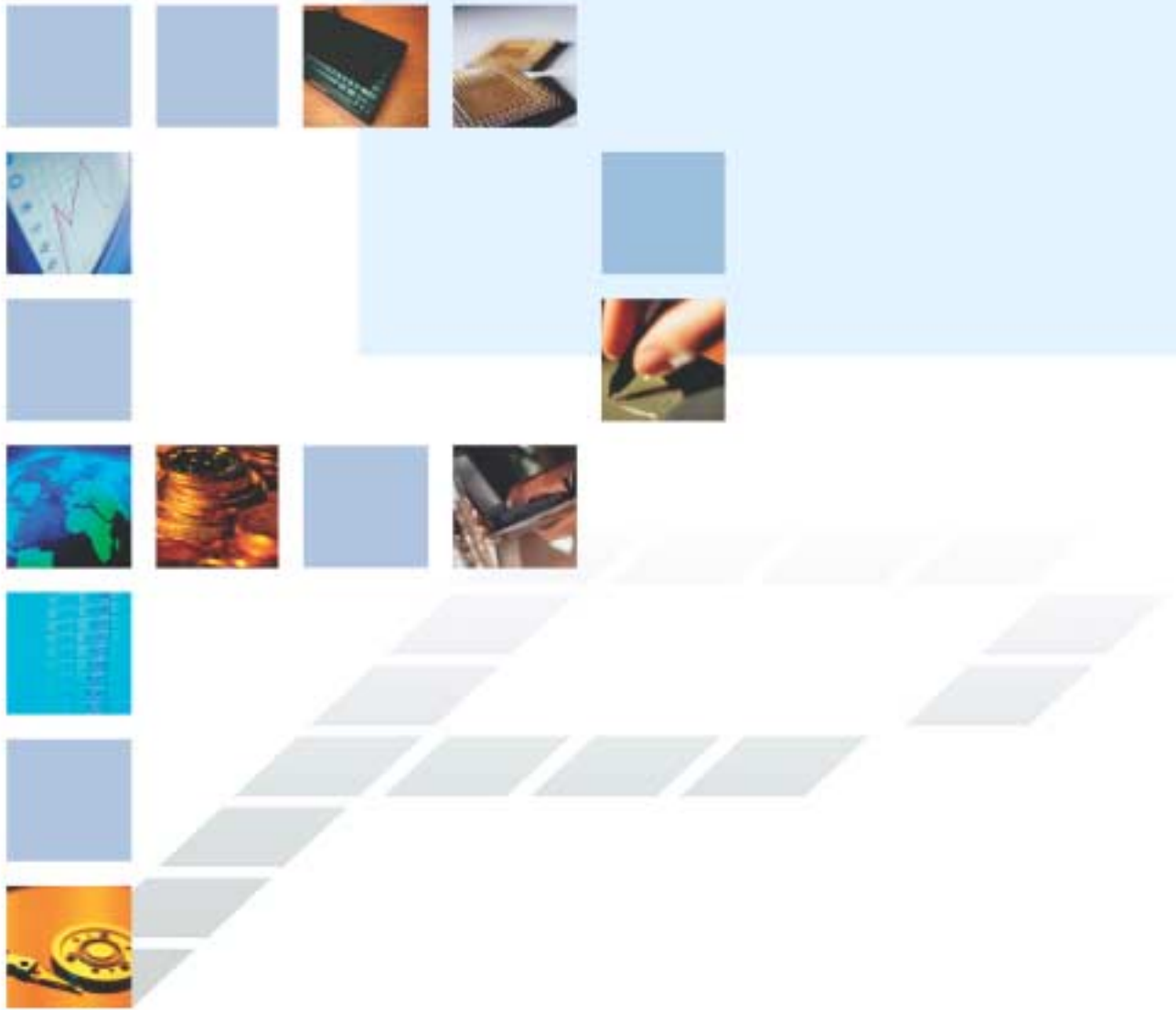


PROSTICKS INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

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

Corporate Information	2
Chairman's Statement	4
Management's Discussion and Analysis	5
Comparison of Business Objectives with Actual Progress	10
Biographical Details of Directors and Senior Management	13
Report of the Directors	15
Auditors' Report	26
Consolidated Income Statement	28
Consolidated Balance Sheet	29
Balance Sheet	30
Consolidated Statement of Changes in Equity	31
Consolidated Cash Flow Statement	32
Notes to the Financial Statements	33
Notice of Annual General Meeting	55

Corporate Information

Board of Directors

Executive Directors

Mr. Li Ching Ping Vincent, *Chairman*
Mr. Chan Chee Ming Harris
Mr. Yip James

Independent Non-Executive Directors

Mr. Ng Ge Bun
Mr. Wan Yiu Kwan Stephen

Company secretary

Ms. Ho Wai Man Heidi, *AICPA*

Authorised representatives

Mr. Li Ching Ping Vincent
Mr. Chan Chee Ming Harris

Compliance officer

Mr. Li Ching Ping Vincent

Qualified accountant

Ms. Ho Wai Man Heidi, *AICPA*

Audit committee

Mr. Ng Ge Bun
Mr. Wan Yiu Kwan Stephen

Registered office

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

Head office and principal place of business

15th Floor, Asia Financial Centre
120 Des Voeux Road Central
Hong Kong

Principal bankers

Wing Hang Bank Ltd.
161 Queen's Road Central
Hong Kong

International Bank of Asia Limited
38 Des Voeux Road Central
Hong Kong

Citic Ka Wah Bank, Ltd.
40th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

Corporate Information

Principal share registrar and transfer office in the Cayman Islands

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Branch share registrar and transfer office in Hong Kong

Tengis Limited
Ground Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Auditor

Moore's Rowland Mazars
34th Floor, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

Sponsor

REXCAPITAL (Hong Kong) Limited
34th Floor, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Legal Adviser

As to Cayman Island Law:
Conyers Dill & Pearman, Cayman
Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

As to Hong Kong Law:
Richards Butler
20th Floor, Alexandra House
16-20 Charter Road
Central, Hong Kong

Stock Code

8055

Company homepage/website

<http://www.prosticks.com.hk>

Chairman's Statement

Dear shareholders,

The year of 2003 is full of challenges to the Group that the negative impact brought by the Severe Acute Respiratory Syndrome (SARS) persisted over the first half of the year. Regardless of the unfavorable economic conditions, the Company achieved progressive improvement in its operation results in 2003 due to continue development of innovative products and implementation of stringent cost control measures, which contributed to increase of total turnover and decrease of operation costs.

We believe staying vigilant at all times regarding the changes of financial markets, technological development as well as the evolution of financial products is critical to maintain one's position within the industry. The Group intends to capitalize on its position as premiere financial software solutions provider in Hong Kong to develop, deploy and implement state-of-the-art financial solutions which can significantly enhance operational efficiency to our banks clients and potential customers. It is the Company's objective to establish partnership relationship with our banking clients that would create mutually benefit.

It is the Group's pleasure to have Investec Bank (UK) Limited, a renowned bank in UK, to subscribe for approximately 28% of the enlarged issued share capital of the Company and be a substantial shareholder of the Group. Investec Bank (UK) Limited is a wholly owned subsidiary of Investec PLC, a London Stock Exchange listed company. It is an international specialized banking group that provides a specialized range of products and services to its clients. Besides strengthening of capital and shareholder base of the Group, the new substantial shareholder may bring potential business opportunities to the Group.

I would like to take this opportunity to express my gratitude to the board of directors and staff of the Company for their continued support and contribution to the company in the past year.

Li Ching Ping Vincent

Chairman

Hong Kong, 25 March 2004

Management's Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2003, the Group recorded a turnover of approximately HK\$6,111,000 (2002: HK\$4,110,000) which represented an increase of approximately 49% over the previous year. Revenue from membership subscription slightly decreased by approximately 3% while revenue from operational software applications products significantly increased by approximately 68%.

