

The logo for ThinSoft, with 'Thin' in orange and 'Soft' in blue.

THINSOFT (HOLDINGS) INC
博軟(控股)有限公司

The text 'Annual Report 2004' in a bold, blue, sans-serif font, positioned at the bottom center of the page. The background features a stylized globe with a grid and faint icons of laptops on the right side.

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

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

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of ThinSoft (Holdings) Inc collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to ThinSoft (Holdings) Inc. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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02 CHAIRMAN'S STATEMENT



Ngiam Mia Hai Bernard
Chairman

I am pleased to report to the shareholders of ThinSoft (Holdings) Inc that the Company and its subsidiaries (the "Group") continued to build momentum in its markets, in operating efficiencies and in its financial results in the year 2004. It has also reached a major financial milestone that will improve the Group's performance in 2005.

As the global economic hardships of past years waned in 2004, the Group capitalized on the improving conditions by expanding its presence in key geographic regions worldwide where it had previously seeded strategic markets and customers with its flagship software products. Sales of these products increased an impressive 39.5% over the prior year.

At the same time, the Group remained focused on its efforts to reduce its costs of operations. In 2004, Group management reduced general and administrative expenses by 19.1% through constant vigilance in all disciplines of the operations and will continue with these efforts in the coming year.

The combination of stronger software sales and continued expense control enabled the Group to improve its bottom line performance by approximately HK\$3.9 million from last year. Most importantly, as 2004 closed, the Group completed the amortisation of deferred expenditures for software and website development that were invested in prior years to develop the flagship products and the Group's e-commerce sales platform. In 2005, and forward, the Group will no longer incur these amortisation charges which, in 2004, accounted for approximately HK\$8.3 million of total expenses.

Going forward, we anticipate continued growth in turnover and further improvements in financial results.

FINANCIAL HIGHLIGHTS

The Group's turnover from the sale of software was HK\$10 million, an increase of 39.5% over the previous year. Consequently, the Group's loss attributable to shareholders for the year under review, including the approximately HK\$8.3 million charge for amortisation was narrowed to HK\$7.7 million from HK\$11.6 million of the prior year.

	Quarterly Results		Yearly Results	
	For the three months ended		2004	2003
	31 December 2004	31 December 2003	2004	2003
	HK\$m	HK\$m	HK\$m	HK\$m
Turnover	6.7	2.8	18.0	19.2
Loss attributable to shareholders	2.5	2.8	7.7	11.6

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2004.

BUSINESS REVIEW

The Group's efforts to implement proactive and prudent strategies that nurture its global market presence have yielded positive results as reflected in the Group's improved financial performance as compared with the previous year. In 2004, the Group has strengthened and enhanced its stronghold in existing markets while continuing its thrusts into new markets. In addition, new Original Equipment Manufacturer relationships in Germany and the USA have started to augment the Group's positive performance.

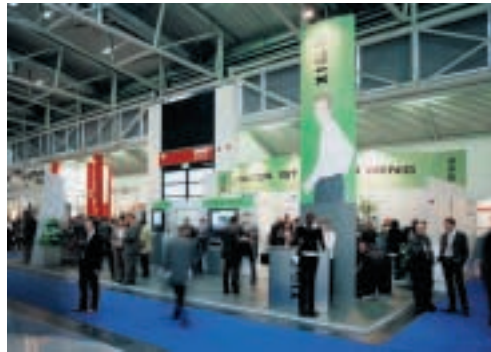
In terms of vertical markets, the Group further perpetuated its successful penetration into the education, government, healthcare, retail and small, medium and large enterprise sectors. For instance, the Group's Korean distributor has secured key positioning in the educational sector there by demonstrating the effectiveness of the Group's Buddy product in this important market segment. This has resulted in significant investment savings for the educational institutions and their enthusiastic endorsement of the Group's products. In Germany, the Group's distributor has successfully marketed the WinConnect Server XP to the Healthcare Industry and vibrant sell-through into FY2005 is expected to continue.

The Group's software solutions are now well accepted in the global Thin Computing market and are recognized for their innovativeness and versatility, winning rave reviews from global media that included the PC & CIA Magazine, Brazil, February 2004 issue and Digital Times Weekly, Latvia, 9 March 2004 issue. Corporate users have also endorsed the Group's Thin Computing software solutions including Brendan Heavey, Analyst Programmer at the Center for Research in Cardiovascular Medicine, University of Buffalo. The Group's flagship software product WinConnect Server XP has undergone rigorous third-party media testing and is considered as the best software program by one of the leading technical product portals – tekfront.com.

Through the Group's marketing initiatives, distributors participated in exhibitions and tradeshows such as:



Systems Show 2004 October in Munich, Germany - Terminal of ThinSoft



Systems Show 2004 October in Munich, Germany - eSeSIX demonstrated WinConnect software to their Thin Clients

- Germany: Cebit 2004 March in Hannover & SYSTEMS 2004 October in Munich;
- South Korea: The 5th Exhibition of Governmental Procurement Excellent Products March 2004 and IUT2004 September in BOOSAN;
- Sri Lanka: Construct Exhibition September 2004 & ASOCIO Exhibition November 2004; and
- Thailand: Animation & Multimedia Exhibition January 2004, ICT Expo August 2004 & SME Exhibition October to November 2004.