Gross profit margin of 2003 was approximately 52%, representing a significant increase of 849% over the previous year. The Group recorded net loss of approximately HK\$11,816,000 for the year ended 31 December 2003, represented a decrease of approximately 42% over the previous year.

Cost of sales for the year ended 31 December 2003 amounted to approximately HK\$2,921,000, reduced by approximately 23% as compared with the previous year, mainly due to rationalization of data supply and service provision.

Advertising and promotion expenses reduced by approximately 63% mainly due to change of marketing strategy, that the Group will rely on business partners or distributors/ agents to promote and market its products and services. No large scaled promotion campaign was carried out by the Group during the year.

Administrative expenses for the financial year of 2003 decreased by approximately 35% as compared to the previous financial year mainly due to decrease in staff salaries and professional expenses as well as implementation of cost control measures including reallocation of office in order to cut down general office expenditures.

Other operating expenses represented the provision for impairment loss of fixed asset, intangible assets and disposal of fixed assets during the year. Provision for impairment losses of approximately HK\$2,651,000 for intangible assets were made after due and careful considerations in view of various constraints in marketing and pricing of new products/services; and particularly the uncertainties associates with the PRC securities market in the coming years. Provision for impairment loss of fixed assets of approximately HK\$262,000 were made in view of the unsatisfactory operating results of financial instruments analysis products. Loss on disposal of fixed assets of approximately HK\$384,000 was recorded due to reallocation of offices in Hong Kong and the PRC.

Management's Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group keeps most of its cash in Hong Kong dollars and places as short-term deposits in bank for interest. At 31 December 2003, the Group had current assets of HK\$2,876,000, including cash and bank balance of approximately HK\$1,349,000. Share subscription disclosed in the Company's announcement dated 27 January 2004 was duly completed in accordance with its terms on 9 March 2004. Immediately following the completion, the group had received cash consideration in the amount of HK\$5,502,000 for the Group's general working capital. With such funds and the internal generated working capital, the Directors anticipate that the Group should have adequate financial resources to meet its ongoing operations and development requirements.

The Group did not have any borrowings for the year ended 31 December 2003 except for the convertible bond of HK\$3,000,000. The convertible bond issued by the Company on 1 April 2003 can be converted into ordinary shares of the Company between 1 April 2003 and 31 March 2005. The adjusted exercised price was adjusted from HK\$0.05 to HK\$0.0462 per share effective on 9 March 2004. Finance cost of approximately HK\$113,000 represented interest expenses incurred for the convertible bond. The gearing ratio, defined as the ratio of total liabilities to total assets, was approximately 139% as compared to 30% as at previous financial year end date.

Contingent liabilities and charges on the Group's assets

There were no material contingent liabilities or any charges on group assets as at year end date of 2003 and 2002.

Foreign exchange exposure

Transactions of the Group are denominated in Hong Kong dollars, Renminbi, United States dollars, Canadian dollars and Great Britain Pounds. Majority of sales and expenditures of the Group are denominated in Hong Kong dollars and United States dollars. Management considered that there was no significant foreign exposure to the Group as Hong Kong dollars is closely linked with United States dollars. No hedging or other alternatives had been implemented.

Order Book

Due to the nature of the Group's business, the Group does not maintain an order book.

Management's Discussion and Analysis

BUSINESS REVIEW

Turnover of the Group mainly came from subscription fee from members of the website and system licence, enhancement and maintenance income from operational software applications products, each represented 18% and 82% of the Group's turnover (2002: 27%, 73%).

Segment revenue of financial instrument analysis software products remained stable. During the year under review, there was no material change in number of subscribers and there was no change in basic price of ProSticks's web services, except that different price packages were set for distributors to distribute ProSticks's charts and services.

Operating loss for this segment was reduced by approximately HK\$1,003,000 as a result of decrease in direct financial data cost by rationalization of data supply and service provision. As the continuing uncertainties associated with the PRC market and the pricing constraints imposed by business partners has narrowed down the future profitability of the enhanced products to be launched in 2004. Management took a prudent approach in making provision for impairment losses of intangible assets that the development costs of ProSticks Trend Rider and cost of STARTS have been fully written off in the financial year.

Segment revenue of operational software applications products was mainly generated from system maintenance and system licencing/enhancement/upgrade. System maintenance service revenue in 2003 accounted for approximately HK\$1,702,000 (represented 34% of total operational software application products revenue) meant an increase of approximately 11% over the previous year.

Revenue and profit from system licencing/enhancement/upgrade increased significantly by approximately 68% and 31% respectively as compared with the previous year mainly attributable to successful launching of new products and solicitations of new clients. During the year, the Group has successfully sold 6 new operational software licences new and existing financial institution clients. Furthermore, research and development input in last year for Retail Banking Products Pricing System, Internet FX Trading System and continuing refinement/upgrade of existing operational software applications products has started crystallizing in current year and directly contributed to the improvement of operation result of this segment.

Research and development

The Group continues to upgrade and enhance its products and services that development of the North American website was completed and launched during the year. In addition, the Hong Kong website was also repackaged with new layout and enriched with new functions. The Group successfully integrated the STARTS software into the ProSticks's charting software, which has strengthen ProSticks's system architecture and enhanced the product features with sophisticated intra-day trading signals for investment analysis/decision. A new financial instruments analysis service, namely PRFX, which provides the intra-day signals and coupled with additional financial content, was developed in September 2003 and officially launched to the market through distributor in January 2004.

Management's Discussion and Analysis

During the year, the research and development department has continued put in great efforts to evaluate the system of banks and identify the needs of bank clients so as to develop new product/feature which can cater for specific needs of our clients. In this regard, a new operational software applications product named COPIA was substantially developed. COPIA is a wealth management platform supporting multiple financial product trading, including debt securities, equities, unit trust, structured premium deposit and total FX solutions. Through integration of different operational systems, COPIA will be able to provide consolidated functions and cross-products functions as well as other enhance system capacity which can facilities operational efficiency for our clients.

Sales and marketing

In the second quarter of 2003, promotion activities were held in Canada to promote and market the ProSticks US website. The Group had also joined an exhibition in Beijing to promote financial instruments analysis software products. The Group has entered into a distribution agreement with ET Net Limited, a reputed financial information services provider in Hong Kong and PRC, to promote/market and distribute financial instrument analysis software products of the Group. It is the Group's strategy to rely on business partners/distributors' client base and business network so as to minimize marketing and promotion expenditures. In particular, the Group intends to leverage on business partners' reputation and sales/branch network in overseas markets to penetrate local financial analytical tools markets.

In September 2003, the Group has formed a co-operation arrangement with iMarket Limited, a member of Cheung Kong (Holdings) Limited, to promote and market its operational software applications products. iMarket Limited is led by a group of financial investment experts who have extensive people network and in-depth knowledge of the banking and financial system. The Directors believe that the co-operation arrangement will further raise the Group's position within the industry.

Employee and remuneration policy

At 31 December 2003, the Group had 37 employees and total staff costs, including directors' emoluments, was approximately HK\$7,679,000 for the year. It represented a decrease of approximately 45% as compared with the previous year. Number of research and development staff had increased while salaries of senior management had been lowered during the year. The Directors believe that the employee remuneration packages currently offered are competitive with other companies in the market. The Group also provides mandatory provident fund, medical benefits and on-the-job training for employees. A total of 176,700,000 share options have been granted to three directors, twenty employees and a consultant during the financial year of 2003.

At 31 December 2003, no employees had completed the required number of years of service under Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment with the Group. The Group is only liable to make such payments where termination meets the required circumstances specified in the Ordinance. As at 31 December 2003, the Group has no contingent liabilities provided for such purpose.

Management's Discussion and Analysis

Material acquisitions/disposal of subsidiaries

No significant investments or material acquisitions and disposals of subsidiaries and affiliated companies which have significant impact on financial results of the Group were made for year of 2003.

Material investment and capital assets

At 31 December 2003, the Group did not have any plan for material investments or acquisition of material capital assets.

PROSPECTS

In light of unprecedented pace of changes in information technology development and the globalization of the financial marketplace, employment of innovative solutions with cutting-edge technology to control proprietary risk management becomes vital for financial institutions to success. In this regards, the directors believe that there will be an enormous application and market potentials for the newly developed operational software provided by the Group.

The Group will continue seeking business partners to promote its products in Hong Kong and overseas markets. In view of the rebound of stock markets, the Company had appointed a specialist to perform a market research/studies for the South East Asian markets for developing business expansion plans. The Company is currently identifying suitable local corporations to develop the Taiwan financial analytical tools market. The Directors have confidence that the rebound of stock market will stimulate needs for financial instruments analysis products as well as functional upgrade of operational software applications for financial institutions.

While providing our clients the most innovative and comprehensive products, the Group will continue exploring co-operation partners for marketing and promotion. The Directors expect continue improvement of profitability and a prosperous year of 2004.

Comparison of Business Objectives with Actual Progress

BUSINESS OBJECTIVES FOR THE PERIOD FROM 1 JULY 2003 TO 31 DECEMBER 2003

ACTUAL BUSINESS PROGRESS

Revenue and Business Development

Actively pursue the technical analysis tool market in Singapore;

As mentioned in the 2002 annual report, the plan to develop Singapore market was delayed. The Company has appointed a specialist to perform market studies for South East Asian markets (including Singapore). Pursue of Singapore market will depend on the result of the studies and other consideration. It is expected that the studies will be completed in April 2004.

Revenue from Taiwan and North American markets expected to rise and the Group's reliance on the PRC market expected to fall; and

As mentioned in interim and annual reports of 2002, the plan to develop Taiwan market was delayed. No revenue has been generated from Taiwan market. North American market was still in the start-up phase and no significant revenue was generated to the Group.

Continue to explore opportunities for ProSticks software products in other Asian market.

The Company will consider expansion in other Asian market, a specialist was appointed to perform market survey/studies for South East Asian markets.

Products and Services

Official launch of the new website for Singapore; and

As mentioned in the 2002 annual report, the plan to develop Singapore market was delayed. The Company has appointed a specialist to perform market studies for South East Asian markets (including Singapore). Pursue of Singapore market will depend on the result of the studies and other factors. It is expected that the studies will be completed in April 2004.

Commence sale of PC-based ProSticks software in Singapore.

The Company has appointed a specialist to perform market studies for South East Asian markets (including Singapore). Pursue of Singapore market will depend on the result of the studies and other factors. It is expected that the studies will be completed in April 2004.

Comparison of Business Objectives with Actual Progress

Sales and Marketing

Further strengthen the sales force in Taiwan;	As mentioned in interim and annual reports of 2002, the plan to develop Taiwan market was delayed and the marketing plan has been revised to rely on business partners for product promotion instead of establishing sales force.
Establish outlets and showrooms in North America; and	As mentioned in previous interim and annual reports, the Company had revised its marketing plan by relying on business partners for product promotion for which is more cost effective than establishing outlets and showrooms.
Continue to carry out sales and promotion campaigns to boost sales revenue in various markets.	As mentioned in previous interim and annual reports, the Company intends to rely on different business partners to promote products/services in different markets.

Research and Development

A. *Financial instruments analysis software products*

Continue the development of derivative ProSticks software products.	New product named PRFX was developed. The Company will continue to develop other derivative ProSticks software products.
---	--

B. *Operational software applications products*

Continue the development of new operational software applications products; and	New product named COPIA was substantially developed.
Continue to develop new functions for the existing products of the Group.	Various new reports were added to the existing products.

Human Resources Deployment

General management	6	General management	5
Sales and marketing	30	Sales and marketing	3
Research and development	19	Research and development	17
Technical and programming	10	Technical and programming	8
General administration and finance	5	General administration and finance	4
Total	70	Total	37

Comparison of Business Objectives with Actual Progress

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

(from 22 November 2001 to 31 December 2003)

	Proposed (HK\$ million)	Actual (HK\$ million)
Promotion and market development in Hong Kong, the PRC, Taiwan and North America		
— advertisement	5.1	0.5
— seminars/roadshows/exhibitions	6.8	0.1
— promotion materials/gifts	0.7	0.2
— other promotion and market development campaigns	0.9	0.3
Sub-total	13.5	1.1
Research and development		
— ProSticks software products	6.3	4.1
— Operational software applications products	1.7	3.4
Sub-total	8.0	7.5
General working capital	4.0	16.9
Total utilization up to 31 December 2003	25.5	25.5

As the result of postponement of developing Taiwan and Singapore markets, and the sluggish stock market in PRC, revenue initially expected to be generated through such markets was postponed. Accordingly, listing proceeds applied for working capital purpose was more than initially proposed as stated in the Prospectus.

The Company has entered into a subscription agreement with Investec Bank (UK) Limited on 27 January 2004, under which, the Company agreed to issue and Investec Bank (UK) Limited agreed to subscribe for a total of 183,400,000 new shares of the Company at total consideration of HK\$5,502,000. The new shares were subsequently issued and allotted on 9 March 2004 and the proceeds will be applied for general working capital purpose.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Ching Ping Vincent, aged 56, is the Chairman of the Group. He is responsible for the overall strategic planning and formulation of corporate policies of the Group. Mr. Li graduated from the University of Manitoba, Canada with a bachelor of science degree in 1971. Mr. Li has years of experience in banking and finance field.

Mr. Chan Chee Ming Harris, aged 48, is the executive director and Chief Representative in Greater China Region of the Group. Mr. Chan is responsible for the overall management and business development of the Group. Mr. Chan graduated from Century University, with a bachelor degree in business administration. Mr. Chan has over 20 years of market development experience in the PRC, Taiwan and Hong Kong.

Mr. Yip James, aged 50, is the executive Director and Chief Executive Officer of the Group. Mr. Yip is responsible for corporate and business development and management of daily operations of the Group. Mr. Yip holds a master degree in applied finance from Macquarie University in Australia. Mr. Yip has more than 20 years banking and financial market experiences in the Asia Pacific region. He was the founder and Chief Operating Officer of iMarkets Limited, a member of Cheung Kong (Holdings) Ltd. Mr. Yip was formerly the president of the Hong Kong Financial Markets Association.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Ge Bun, aged 46, was appointed an independent non-executive director of the Company in November 2001. Mr. Ng holds the degree of bachelor of science and of bachelor of laws. He obtained a postgraduate certificate in laws from the University of Hong Kong. He is a solicitor of the Supreme Court of Hong Kong and currently serves as Senior Partner of Messrs. Ng & Lam, Solicitors.

Mr. Wan Yiu Kwan Stephen, aged 47, was appointed an independent non-executive director of the Company in November 2001. Mr. Wan graduated from the University of Hong Kong with a bachelor degree in social sciences in 1979. He is an associate of The Chartered Secretaries and Administrations, UK. He has over 9 years of experience in banking and finance field. He currently focuses on developing private businesses in the PRC relating to the health care industry.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Cheng Chi Kong, aged 31, is the Chief Technical Officer of the Group. He is primarily responsible for software development and maintenance. Mr. Cheng graduated from the University of Hong Kong with a bachelor's degree in engineering in 1994. He is a Certified Information System Auditor and has more than 9 years Information Technology experience. He joined the Group in April 2000.

Mr. Chan Cheong Pang, aged 31, is the Senior Business Manager of the Group. He is primarily responsible for system design, analysis, development and implementation of the operational software application. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor's degree in computer science in 1994. He is a Certified Information System Auditor and has more than 9 years Information Technology experience. He joined the Group in April 2000.

Mr. Lai Man Kwan Jim, aged 31, is the Product Development Manager of the Group. He is primarily responsible for system design, analysis, system architecture and implementation of operational software application. Mr. Lai holds a bachelor degree in computer science from the University of Wisconsin-Madison, USA, and a master of science degree in computer science from the Hong Kong University of Science and Technology.