04 CHAIRMAN'S STATEMENT



Animation & Multimedia Exhibition in Thailand, January 2004



SME Exhibition in Thailand, October to November 2004

PROSPECTS

The improvements in 2004 created a well-structured platform for the Group to continue to expand its distribution network and customer base in the coming years. Barring unforeseen events or circumstances beyond the Group's control, continued operational and financial improvements are anticipated in 2005.

APPRECIATION

ThinSoft acknowledges the dedication of its staff and the continued support of its business partners and shareholders over this period in making improved performance possible. I would like to express my personal appreciation to each of these groups for their contributions.

Ngiam Mia Hai Bernard

Chairman

Hong Kong
31 January 2005

EXECUTIVE DIRECTORS

Ngiam Mia Hai Bernard (*Chairman*)
Ngiam Mia Hong Alfred

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lee Chung Mong
Chen Tzyh-Trong
Yeung Chi Hung

AUDIT COMMITTEE

Lee Chung Mong
Chen Tzyh-Trong
Yeung Chi Hung

COMPLIANCE OFFICER

Ngiam Mai Hai Bernard

COMPANY SECRETARY

Yau Lai Man *FCCA, CPA*

QUALIFIED ACCOUNTANT

Fan Kin Nang *FCCA, FCMA, CPA*

AUTHORISED REPRESENTATIVES

Ngiam Mai Hai Bernard
Yau Lai Man

REGISTERED OFFICE

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

SPONSOR

Dao Heng Securities Limited

AUDITORS

Ernst & Young

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2818
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Shun Tak Centre
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE ADDRESSES

www.ThinSoftinc.com
www.Thincomputinginc.com
www.Austin.com.sg

PRINCIPAL BANKERS

Citibank N.A.
Union De Banques Arabes
Et Francaises
DBS Bank (Hong Kong) Limited

STOCK CODE

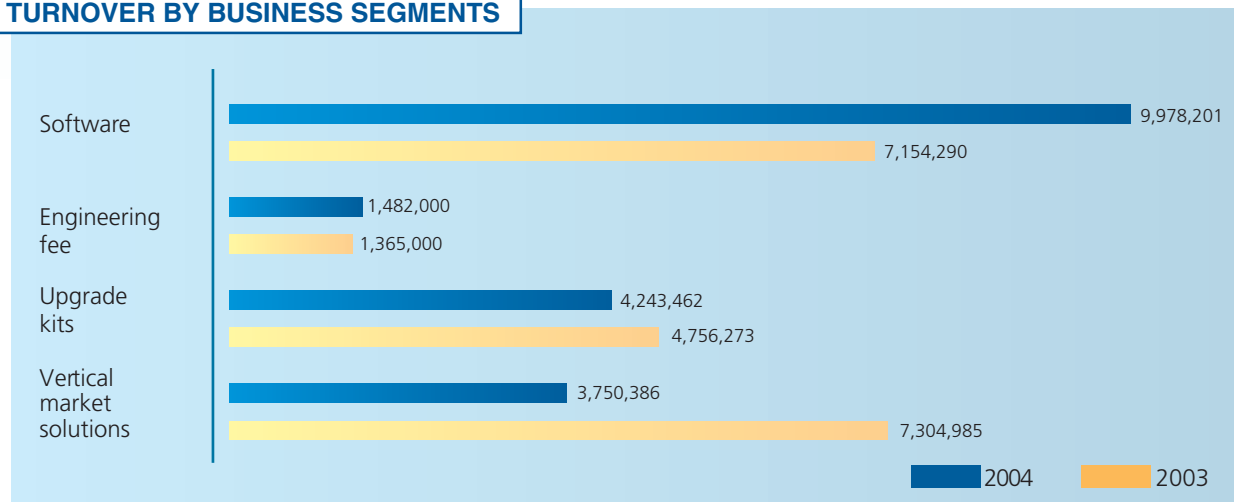
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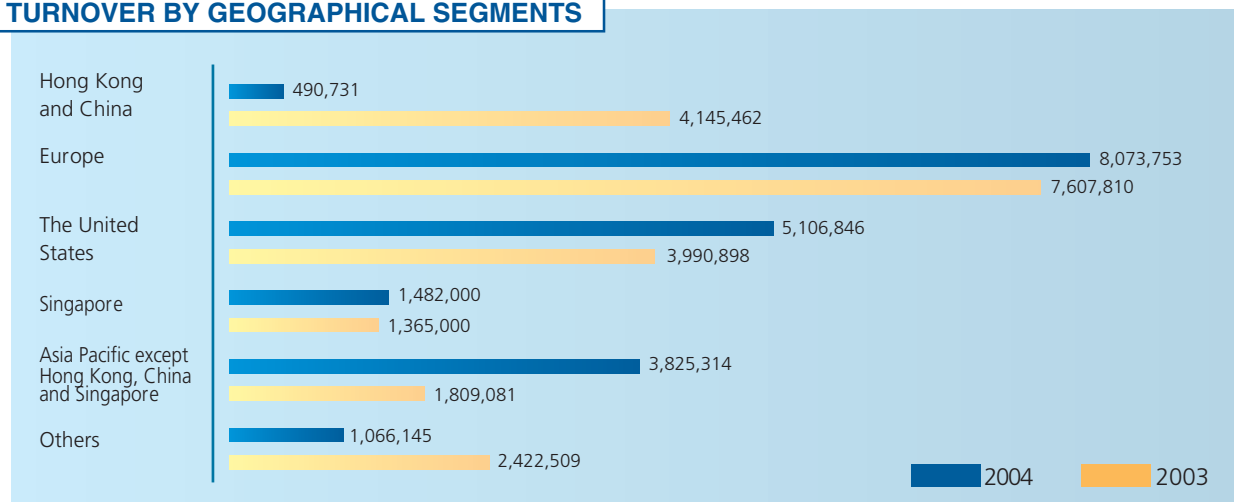
06 FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2004	2003
	HK\$	HK\$
Results		
Turnover	17,972,049	19,215,548
Net loss from ordinary activities attributable to shareholders	7,690,944	11,564,364
Assets and liabilities		
Total assets	23,995,598	31,694,928
Total liabilities	4,287,182	4,915,548
Shareholders' equity	19,708,416	26,779,380