Mr. Lau Chi Ming, aged 31, is the Product Development Manager of the Group. He is responsible for development and maintenance of the financial instruments analysis software products. Mr. Lau graduated from the University of Hong Kong with a bachelor's degree in computer science in 1995. Mr. Lau has more than 8 years experience in information technology and he joined the Group in April 2002.

Ms. Chan Oi Chi Joyce, aged 31, is the Product Development Manager of the Group. She is responsible for system design, analysis, development and implementation of the financial instruments analysis software products. Ms. Chan graduated from the University of Hong Kong with a bachelor's degree in computer science in 1995. Ms. Chan has more than 8 years experience in information technology and she joined the Group in April 2002.

Ms. Ho Wai Man Heidi, aged 33, is the Financial Controller, Qualified Accountant and Company Secretary of the Group. Ms. Ho is responsible for the overall management of the financial function of the Group. Ms. Ho is a member of American Institute of Certified Public Accountants and holds a master degree in financial management. Before joining the Group in August 2001, Ms. Ho had served in an international accountancy firm, and several publicly listed companies in Hong Kong.

Report of the Directors

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and profit/(loss) from operating activities by principal activity and geographical area of operations for the year ended 31 December 2003 is set out in note 11 to the financial statements.

RESULTS AND DIVIDEND

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 28 to 54.

The directors do not recommend payment of any final dividend in respect of the year ended 31 December 2003.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the audited consolidated results of the Group for each of the four years ended 31 December prepared on the basis set out in notes below:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	6,111	4,110	3,625	821
Loss before tax	11,816	20,292	7,383	12,884
Net loss after tax	11,816	20,292	7,383	12,884
Total assets	3,855	13,518	31,738	7,212
Total liabilities	5,375	4,070	3,798	302

Report of the Directors

Notes:

1. The summary of the combined results for the period ended 31 December 2000 has been extracted from the Company's prospectus dated 29 November 2001, when the listing of the shares of the Company was sought on the GEM of the Stock Exchange.
2. The results for the years ended 31 December 2001 and 2002 have been extracted from the Company's 2002 annual report.

FIXED ASSETS

Details of significant changes in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

BORROWING

Details of the borrowing of the Group are set out in note 18 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year together with the reasons therefore, and details of the Company's share option schemes are set out in notes 19 & 20 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 21 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves available for distribution amounted to approximately HK\$nil (2002: HK\$7,012,000). In accordance with the laws of the Cayman Islands, and the Company's Articles of Association, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

Report of the Directors

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales	
— the largest customer	21%
— five largest customers	64%
Purchases	
— the largest supplier	25%
— five largest suppliers	79%

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

DIRECTORS

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

Executive directors

Mr. Li Ching Ping Vincent
Mr. Chan Chee Ming Harris
Mr. Yip James

Independent non-executive directors

Mr. Ng Ge Bun
Mr. Wan Yiu Kwan Stephen

In accordance with Article 87 of the Company's Article of Association, Mr. Wan Yiu Kwan Stephen will retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of directors and senior management are set out on pages 13 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Li Ching Ping Vincent, being the executive director, has entered into a service contract with the Company for a term of two years, commencing on 27 November 2001, which shall continue thereafter unless and until terminated by either party giving to the other not less than three months' notice in writing expiring not earlier than the end of the term.

Each of Mr. Chan Chee Ming Harris and Mr. Yip James, being the executive directors, has entered into a service contract with the Company for a term of two years, commencing from 26 July 2002 and 1 January 2003 respectively, which will continue thereafter unless and until terminated by either party giving to the other not less than three months' notice in writing.

Each of the independent non-executive directors was appointed on 26 November 2001 for an initial period of one year and thereafter shall continue for further successive periods of one year, provided that either party may terminate the appointment by giving at least one month's notice in writing.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' remuneration and of the five highest paid employees in the Group are set out in note 6 and 7 to the financial statements.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

At 31 December 2003, the interests and short positions of the directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to section 352, to be entered in the register referred therein; or (c) pursuant to Rule 5.40 to 5.49 of the GEM Listing Rules were as follows:

Long positions in shares

Name of directors	Number of shares held and nature of interests			Total percentage of shareholding
	Personal	Corporation	Total	
Mr. Li Ching Ping Vincent ("Mr. Li") (Note 1)	—	90,479,242	90,479,242	19.38
Mr. Yip James ("Mr. Yip")	15,000,000	—	15,000,000	3.21
Mr. Chan Chee Ming Harris ("Mr. Chan")	15,000,000	—	15,000,000	3.21

Notes:

- These shares are held by Great Power Associates Limited, a company wholly owned by Mr. Li.
- Nominee shares in subsidiaries were held by a director in trust for the Group as at 31 December 2003.

Short positions in shares

Name of director	Number of underlying Shares	Nature of interest	Total percentage of shareholding
Mr. Li (Note 1)	23,000,000	Corporation	4.93

Note:

- These shares are held by Great Power Associates Limited, a company wholly owned by Mr. Li. Great Power Associates Limited has entered into a contract on 2 December 2003 to offer an option to an independent third party to purchase up to 23,000,000 Shares at an exercise price of HK\$0.03 per Share with the exercise period of two years.

Report of the Directors

Save as disclosed above, at 31 December 2003, none of the directors or chief executive of the Company has any interests or short position in shares, debentures or underlying shares of the Company and its associated corporations which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to section 352, to be entered in the register referred therein; or (c) pursuant to Rule 5.40 to 5.49 of the GEM Listing Rules.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2003, the following persons (other than the directors or chief executive of the Company) had interests in the shares of the Company which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who has interests in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Long positions in shares

Name	Capacity	Number of shares	Percentage of issued share capital
Great Power Associates Limited (<i>Note 1</i>)	Beneficial owner	90,479,242	19.38
Mr. Li (<i>Note 1</i>)	Interest of a controlled corporation	90,479,242	19.38
Ms. Li Yuen Sze Mak (<i>Note 2</i>)	Family interest	90,479,242	19.38
Frankie Dominion International Limited	Beneficial owner	75,260,986	16.12
Mr. Lam Po Kwai ("Mr. Lam") (<i>Note 3</i>)	Interest of a controlled corporation	75,260,986	16.12
Ms. Lee Yuen Bing (<i>Note 4</i>)	Family interest	75,260,986	16.12
New Dragon Ventures Limited (<i>Note 5</i>)	Beneficial owner	28,571,982	6.12
Mr. Goh Gen Cheung ("Mr. Goh")	Interest of a controlled corporation	28,571,982	6.12
Ms. Poon Ay Chuen (<i>Note 5</i>)	Family interest	28,571,982	6.12

Report of the Directors

Notes:

1. Great Power Associates Limited is wholly owned by Mr. Li and the shareholding is duplicated in the directors' interests in shares disclosed above.
2. Ms. Li Yuen Sze Mak is the spouse of Mr. Li and is deemed to be interested in all 90,479,242 shares in which Mr. Li is interested under 316 of the SFO.
3. Frankie Dominion International Holdings Limited is beneficially owned as to 44.5% by Mr. Lam. Accordingly, Mr. Lam is deemed to be interested in 75,260,986 shares owned by Frankie Dominion International Limited.
4. Ms. Lee Yuen Bing is the spouse of Mr. Lam and is deemed to be interested in all 75,260,986 shares in which Mr. Lam is interested in.
5. New Dragon Ventures Limited is wholly owned by Mr. Goh, Ms Poon Ay Chuen is the spouse of Mr. Goh and is deemed to be interested in all 28,571,982 shares in which Mr. Goh is interested under section 316 of the SFO.

Long positions in underlying shares

At 31 December 2003, the following persons (other than the directors or chief executive of the Company) had interests in the underlying shares of equity derivatives (being convertible bond) issued by the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Number of shares	Percentage of Issued share capital
Rapid Falcon Limited	Beneficial owner	60,000,000	12.85
King Fook Finance Company Limited	Interest of a controlled corporation	60,000,000	12.85
Mr. Chow Lork Sang	Interest of a controlled corporation	60,000,000	12.85

Note: The Company has issued a convertible bond of HK\$3 million to Rapid Falcon Limited in April 2003. Rapid Falcon Limited is beneficially owned as to 61% by Mr. Chow Lork Sang and 39% by King Fook Finance Company Limited, a private corporation incorporated in Hong Kong. Accordingly, each of Mr. Chow Lork Sang and King Fook Finance Company Limited is deemed to be interested in the 60,000,000 underlying shares.