TURNOVER BY BUSINESS SEGMENTS



TURNOVER BY GEOGRAPHICAL SEGMENTS



OPERATIONS REVIEW

The Group develops and deploys Thin Computing software solutions and related products worldwide through a well established network of international distributors and resellers. In the year under review, the Group continued to enhance its product offerings and expand its distribution capabilities.

The Group made special efforts to increase its presence in existing markets by nurturing established distributors' and resellers' relationships and adding new relationships in key markets. During 2004, the Group has appointed distributors in Thailand, Sri Lanka and Japan and added many resellers in other countries.



Construct Exhibition in Sri Lanka, September 2004

At the same time, the Group continued to enhance its positions in the education, healthcare, retail and financial sectors across all geographic markets.

Group management also expended significant efforts toward improving operating efficiencies in all disciplines and all categories of expenditures.

At the urging and with the assistance of senior Group management, our distributors participated in many exhibitions and tradeshows in 2004. This created further product awareness and enhancement of the Group's product branding, and provided invaluable customer feedback which Group management reviews continuously for possible product enhancements. Through participation in these events, the Group's distributors continue to expand into key market segments identified as strategic objectives by Group management.

IGEL based in Germany, launched its new Thin Client series with the Group's WinConnect, a Linux RDP client, in 2004. This relationship further enhanced the Group's position in the growing world of Linux platforms.

FINANCIAL REVIEW

Turnover from the sales of software for the year ended 31 December 2004 increased by 39.5% to approximately HK\$10 million when compared to last year of approximately HK\$7.2 million, even though the Group's turnover slightly decreased to approximately HK\$18 million.

The Group's overall turnover for the year under review decreased from approximately HK\$19.2 million to approximately HK\$18 million as a result of lower sales of vertical market solutions which include both hardware and software.

Europe is the largest market for the Group, where turnover for the year ended 31 December 2004 amounted to approximately HK\$8.1 million (2003: approximately HK\$7.6 million) or 44.9% of the total turnover. This success was mainly the result of extensive marketing efforts in Europe during the year.

Gross profit margin before amortisation for the year ended 31 December 2004 increased to 60.2% as compared with 41.5% in the corresponding previous year. Gross profit margin was pushed up by the sales contribution of software that has relatively higher gross profit margins.

Charges for amortisation of deferred development expenditure totalled HK\$8.3 million during the year under review thus completing the amortisation and full recognition of the software product and website platform investments that were expended in prior years developing the Group's flagship software products and e-commerce platform. These assets continue to be highly productive and will greatly benefit the Group's performance in future years.

General and administrative expenses in the year under review decreased by 19.1% to approximately HK\$10.3 million when compared to approximately HK\$12.7 million incurred in the previous year. The decrease was the result of continuing cost management and control, and improved cost effectiveness.

The Group consequently registered a loss attributable to shareholders for the year under review of approximately HK\$7.7 million as compared to loss of approximately HK\$11.6 million in the corresponding previous year.

The Group continues to be in a strong financial position. Cash and bank balances as at 31 December 2004 was approximately HK\$22.2 million (2003: approximately HK\$21 million). There were no bank borrowings as at 31 December 2004 (2003: Nil).

CAPITAL STRUCTURE

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

SIGNIFICANT INVESTMENTS

As at 31 December 2004, the Group did not have any significant investments.

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

There had been no material acquisitions and disposals during the year. At present, the Company and the Group have no plans for material investments or capital assets.

GEARING RATIO

As at 31 December 2004, the Group did not have any long-term debts and its shareholders' funds amounted to approximately HK\$19.7 million. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as at 31 December 2004.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cash flows.

As at 31 December 2004, the Group had cash and cash equivalents of approximately HK\$22.2 million as compared to approximately HK\$21 million as at 31 December 2003.

FOREIGN EXCHANGE EXPOSURE

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

CHARGES ON GROUP ASSETS

As at 31 December 2004, the Group did not have any charges on its assets.

CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31 December 2004.

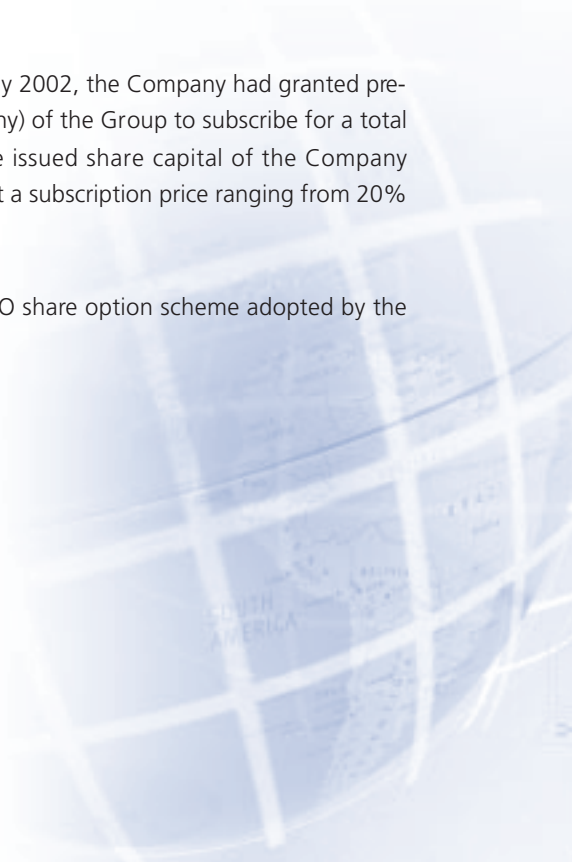
EMPLOYEES

As at 31 December 2004, the Group had 19 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the year under review and the previous year amounted to approximately HK\$6.2 million and approximately HK\$8.4 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Each of the executive directors has, on 27 February 2002, entered into a director's service contract with the Company for an initial term of three years commencing from 27 February 2002 and expiring on 26 February 2005. It was extended by another service contract of a fixed term of three years commencing from 27 February 2005 and expiring on 26 February 2008. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the directors and they will each be entitled to a discretionary bonus provided that the audited consolidated profit after taxation and minority interests (and after the payment of such bonus) but before extraordinary items (the "Profit") of the Group for the relevant year exceeds HK\$10 million and further that the total amount of bonuses payable to all the directors for such year shall not exceed 5% of the Profit.

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

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



Ngiam Mia Hai Bernard

Aged 44, joined the Group since July 1997, and is the chairman of the Company. He is responsible for overall corporate strategic planning, policy making, overall group management and business development. He is also concurrently responsible for marketing. He is currently an executive director of IPC Corporation Ltd (“IPC”). Mr. Ngiam received a Bachelor of Business Administration degree from the National University of Singapore in 1985. He is the brother of Mr. Ngiam Mia Hong Alfred.

Ngiam Mia Hong Alfred

Aged 41, joined the Group since July 1997, and is an executive director and the chief technical officer of the Company and spearheads the Group’s research and development programs, including initiating and overseeing all projects. He was an engineer in Essex Investment (Singapore) Pte Ltd. from July 1986 to October 1991. Since November 1991, he has been appointed as the engineering director of IPC. Mr. Ngiam graduated from the University of Waterloo, Canada with a Bachelor of Mathematics degree and was on the Deans Honours List. He is the brother of Mr. Ngiam Mia Hai Bernard.

Lee Chung Mong

Aged 46, is an independent non-executive director of the Company since February 2002. Dr. Lee obtained Ph.D. Degree in Computer Science from the University of Minnesota, USA in 1989. In the same year, he was appointed as Associate, Research Staff in the Institute of Systems Science at National University of Singapore. He had also worked as an Assistant Professor of Computer Science at The Hong Kong University of Science & Technology for 8 years. In 1999, he was awarded a Teaching Excellence Appreciation Award by the Dean of the School of Engineering of The Hong Kong University of Science and Technology and was elevated as a Senior Member of the Institute of Electrical and Electronics Engineers. He invented the “Method and Apparatus for Verifying a Container Code” and the “Method for Identifying a Sequence of Alphanumeric Characters”, which were patented in the United Kingdom and the United States respectively. He is now the chairman and chief executive officer of Asia Vision Technology Ltd.

Chen Tzyh-Trong

Aged 47, is an independent non-executive director of the Company since February 2002. Dr. Chan holds a bachelor degree in Laws, from National Taiwan University in Taiwan and a degree of Doctor of Philosophy, from the Faculty of Laws, University of London in the United Kingdom. He was a researcher of a trade organization in London. He served as a chairman’s assistant of a public listed company in Hong Kong for several years. He had been working as a secretary general and a director of the Taiwan Business Association (Hong Kong) from 2000 to 2002. He was also a vice president of a financial advisory service company in Hong Kong. Currently, he is working as a city’s general-affair advisor for Taiwan’s Taipei City government.

Yeung Chi Hung

Aged 43, is an independent non-executive director of the Company since September 2004. Mr. Yeung is certified practising accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Yeung has over 11 years of experience of accounting and auditing. Mr. Yeung is a certified public accountant (practising) in Hong Kong and the managing director of Yeung, Chan & Associates CPA Limited.

The directors present their report and the audited financial statements of the Company and of the consolidated financial statements of the Group for the year ended 31 December 2004.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's loss for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 18 to 48.

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

Financial summary

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on pages 49 to 50. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

Share capital and share options

There was no movement in the Company's authorised share capital during the year. Details of movements in the Company's share capital, together with the reasons therefor, and details of the Company's share option schemes are set out in notes 20 and 21 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

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

Reserves

Details of movements in the reserves/(deficit) of the Company and of the Group during the year are set out in note 22(b) to the financial statements and in the consolidated statement of changes in equity on page 20 respectively.

Distributable reserves

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2004, as computed in accordance with the Companies Law of the Cayman Islands. The Company's share premium account, with a balance of HK\$21,341,236, may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 51% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 18% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 83% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 39% of the Group's total purchases.