Report of the Directors

Short positions in shares

Name	Capacity	Number of underlying Shares	Percentage of issued share capital
Great Power Associates Limited (<i>Note 1</i>)	Corporation	23,000,000	4.93
Mr. Li (<i>Note 2</i>)	Interest of a controlled corporation	23,000,000	4.93
Ms. Li Yuen Sze Mak (<i>Note 3</i>)	Family interest	23,000,000	4.93

Notes:

1. Great Power Associates Limited has entered into a contract on 2 December 2003 to offer an option to an independent third party to purchase up to 23,000,000 shares at an exercise price of HK\$0.03 per share with the exercise period of two years.
2. Great Power Associates Limited is wholly owned by Mr. Li and the shareholding is duplicated in the directors' interests in shares disclosed above.
3. Ms. Li Yuen Sze Mak is the spouse of Mr. Li and is deemed to be interested in all 90,479,242 shares in which Mr. Li is interested under 316 of the SFO.

Save as disclosed above, at 31 December 2003, the directors were not aware of any other persons (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who has interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

Report of the Directors

DIRECTORS' RIGHT TO ACQUIRE SHARES

During the year under review, certain directors of the Company were granted share options to subscribe for the shares of the Company pursuant to the Share Option Scheme. Details of which at 31 December 2003 were as follows:

Directors	Date of grant	Number of share options				At 31 December 2003	Option period	Exercise price per share HK\$
		At 1 January 2003	Granted during the year	Exercised during the year	Cancelled during the year			
Mr. Li	20/11/2003	—	24,000,000	—	—	24,000,000	20/11/2003 — 19/11/2013	0.021
Mr. Yip	4/7/2003	—	27,000,000	27,000,000	—	—	4/7/2003 — 3/7/2013	0.021
	20/11/2003	—	34,000,000	—	—	34,000,000	20/11/2003 — 19/11/2013	0.021
Mr. Chan	4/7/2003	—	7,000,000	7,000,000	—	—	4/7/2003 — 3/7/2013	0.021
	20/11/2003	—	10,000,000	—	—	10,000,000	20/11/2003 — 19/11/2013	0.021

Saved as disclosed above, none of the directors nor their spouses or children under the age of 18 had any right to acquire the shares in the Company or had exercised any such right during the period.

SUBSEQUENT EVENT

In January 2004, the Company had entered into an agreement with Investec Bank (UK) Limited, an independent third party, pursuant to which the Company has agreed to issue and Investec Bank (UK) Limited has agreed to subscribe for 183,400,000 new shares of the Company at a price of HK\$0.03 per share. All conditions in relation to the subscription were fulfilled and the subscription was completed on 9 March 2004 in accordance with the terms of the agreement. Dealings of the new shares commenced on 12 March 2004.

Report of the Directors

SPONSOR'S INTEREST

As confirmed by Company's sponsor, REXCAPITAL (Hong Kong) Limited (the "Sponsor"), as at 31 December 2003, the Sponsor, its directors, employees or associates, did not have any interest in the securities of the Company and any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group. Pursuant to the agreement dated 28 November 2001 entered into between the Company and the Sponsor, the sponsor received fees for acting as the Company's retainer Sponsor for the period from 28 November 2001 to 31 December 2003. REXCAPITAL (Hong Kong) Limited had ceased to be the sponsor of the Company effective from 1 January 2004.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

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

AUDIT COMMITTEE

The Company has established an audit committee on 26 November 2001 with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. The committee comprises the two independent non-executive directors, namely Mr. Ng Ge Bun and Mr. Wan Yiu Kwan Stephen. The committee had met four times in 2003. The Group's consolidated financial statements for the year ended 31 December 2003 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

Report of the Directors

AUDITORS

The financial statements have been audited by Messrs. Moores Rowland Mazars which replaced Messrs. RSM Nelson Wheeler as auditors of the Company on 18 February 2002. The auditors, Messrs. Moores Rowland merged with Messrs. Mazars on 1 October 2003 and are now practising under the name of Moores Rowland Mazars. A resolution to reappoint Messrs. Moores Rowland Mazars as auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the board

Li Ching Ping Vincent

Chairman

Hong Kong, 25 March 2004

Auditors' Report

Moores Rowland Mazars

摩斯倫·馬賽會計師事務所

To the members

ProSticks International Holdings Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 28 to 54 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 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.

Auditors' Report

Fundamental uncertainty

At the balance sheet date, both the Company and the Group had significant capital deficiencies. In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains the basis of preparation of the financial statements. The financial statements have been prepared on a going concern basis, the validity of which depends upon the generation of sufficient working capital from the Group's future operations. The directors, after careful review of the cash generated from the subscription of the Company's shares by an investor recently and other significant factors that would affect the future cash flows of the Group, have concluded that the preparation of the financial statements on a going concern basis is appropriate. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

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.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong, 25 March 2004



Consolidated Income Statement

Year ended 31 December 2003

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	4	6,111	4,110
Cost of sales		(2,921)	(3,774)
Gross profit		3,190	336
Other revenue	4	16	222
Other income		276	36
Advertising and promotion expenses		(292)	(782)
Administrative expenses		(11,595)	(17,772)
Other operating expenses		(3,298)	(2,304)
Loss from operations		(11,703)	(20,264)
Finance costs	5	(113)	(28)
Loss from ordinary activities before taxation	5	(11,816)	(20,292)
Taxation	8	—	—
Net loss attributable to shareholders		(11,816)	(20,292)
Loss per share			
Basic	10	2.73 cents	5.01 cents

Consolidated Balance Sheet

At 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	12	979	1,746
Intangible assets	13	—	2,651
		979	4,397
Current assets			
Inventories	15	32	38
Trade and other receivables	16	1,495	1,588
Cash and bank balances		1,349	7,495
		2,876	9,121
Current liabilities			
Trade and other payables	17	(2,375)	(4,070)
Net current assets		501	5,051
Total assets less current liabilities		1,480	9,448
Non-current liabilities			
Non-current interest-bearing borrowing	18	(3,000)	—
NET (LIABILITIES) ASSETS		(1,520)	9,448
CAPITAL AND RESERVES			
Issued capital	19	4,668	4,200
Reserves	21	(6,188)	5,248
		(1,520)	9,448

Approved and authorised for issue by the Board of Directors on 25 March 2004

Chan Chee Ming Harris
Director

Yip James
Director

Balance Sheet

At 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	14	2,607	4,278
Current assets			
Trade and other receivables	16	27	210
Cash and bank balances		163	7,094
		190	7,304
Current liabilities			
Trade and other payables	17	(977)	(370)
Net current (liabilities) assets		(787)	6,934
Total assets less current liabilities		1,820	11,212
Non-current liabilities			
Non-current interest-bearing borrowing	18	(3,000)	—
NET (LIABILITIES) ASSETS		(1,180)	11,212
CAPITAL AND RESERVES			
Issued capital	19	4,668	4,200
Reserves	21	(5,848)	7,012
		(1,180)	11,212

Approved and authorised for issue by the Board of Directors on 25 March 2004

Chan Chee Ming Harris
Director

Yip James
Director

Consolidated Statement of Changes in Equity*Year ended 31 December 2003*

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Total shareholders' equity			
At beginning of year		9,448	27,940
Issue of shares	<i>19 & 21</i>	983	1,800
Exchange difference		(135)	—
Net loss for the year		(11,816)	(20,292)
At balance sheet date		(1,520)	9,448