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

Directors

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

Executive directors:

Ngiam Mia Hai Bernard

Ngiam Mia Hong Alfred

William Michael Driscoll (resigned on 9 July 2004)

Independent non-executive directors:

Lee Chung Mong

Chen Tzyh-Trong

Yeung Chi Hung (appointed on 30 September 2004)

In accordance with article 86(3) of the Company's articles of association, Yeung Chi Hung will retire by rotation and, being eligible, will offer himself for re-election of the forthcoming annual general meeting.

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

Directors' service contracts

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of three years commencing from 27 February 2002 and expiring on 26 February 2005. It was extended by another service contract for a fixed term of three years commencing from 27 February 2005 and expiring on 26 February 2008 unless terminated by either party giving not less than six months' prior written notice to the other.

Yeung Chi Hung has been appointed as an independent non-executive director of the Company for a term of two years commencing on 30 September 2004 and is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association, provided that the appointment may be terminated by the Company, or Mr. Yeung, with a written notice of not less than one month unless both parties agree otherwise.

The term of appointment for each of the other two independent non-executive directors of the Company commences from 2 February 2002 and will expire on the date on which the annual general meeting of the Company for the year of 2004 is held and will automatically continue thereafter subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company.

Save as disclosed in notes 7 and 21 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the directors and past directors of the Company as is specified on Sections 161 and 161A of the Companies Ordinance.

The Company confirms that it has received from each of its independent non-executive directors a confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") and the Company considers the independent non-executive directors of the Company to be independent.

Directors' interests in contracts

Save for transactions as disclosed in note 24 to the financial statements, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year under review.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Type of interest	Percentage of the Company's issued share capital as at 31 December 2004
Ngiam Mia Hai Bernard	Other	(note)
Ngiam Mia Hong Alfred	Other	(note)

Note: IPC Corporation Ltd ("IPC"), the ultimate holding company of the Company, is a company incorporated under the laws of Singapore and whose securities are listed on the Singapore Exchange Securities Trading Limited. As at 31 December 2004, approximately 65.7% of the issued share capital of IPC is held by the public. As at 31 December 2004, IPC holds approximately 74.81% (or 375,000,000 ordinary shares) of the issued share capital of the Company.

As at 31 December 2004, each of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred directly held approximately 1.4% and 1.3%, respectively, in the issued share capital of IPC and each of them further owned approximately 0.001% of IPC's issued share capital as a result of the conversion shares received by each of them pursuant to a scheme of arrangement of IPC.

Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin are the brothers of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred. As at 31 December 2004, Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Essex Investment (Singapore) Pte Ltd (whose entire issued share capital is held by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in the proportion of 50:50) together beneficially owned approximately 22.2% of the issued share capital of IPC.

14 REPORT OF THE DIRECTORS

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures (continued)

Interest in underlying shares of the Company:

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

	Number of share options beneficially and directly held by the directors and outstanding as at 31 December 2004	Percentage of the Company's issued share capital as at 31 December 2004
Directors of the Company		
Ngiam Mia Hai Bernard	7,600,000	1.52
Ngiam Mia Hong Alfred	7,200,000	1.44
William Michael Driscoll (resigned on 9 July 2004)	3,600,000	0.72
Directors of subsidiaries		
Ngiam Mia Je Patrick	3,600,000	0.72
Ngiam Mia Kiat Benjamin	3,600,000	0.72
Lauw Hui Kian	3,600,000	0.72

Note: Please refer to note 21 to the financial statements for details of the Pre-Scheme (as defined in note 21(i) to the financial statements) and share options granted thereunder, including the above share options granted to the above directors.

Save as disclosed above, as at 31 December 2004, none of the directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Directors' rights to acquire shares

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 21 to the financial statements, at no time during the year under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2004, the following person had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

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

Save as disclosed above, as at 31 December 2004, there was no person (other than the directors and chief executive of the Company whose interests are set out under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

Sponsor's interest

On 2 April 2004, Dao Heng Securities Limited (the "Sponsor") has been appointed to replace ICEA Capital Limited as the continuing sponsor of the Company for the purpose of meeting the requirements of the GEM Listing Rules. Pursuant to a sponsor agreement dated 2 April 2004 between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 2 April 2004 to 31 December 2004.

As updated and notified by the Sponsor, to and as at the date of this report, none of the Sponsor nor its directors, employees or associates (as defined in the GEM Listing Rules) have any interest in any class of securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group (including options or rights to subscribe for such securities), pursuant to Rules 6.36 and 18.45 of the GEM Listing Rules, during the year ended 31 December 2004.

Connected and related party transactions

Details of the related party transactions for the year are set out in note 24 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

Competition and conflict of interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year.

Compliance with Rules 5.34 to 5.45 of the GEM Listing Rules

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the year ended 31 December 2004.

Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2004. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and the required standard of dealings throughout the year ended 31 December 2004.

Audit committee

The Company established an audit committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, Chen Tzyh Trong, Lee Chung Mong and Yeung Chi Hung. All of them are independent non-executive directors of the Company. The Group's audited results for the year ended 31 December 2004 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made. The members of the audit committee have met four times during the year under review.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Ngiam Mia Hai Bernard

Chairman

Hong Kong

31 January 2005

To the members

ThinSoft (Holdings) Inc

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 18 to 48 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 Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

31 January 2005



18 CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

		2004	2003
	Notes	HK\$	HK\$
TURNOVER	5	17,972,049	19,215,548
Cost of sales (before amortisation of deferred development expenditure)		(7,155,091)	(11,247,379)
Amortisation of deferred development expenditure		(8,280,113)	(7,087,569)
		(15,435,204)	(18,334,948)
Gross profit		2,536,845	880,600
Other income	5	292,062	286,533
Distribution and selling expenses		(123,245)	(282,116)
General and administrative expenses		(10,261,072)	(12,680,828)
Other operating expenses		(247,855)	–
LOSS BEFORE TAX	6	(7,803,265)	(11,795,811)
Tax credit	9	112,321	231,447
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	(7,690,944)	(11,564,364)
LOSS PER SHARE	11		
Basic		HK(1.53) cents	HK(2.31) cents
Diluted		N/A	N/A

19 CONSOLIDATED BALANCE SHEET

31 December 2004

		2004	2003
	Notes	HK\$	HK\$
NON-CURRENT ASSETS			
Deferred development expenditure	13	–	8,257,683
Fixed assets	14	4,959	251,313
		4,959	8,508,996
CURRENT ASSETS			
Inventories	16	444,211	636,111
Accounts receivable	17	1,090,865	1,249,623
Prepayments, deposits and other receivables		265,350	336,474
Cash and cash equivalents	18	22,190,213	20,963,724
		23,990,639	23,185,932
CURRENT LIABILITIES			
Accounts payable	19	47,005	206,925
Accrued liabilities and other payables		4,225,844	4,680,250
Tax payable		14,333	28,373
		4,287,182	4,915,548
NET CURRENT ASSETS			
		19,703,457	18,270,384
		19,708,416	26,779,380
CAPITAL AND RESERVES			
Issued capital	20	25,062,750	25,062,500
Reserves/(deficit)	22(a)	(5,354,334)	1,716,880
		19,708,416	26,779,380

Director

Director

20 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	Reserves/(deficit)						Total HK\$
	Issued capital HK\$ (Note 20)	Share premium account HK\$ (Note 22(a))	Exchange translation reserve HK\$ (Note 22(a))	Capital Accumulated reserve HK\$ (Note 22(a))	Reserves/ Total HK\$	Reserves/ (deficit) Total HK\$	
At 1 January 2003	25,000,000	8,500,948	(26,762)	6,840,000	(2,799,308)	12,514,878	37,514,878
Arising on consolidation of subsidiaries with functional currencies other than Hong Kong dollar	–	–	632,866	–	–	632,866	632,866
Net gains not recognised in the profit and loss account	–	–	632,866	–	–	632,866	632,866
Exercise of share options	62,500	133,500	–	–	–	133,500	196,000
Net loss for the year	–	–	–	–	(11,564,364)	(11,564,364)	(11,564,364)
At 31 December 2003 and 1 January 2004	25,062,500	8,634,448	606,104	6,840,000	(14,363,672)	1,716,880	26,779,380
Arising on consolidation of subsidiaries with functional currencies other than Hong Kong dollar	–	–	619,580	–	–	619,580	619,580
Net gains not recognised in the profit and loss account	–	–	619,580	–	–	619,580	619,580
Exercise of share options	250	150	–	–	–	150	400
Net loss for the year	–	–	–	–	(7,690,944)	(7,690,944)	(7,690,944)
At 31 December 2004	25,062,750	8,634,598	1,225,684	6,840,000	(22,054,616)	(5,354,334)	19,708,416

21 CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2004

		2004	2003
	Notes	HK\$	HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(7,803,265)	(11,795,811)
Adjustments for:			
Interest income	5	(103,996)	(286,533)
Gain on disposal of listed investments in securities	5	(188,066)	–
Depreciation of fixed assets	6	173,751	122,086
Loss on write-off of fixed assets	6	74,093	–
Amortisation of deferred development expenditure	6	8,280,113	7,087,569
Operating profit/(loss) before working capital changes		432,630	(4,872,689)
Decrease/(increase) in inventories		191,900	(453,688)
Decrease in accounts receivable		158,758	2,971,382
Decrease in prepayments, deposits and other receivables		71,124	697,169
Decrease in accounts payable		(159,920)	(1,312,021)
Decrease in accrued liabilities and other payables		(454,406)	(116,490)
Decrease in balances with the ultimate holding company		–	(55,302)
Cash generated from/(used in) operations		240,086	(3,141,639)
Singapore income tax refunded/(paid), net		(24,186)	44,811
United States of America federal and state income tax refunded/(paid), net		121,251	(85,128)
Net cash inflow/(outflow) from operating activities		337,151	(3,181,956)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in other investment		–	6,000,000
Investment income from disposal of listed investments in securities, net		188,066	–
Interest received		103,996	286,533
Net cash inflow from investing activities		292,062	6,286,533
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options		400	196,000
Net cash inflow from financing activities		400	196,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		629,613	3,300,577
Cash and cash equivalents at beginning of year		20,963,724	17,067,428
Effect of foreign exchange rate changes, net		596,876	595,719
CASH AND CASH EQUIVALENTS AT END OF YEAR		22,190,213	20,963,724
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	4,367,054	759,032
Time deposits with original maturity of less than three months when acquired	18	17,823,159	20,204,692
		22,190,213	20,963,724