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES			
Cash used in operations	23	(9,702)	(14,765)
Interest paid		(113)	(56)
Net cash used in operating activities		(9,815)	(14,821)
INVESTING ACTIVITIES			
Interest received		16	222
Additions to development costs		—	(1,657)
Purchase of plant and equipment		(357)	(775)
Net cash used in investing activities		(341)	(2,210)
FINANCING ACTIVITIES			
Issue of a convertible bond	18	3,000	—
Issue of shares	19 & 21	983	—
Redemption of a convertible note		—	(2,000)
Net cash from (used in) financing activities		3,983	(2,000)
Net decrease in cash and cash equivalents		(6,173)	(19,031)
Cash and cash equivalents at beginning of year		7,495	26,526
Effect of exchange rate changes		27	—
Cash and cash equivalents at end of year		1,349	7,495
Analysis of balances of cash and cash equivalents			
Cash and bank balances		1,349	7,495

Notes to the Financial Statements

Year ended 31 December 2003

1. GENERAL

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (Revised) of the Cayman Islands on 10 July 2001. The shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 5 December 2001.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 14 to the financial statements.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. The results of the subsidiary companies acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition or up to effective dates of disposal. All significant inter-company balances and transactions have been eliminated on consolidation.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Going concern

The Group sustained a consolidated net loss attributable to shareholders of approximately HK\$11,816,000 for the year ended 31 December 2003 (2002: HK\$20,292,000). In view of the substantial losses in consecutive years, the directors have carefully reviewed the Group's cash position as at the balance sheet date and the cash flow forecast for the next twelve months. In reviewing the Group's cash flows, the directors have taken into account the following factors:

- cash generated from the subscription of shares of the Company on 9 March 2004 at a consideration of HK\$5,502,000 by an investor pursuant to a Subscription Agreement dated 27 January 2004;
- cash generated or to be generated from increased demand of the Group's system services and new products to be launched;
- commitment on continuous development and improvement of the Group's products; and
- the flexibility of the Group's cost structure.

The directors believe that the Group is able to meet its financial obligations in full as and when they fall due and consider that the preparation of financial statements on a going concern basis is appropriate.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES

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

Basis of preparation

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

Revenue recognition

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

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

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

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

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement. Improvements are capitalised and depreciated over their expected useful lives.

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

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

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)***Intangible assets****Research and development costs**

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

Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

The development costs that have been capitalised are amortised from the commencement of provision of financial instruments analysis software applications to subscribers on a straight-line method not more than 3 years or over the useful lives of such applications, whichever are shorter.

Subsidiaries

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

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Foreign currencies

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

The balance sheet of subsidiaries expressed in foreign currencies is translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilized.

Operating leases

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

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Provisions

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

Related party

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

Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Segment reporting

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Segment reporting (Continued)

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

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

4. TURNOVER AND REVENUE

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

Turnover and revenue recognised by category are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Membership subscription fees	1,089	1,126
System services and maintenance income	5,022	2,984
	6,111	4,110
Other revenue		
Interest income	16	222
Revenue	6,127	4,332

5. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2003 HK\$'000	2002 HK\$'000
(a) Finance costs		
Interest on convertible bond/note	113	28

Notes to the Financial Statements

Year ended 31 December 2003

5. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

	2003 HK\$'000	2002 HK\$'000
(b) Other items		
Staff costs (including directors' emoluments (note 6))		
— Basic salaries and allowances	7,514	13,668
— Contribution to defined contribution plans	165	177
	7,679	13,845
Less: Amounts capitalised as development costs	—	(1,242)
	7,679	12,603
Auditors' remuneration	180	185
Depreciation of plant and equipment	493	453
Amortisation of development costs (included in cost of sales)	—	447
Operating leases for premises	791	1,018
Operating leases for plant and equipment	555	414
Less: Amounts capitalised as development costs	—	(191)
	1,346	1,241
Research and development expenditure (included in administrative expenses)	3,597	2,446
Write-off of plant and equipment	384	124
Impairment losses recognised (included in other operating expenses):		
— Financial software application	1,800	—
— Development costs	851	2,180
— Plant and equipment	262	—

Notes to the Financial Statements

Year ended 31 December 2003

6. DIRECTORS' EMOLUMENTS

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

	2003 HK\$'000	2002 HK\$'000
Fees paid to independent non-executive directors	220	220
<i>Director A</i>		
Basic salaries, housing allowance, other allowances and benefits in kind	1,044	1,440
Discretionary bonuses	—	2,000
Pension scheme contributions	12	12
	1,056	3,452

In addition to the above emoluments, Director A was granted on 20 November 2003 24,000,000 share options under the Company's Share Option Scheme. The share options can be exercised at any time between 20 November 2003 and 19 November 2013 at an exercise price of HK\$0.021 per share.

	2003 HK\$'000	2002 HK\$'000
<i>Director B</i>		
Basic salaries, housing allowance, other allowances and benefits in kind	—	240
Pension scheme contributions	—	12
	—	252
<i>Director C</i>		
Basic salaries, housing allowance, other allowances and benefits in kind	546	363
Discretionary bonuses	—	1,000
Pension scheme contributions	12	5
	558	1,368

In addition to the above emoluments, the Director C was granted on 4 July 2003 and 20 November 2003 7,000,000 and 10,000,000 share options respectively under the Company's Share Option Scheme. The share options can be exercised at any time between 4 July 2003 and 3 July 2013 and between 20 November 2003 and 19 November 2013 respectively at an exercise price of HK\$0.021 per share. 7,000,000 share options were exercised by Director C on 23 September 2003.

Notes to the Financial Statements

Year ended 31 December 2003

6. DIRECTORS' EMOLUMENTS (Continued)

	2003 HK\$'000	2002 HK\$'000
<i>Director D</i>		
Fee	—	3
Basic salaries, housing allowance, other allowances and benefits in kind	—	585
Joining fee paid	—	400
Compensation for loss of office paid	—	2,292
Pension scheme contributions	—	6
	—	3,286
<i>Director E</i>		
Basic salaries, housing allowance, other allowances and benefits in kind	488	—
Pension scheme contributions	12	—
	500	—
	2,334	8,578

In addition to the above emoluments, the Director E was granted on 4 July 2003 and 20 November 2003 27,000,000 and 34,000,000 share options respectively under the Company's Share Option Scheme. The share options can be exercised at any time between 4 July 2003 and 3 July 2013 and between 20 November 2003 and 19 November 2013 respectively at an exercise price of HK\$0.021 per share. 27,000,000 share options were exercised by Director E on 23 September 2003.

Each of the two independent non-executive directors was paid a director's fee of HK\$110,000 (2002: HK\$110,000) during the year.

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

7. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include three (2002: three) directors, details of whose emoluments are set out in note 6 above. The details of the emoluments paid to the remaining highest paid employees are as follows:

	2003 HK\$'000	2002 HK\$'000
Basis salaries, housing allowance, other allowances and benefits in kind	735	846
Pension scheme contributions	24	24
	759	870

Notes to the Financial Statements

Year ended 31 December 2003

7. FIVE HIGHEST PAID INDIVIDUALS (Continued)

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

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	2	2

8. TAXATION

Hong Kong Profits Tax has not been provided as the Group has no assessable profit for the year (2002: Nil).

No provision for income tax by a subsidiary operating in Canada as the subsidiary has sustained a loss for the year.

Reconciliation of tax expense

	2003 HK\$'000	2002 HK\$'000
Loss from ordinary activities before tax	(11,816)	(20,292)
Income tax at rates applicable to profits in the tax jurisdiction	(2,338)	(3,247)
Non-deductible expenses	1,158	415
Unrecognised tax losses	650	2,644
Unrecognised temporary differences	530	188
Tax expense for the year	—	—

The applicable tax rates are the appropriate current rates of taxation ruling in the relevant countries in which the Group operates.

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders included a loss of HK\$13,375,000 (2002: HK\$15,526,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

Year ended 31 December 2003

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of HK\$11,816,000 (2002: loss of HK\$20,292,000) and the weighted average of 432,821,918 ordinary shares (2002: 404,712,329 shares) in issue during the year.