22 BALANCE SHEET

31 December 2004

		2004	2003
	Notes	HK\$	HK\$
NON-CURRENT ASSETS			
Interests in subsidiaries	15	18,229,866	11,694,208
CURRENT ASSETS			
Prepayments, deposits and other receivables		265,349	297,477
Due from a subsidiary	15	–	8,161,928
Cash and cash equivalents	18	4,322,074	9,922,668
		4,587,423	18,382,073
CURRENT LIABILITIES			
Accrued liabilities and other payables		3,281,749	3,290,110
NET CURRENT ASSETS			
		1,305,674	15,091,963
		19,535,540	26,786,171
CAPITAL AND RESERVES			
Issued capital	20	25,062,750	25,062,500
Reserves/(deficit)	22(b)	(5,527,210)	1,723,671
		19,535,540	26,786,171

Director

Director

1. CORPORATE INFORMATION

The principal place of business of ThinSoft (Holdings) Inc (the "Company") is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong.

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

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The new HKFRS may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred development expenditure

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

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

Costs so deferred are stated at cost less any impairment losses and are amortised using the straight-line basis over the expected economic useful lives of the underlying products, subject to a maximum period of five years commencing in the year when the products are put into commercial production. The software development expenditure is amortised over the period of three years whereas the website development expenditure is amortised over the period of five years.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Accounts and other receivables

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

Accounts and other payables

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

Revenue recognition

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

- from the provision of services, when the services are rendered;
- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownerships, nor effective control over the goods sold; and
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Retirement benefits scheme

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Share option schemes

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

Related parties

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

Leased assets

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

Dividends

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

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

Foreign currencies

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

Cash and cash equivalents

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

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

4. SEGMENT INFORMATION

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

- (a) the software segment is a supplier of the Group's software solutions;
- (b) the engineering fee segment engages in the provision of engineering services;
- (c) the upgrade kits segment comprises the sales of the Group's thin client solutions related to hardware peripherals and accessories; and
- (d) the vertical market solutions segment provides the Group's thin client solutions for several vertical market applications such as call centres, kiosks, point-of-sale and industrial applications.

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

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

29 NOTES TO FINANCIAL STATEMENTS

31 December 2004

4. SEGMENT INFORMATION (CONTINUED)

(a) Business segments

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

	Software		Engineering fee		Upgrade kits		Vertical market solutions		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:												
Sales to external customers	9,978,201	7,154,290	-	-	4,243,462	4,756,273	3,750,386	7,304,985	-	-	17,972,049	19,215,548
Intersegment transfers	-	-	1,482,000	1,365,000	-	-	-	-	(1,482,000)	(1,365,000)	-	-
Total	9,978,201	7,154,290	1,482,000	1,365,000	4,243,462	4,756,273	3,750,386	7,304,985	(1,482,000)	(1,365,000)	17,972,049	19,215,548
Segment results	(3,774,193)	(5,878,252)	-	-	501,188	445,942	(187,114)	(1,108,930)	-	-	(3,460,119)	(6,541,240)
Interest and unallocated gains											292,062	286,533
Unallocated expenses											(4,635,208)	(5,541,104)
Loss before tax											(7,803,265)	(11,795,811)
Tax credit											112,321	231,447
Net loss from ordinary activities attributable to shareholders											(7,690,944)	(11,564,364)
Segment assets	1,095,825	1,933,648	-	-	444,211	-	-	636,111	-	-	1,540,036	2,569,759
Unallocated assets											22,455,562	29,125,169
Total assets											23,995,598	31,694,928
Segment liabilities	-	29,007	-	-	45,125	-	1,880	177,918	-	-	47,005	206,925
Unallocated liabilities											4,240,177	4,708,623
Total liabilities											4,287,182	4,915,548
Other segment information:												
Depreciation and amortisation	8,376,590	7,133,024	-	-	41,022	30,219	36,252	46,412	-	-	8,453,864	7,209,655
Provision for doubtful debts	247,855	-	-	-	-	-	-	-	-	-	247,855	-
Loss on write-off of fixed assets	74,093	-	-	-	-	-	-	-	-	-	74,093	-

30 NOTES TO FINANCIAL STATEMENTS

31 December 2004

4. SEGMENT INFORMATION (CONTINUED)

(b) Geographical segments

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

	Hong Kong and China		Europe		The United States		Singapore		Asia Pacific except Hong Kong, China and Singapore		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:																
Sales to external customers	490,731	4,145,462	8,073,753	7,607,810	4,516,106	3,230,686	-	-	3,825,314	1,809,081	1,066,145	2,422,509	-	-	17,972,049	19,215,548
Intersegment transfers	-	-	-	-	590,740	760,212	1,482,000	1,365,000	-	-	-	-	(2,072,740)	(2,125,212)	-	-
Total	490,731	4,145,462	8,073,753	7,607,810	5,106,846	3,990,898	1,482,000	1,365,000	3,825,314	1,809,081	1,066,145	2,422,509	(2,072,740)	(2,125,212)	17,972,049	19,215,548
Other segment information:																
Segment assets	8,139,963	11,386,964	-	-	82,641	408,384	15,772,994	11,641,897	-	-	-	-	-	-	23,995,598	23,437,245
Unallocated assets															-	8,257,683
Total assets															23,995,598	31,694,928