No amounts have been presented for the diluted loss per share because the Pre-IPO Share Options, Share Options and convertible bond outstanding during the years ended 31 December 2003 and 2002 had an anti-dilutive effect on the basic loss per share for the years.

11. SEGMENT REPORTING**(a) Primary reporting format — business segments*****The Group comprises two main business segments:****Financial instruments analysis software products*

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

Operational software applications products

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

Notes to the Financial Statements

Year ended 31 December 2003

11. SEGMENT REPORTING (Continued)**(a) Primary reporting format — business segments** (Continued)

	Financial instruments analysis software products		Operational software applications products		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
Segment revenue	1,089	1,126	5,022	2,984	6,111	4,110
Result						
Segment result	(5,942)	(6,945)	2,225	1,703	(3,717)	(5,242)
Unallocated operating income and expenses					(7,986)	(15,022)
Loss from operations					(11,703)	(20,264)
Finance costs					(113)	(28)
Loss from ordinary activities before taxation					(11,816)	(20,292)
Taxation					—	—
Net loss attributable to shareholders					(11,816)	(20,292)
Assets and liabilities						
Segment assets	281	3,758	1,606	800	1,887	4,558
Unallocated assets					1,968	8,960
Total assets					3,855	13,518
Segment liabilities	553	269	672	201	1,225	470
Unallocated liabilities					4,150	3,600
Total liabilities					5,375	4,070
Other information						
Capital expenditure incurred during the year	78	2,069	126	74		
Depreciation for the year	76	183	288	133		
Amortisation of development cost	—	447	—	—		
Impairment losses recognised	2,913	2,180	—	—		

Notes to the Financial Statements

Year ended 31 December 2003

11. SEGMENT REPORTING (Continued)**(b) Secondary reporting format — geographical segments**

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

12. PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group				
Cost				
At beginning of year	499	1,924	241	2,664
Exchange adjustments	—	18	1	19
Additions	132	205	20	357
Write-off	(499)	(16)	(3)	(518)
At balance sheet date	132	2,131	259	2,522
Accumulated depreciation and accumulated impairment losses				
At beginning of year	96	742	80	918
Exchange adjustments	—	3	1	4
Charge for the year	36	407	50	493
Eliminated on write-off	(122)	(10)	(2)	(134)
Impairment loss	—	262	—	262
At balance sheet date	10	1,404	129	1,543
Net book value				
At balance sheet date	122	727	130	979
At beginning of year	403	1,182	161	1,746

Notes to the Financial Statements

Year ended 31 December 2003

13. INTANGIBLE ASSETS

	Financial software application <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group			
Carrying amount			
At beginning of year	1,800	851	2,651
Impairment loss	(1,800)	(851)	(2,651)
At balance sheet date	—	—	—
2003			
Cost	1,800	851	2,651
Accumulated amortisation and impairment losses	(1,800)	(851)	(2,651)
Net book value	—	—	—
2002			
Cost	1,800	3,478	5,278
Accumulated amortisation and impairment losses	—	(2,627)	(2,627)
Net book value	1,800	851	2,651

During the year, the products developed by the Group were not well received by the PRC market. Development costs were written off to reflect this market condition. The Group has adjusted its business focus at operational software applications products and the directors consider that the financial software products will not provide significant economic benefit to the Group. Accordingly, the whole amount of the financial software application has been written off during the year.

14. INTERESTS IN SUBSIDIARIES

	The Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	12	12
Due from subsidiaries	31,024	19,029
Due to subsidiaries	(3,543)	(287)
	27,493	18,754
Provision for doubtful debts	(24,886)	(14,476)
	2,607	4,278

Notes to the Financial Statements

Year ended 31 December 2003

14. INTERESTS IN SUBSIDIARIES (Continued)

The amounts due from (to) subsidiaries are unsecured and interest free and have no fixed repayment terms.

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

Name of subsidiary	Place of incorporation and operations	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiary	
ProSticks (B.V.I.) Limited	British Virgin Islands	US\$1,235,700 Ordinary	100%	100%	—	Investment holding
ProSticks.com Limited	Hong Kong	HK\$22,000,000 (2002: HK\$13,000,000) Ordinary	100%	—	100%	Development and provision of financial instruments analysis software products and operational software applications products
ProSticks Technology Limited	Hong Kong	HK\$2 Ordinary	100%	—	100%	PRC market development and development of financial instruments analysis software products
ProSticks Publication Limited	Hong Kong	HK\$2 Ordinary	100%	—	100%	Publication of books
ProSticks Multi-text Limited	Hong Kong	HK\$5,000,000 Ordinary	100%	—	100%	Dormant
iEngines Limited (formerly known as ProSticks Advisory Workshop Limited)	Hong Kong	HK\$120,000 (2002: HK\$2) Ordinary	100%	—	100%	Development and provision of operational software applications products

Notes to the Financial Statements

Year ended 31 December 2003

14. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operations	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiary	
ProSticks Financial Solutions Limited	Canada	CAD1 Ordinary	100%	—	100%	Development and provision of financial instruments analysis software products
Daily Vantage Investment Limited	Hong Kong	HK\$2 Ordinary	100%	—	100%	Dormant
Global Media Services Limited	British Virgin Islands	US\$1 Ordinary	100%	—	100%	Dormant

15. INVENTORIES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Merchandise held for resale	32	38

All inventories are carried at cost at the balance sheet date.

16. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables				
From third parties (Note)	1,063	399	—	—
Other receivables				
Deposits, prepayments and other debtors	432	1,189	27	210
	1,495	1,588	27	210

Notes to the Financial Statements

Year ended 31 December 2003

16. TRADE AND OTHER RECEIVABLES (Continued)

Note: The age analysis of trade receivables is as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 3 months	1,024	175
Over 3 months but less than 1 year	39	224
	1,063	399

General credit terms that the Group offers to customers are 30 days from billing.

17. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables				
Receipts in advance				
— membership subscription fees	215	165	—	—
— system services and maintenance income	255	201	—	—
— others	2	2	—	—
Accrued charges and other creditors	1,903	3,702	977	370
	2,375	4,070	977	370

18. NON-CURRENT INTEREST-BEARING BORROWING

	The Group and The Company	
	2003	2002
	HK\$'000	HK\$'000
Convertible bond	3,000	—

The convertible bond was issued on 1 April 2003. The bond bears interest at the rate of 5% per annum. The whole principal amount of the bond together with any outstanding interest is repayable on 1 April 2005. The terms and conditions of the bond provide the bondholder a right to convert all or part of the principal of the bond into ordinary shares of the Company before the maturity date at a conversion price of HK\$0.05 per share (subject to adjustments). Following the recent subscription of shares by an investor, the conversion price was adjusted to HK\$0.0462 per share. No part of the principal of the bond has been converted or redeemed during the year.

Notes to the Financial Statements

Year ended 31 December 2003

19. ISSUED CAPITAL

	2003		2002	
	No. of shares	HK\$'000	No. of shares	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	8,000,000,000	80,000	8,000,000,000	80,000
<i>Issued and fully paid:</i>				
At beginning of year	420,000,000	4,200	400,000,000	4,000
New shares issued	46,800,000	468	20,000,000	200
At balance sheet date	466,800,000	4,668	420,000,000	4,200

On 23 September 2003, an aggregate of 46,800,000 shares of HK\$0.01 each were allotted and issued, credited as fully paid at HK\$0.021 each upon exercise of share options. These shares rank pari passu with existing shares in all respects.

20. SHARE OPTION SCHEMES

Share Option Scheme

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

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

On 4 July 2003, two directors of the Company were granted options to subscribe for an aggregate of 34,000,000 ordinary shares of the Company at an exercise price of HK\$0.021 per share. On 20 November 2003, three directors of the Company were granted options to subscribe for an aggregate of 68,000,000 ordinary shares of the Company at an exercise price of HK\$0.021 per share. (Details of options granted to directors are disclosed in the section of "Directors' rights to acquire shares" in the report of the directors).

Notes to the Financial Statements

Year ended 31 December 2003

20. SHARE OPTION SCHEMES *(Continued)***Share Option Scheme** *(Continued)*

On 4 July 2003, twenty employees and a consultant of the Group were granted options to subscribe for an aggregate of 49,700,000 ordinary shares of the Company at an exercise price of HK\$0.021 per share.

On 20 November 2003, six employees of the Group were granted options to subscribe for 25,000,000 ordinary shares of the Company at an exercise price of HK\$0.021 per share.

Each of the grantees to whom options totalling 83,700,000 shares have been granted under the Share Option Scheme on 4 July 2003 is entitled to exercise the options at any time between 4 July 2003 and 3 July 2013.

Each of the grantees to whom options totalling 93,000,000 shares have been granted under the Share Option Scheme on 20 November 2003 is entitled to exercise the options at any time between 20 November 2003 and 19 November 2013.

The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

On 23 September 2003, 46,800,000 options were exercised (note 19).

Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 24 November 2001, the Company may, at its discretion, grant options to any employee of the Group or any other person who have contributed or will contribute to the Group to subscribe for shares of the Company at a subscription price of HK\$0.12 per share, representing a discount of approximately 64% of the placing price. On 27 November 2001, a director of the Company was granted options to subscribe for 40,000,000 shares in the Company, and an ex-employee of the Group was granted options to subscribe for 4,000,000 shares in the Company. The director waived his right to subscribe for the 40,000,000 shares of the Company upon his resignation on 6 June 2002.

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

No options under the Pre-IPO Share Option Scheme were exercised, cancelled or lapsed during the year.

Notes to the Financial Statements

Year ended 31 December 2003

21. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Group					
At 1 January 2002	20,998	24,415	—	(21,473)	23,940
Issue of shares	1,600	—	—	—	1,600
Net loss for the year	—	—	—	(20,292)	(20,292)
At 31 December 2002 and 1 January 2003	22,598	24,415	—	(41,765)	5,248
Issue of shares	515	—	—	—	515
Net loss for the year	—	—	—	(11,816)	(11,816)
Exchange differences on translation of financial statements of overseas entities	—	—	(135)	—	(135)
At 31 December 2003	23,113	24,415	(135)	(53,581)	(6,188)
			Share premium HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
The Company					
At 1 January 2002			20,998	(60)	20,938
Issue of shares			1,600	—	1,600
Net loss for the year			—	(15,526)	(15,526)
At 31 December 2002 and 1 January 2003			22,598	(15,586)	7,012
Issue of shares			515	—	515
Net loss for the year			—	(13,375)	(13,375)
At 31 December 2003			23,113	(28,961)	(5,848)

The capital reserve of the Group represents the excess of the nominal value of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Pursuant to the Companies Law of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business. At 31 December 2003, in the opinion of the directors, the Company's reserves available for distribution to shareholders is HK\$nil (2002: HK\$7,012,000).

Notes to the Financial Statements

Year ended 31 December 2003

22. DEFERRED TAXATION

The Group has not recognised deferred tax asset of HK\$7,081,000 (2002: HK\$5,675,000) in respect of tax losses due to uncertainty of their recoverability. The tax losses do not expire under current legislation.

23. CASH USED IN OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Loss from ordinary activities before taxation	(11,816)	(20,292)
Depreciation	493	453
Interest income	(16)	(222)
Interest expenses	113	28
Amortisation of development costs	—	447
Impairment loss on financial software application	1,800	—
Impairment loss on development costs	851	2,180
Impairment loss on plant and equipment	262	—
Write-off of plant and equipment	384	124
Changes in working capital:		
Inventories	6	(38)
Trade and other receivables	93	256
Trade and other payables	(1,695)	2,299
Effect of exchange rate changes	(177)	—
Cash used in operations	(9,702)	(14,765)

24. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	948	999
In the second to fifth years inclusive	466	683
	1,414	1,682

Notes to the Financial Statements

Year ended 31 December 2003

25. RETIREMENT BENEFITS SCHEME

According to the Mandatory Provident Fund (the "MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, the Group is participating in the MPF scheme operated by approved trustees in Hong Kong and is making contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation. Total contributions paid by the Group into the MPF for the year ended 31 December 2003 amounted to HK\$165,000 (2002: HK\$177,000).

26. POST BALANCE SHEET EVENTS

On 17 February 2004, the issued capital of the Company was increased to HK\$4,672,800 by the allotment of 480,000 ordinary shares of HK\$0.01 each to a past employee, for cash at HK\$0.021 per share upon exercise of share options. These shares rank pari passu with the existing shares in all respects.

On 5 March 2004, the issued capital of the Company was further increased to HK\$4,683,000 by the allotment of 1,020,000 ordinary shares of HK\$0.01 each to the past employee, for cash at HK\$0.021 per share upon exercise of share options. These shares rank pari passu with the existing shares in all respects.

On 9 March 2004, 183,400,000 ordinary shares of HK\$0.01 each were issued for cash to an investor at HK\$0.03 each, pursuant to a subscription agreement which had been approved by the shareholders on 3 March 2004. These shares rank pari passu with the existing shares in all respects.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2003 Annual General Meeting of the Company will be held at 15th Floor, Asia Financial Centre, 120 Des Voeux Road Central, Hong Kong on Friday, 7 May 2004 at 11:00 a.m. for the following purposes:

1. To consider and adopt the audited financial statements and the reports of the directors and auditors for the year ended 31 December 2003.
2. To re-elect retiring director and to authorize the board of directors to fix directors' remuneration.
3. To re-appoint auditors and to authorize the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass the following resolutions with or without amendments as Ordinary Resolutions;

A. **"THAT:**

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company ("Directors") during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants, or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise), issued or dealt with by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) of this Resolution), (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to eligible persons of options to subscribe for, or rights to acquire, shares of the Company or, (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the capital of the Company in lieu of the whole or part of the cash payment for any dividend on shares of the Company pursuant to the Articles of Association of the Company from time to time, shall not in aggregate exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this Resolution:—

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

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

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

B. “THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its own issued shares in the capital of the Company in accordance with laws and requirements and regulations of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchanges on which the shares of the Company may be listed and recognised by The Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(c) for the purpose of this Resolution:—

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

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

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

5. As special business, to consider and, if thought fit, pass the following resolution with or without amendments as Ordinary Resolution:

“THAT pursuant to Clause 8C of the share option scheme (the “Share Option Scheme”) adopted by the Company on 24 November 2001, the existing scheme mandate limit under the Share Option Scheme be refreshed so that the aggregate nominal amount of share capital to be allotted and issued pursuant to the grant or exercise of any options under the Share Option Scheme and any other share option schemes of the Company (excluding options previously granted, outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of the Company) shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution (the “Refreshed Scheme Mandate Limit”) and that the Directors of the Company be and are hereby unconditionally authorised to grant options up to the Refreshed Scheme Mandate Limit and to exercise all the powers of the Company to allot, issue and deal with the shares pursuant to the exercise of such options.”

By Order of the Board
Li Ching Ping Vincent
 Chairman

Hong Kong, 25 March 2004

NOTICE OF ANNUAL GENERAL MEETING

Principal Place of Business in Hong Kong:

15th Floor
Asia Financial Centre
120 Des Voeux Road Central
Hong Kong

Notes:

1. The Register of Members of the Company will be closed from, Thursday, 6 May 2004 to Friday, 7 May 2004, both days inclusive, during which no transfer of shares can be registered. In order to qualify for attending and voting at the forthcoming Meeting of the Company, all shares transfer, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch registrar in Hong Kong, Tengis Limited, at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on 5 May 2004.
2. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the Meeting. A proxy need not be a member of the Company.
3. To be valid, a form of the proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be delivered at the Company's branch registrar in Hong Kong, Tengis Limited, at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting.
4. Completion and return of the form of proxy will not preclude members from attending and voting at the annual general meeting.