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31 December 2004

5. TURNOVER AND OTHER INCOME

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

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

	2004	2003
	HK\$	HK\$
Turnover:		
Sales of goods	17,972,049	19,215,548
Other income:		
Interest income	103,996	286,533
Gain on disposal of listed investments in securities	188,066	–
	292,062	286,533
Total income	18,264,111	19,502,081

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6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

		2004	2003
	Notes	HK\$	HK\$
Costs of inventory sold and services provided*		15,435,204	18,334,948
Auditors' remuneration		386,208	384,660
Depreciation	14	173,751	122,086
Loss on write-off of fixed assets	14	74,093	–
Research and development costs:			
Deferred expenditure amortised	13	8,280,113	7,087,569
Staff costs, excluding directors' remuneration:	7		
Wages and salaries		3,475,604	5,375,244
Pension scheme contributions**		208,328	269,296
		3,683,932	5,644,540
Minimum lease payments under operating leases in respect of land and buildings to:			
The ultimate holding company	24	338,400	324,000
A related company	24	–	938,580
An independent third party		190,679	288,374
		529,079	1,550,954
Provision for doubtful debts***		247,855	–
Exchange losses, net		682,446	287,808

* The costs of inventory sold and services provided for the year ended 31 December 2004 includes amortisation expenses of deferred development expenditure and direct staff costs of HK\$8,841,713 (2003: HK\$8,500,968), which are also included in the respective total amounts disclosed separately above for each of these types of expenses for the year.

** As at 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

*** Provision for doubtful debts for the year (2003: Nil) is included in "Other operating expenses" on the face of the consolidated profit and loss account.

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31 December 2004

7. DIRECTORS' REMUNERATION

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

	2004	2003
	HK\$	HK\$
Fees:		
Non-executive director	–	16,731
Independent non-executive directors	337,500	300,000
Other emoluments:		
Salaries, allowances and benefits in kind	2,142,558	2,369,104
Pension scheme contributions	80,652	98,820
	2,560,710	2,784,655

Three executive directors of the Company received emoluments of HK\$991,606, HK\$991,606 and HK\$239,998 for the year (2003: three executive directors received emoluments of HK\$993,960, HK\$993,960 and HK\$480,004). Three independent non-executive directors of the Company received directors' fees of HK\$150,000, HK\$150,000 and HK\$37,500 for the year (2003: two independent non-executive directors received emolument of HK\$150,000 each).

The remuneration of each of the directors for the years ended 31 December 2004 and 2003 fell within the Nil to HK\$1,000,000 band.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments during the current and prior years.

For those directors appointed or resigned during the year, the amount disclosed above includes the portion of their remuneration for the period they acted as directors.

8. FIVE HIGHEST PAID EMPLOYEES

Three directors of the Company were included in the five highest paid individuals of the Group during the year (2003: three directors), details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees of the Group for the year are as follows:

	2004	2003
	HK\$	HK\$
Salaries, allowances and benefits in kind	900,000	1,249,599

The remuneration of each of the non-director, highest paid employees for the years ended 31 December 2004 and 2003 fell within the Nil to HK\$1,000,000 band.

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

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9. TAX CREDIT

	Group	
	2004	2003
	HK\$	HK\$
Current:		
Hong Kong	–	–
Outside Hong Kong	17,510	19,884
	17,510	19,884
Overprovision in previous years, net	(129,831)	(251,331)
Tax credit for the year	(112,321)	(231,447)

Hong Kong profits tax has not been provided (2003: Nil) as the Group did not generate any assessable profits in Hong Kong during the year.

ThinSoft Pte Ltd, a company incorporated in Singapore, is subject to Singapore income tax. Singapore income tax has been provided at the rate of 20% (2003: 22%) on the estimated assessable profits arising in Singapore for the year ended 31 December 2004.

ThinSoft (USA) Inc, a company incorporated in the State of Delaware in the United States of America and operating in the State of California in the United States of America, is subject to the United States federal income tax at progressive rates of between 15% to 39% and California state corporate tax at a rate of 8.84% for the years ended 31 December 2003 and 2004 on its estimated assessable profits arising on a world wide basis.

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9. TAX CREDIT (CONTINUED)

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

	Group	
	2004	2003
	HK\$	HK\$
Loss before tax	(7,803,265)	(11,795,811)
Tax at the applicable rates to profits/(losses) in the countries concerned	(1,934,068)	(58,133)
Income not subject to tax	(3,408)	(16,281)
Expenses not deductible for tax	1,481,417	94,298
Tax loss not recognised	473,569	–
Tax charge at the Group's effective rate	17,510	19,884
Adjustments in respect of current tax of previous years	(129,831)	(251,331)
Tax credit at the Group's effective rate	(112,321)	(231,447)

The Group has tax losses arising in the United States of America of approximately HK\$15,639,000 (2003: HK\$14,645,000) that are available for offsetting against future taxable profits of the companies in which the losses arose and has deductible temporary differences of approximately HK\$5,265,000 (2003: HK\$4,102,800). Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time.

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$7,251,031 (2003: HK\$15,848,654).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$7,690,944 (2003: HK\$11,564,364), and the weighted average of 501,254,221 (2003: 500,925,480) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2004 and 2003 have not been presented, as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

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31 December 2004

12. DIVIDENDS

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the year (2003: Nil).

13. DEFERRED DEVELOPMENT EXPENDITURE

Group

	Software development expenditure HK\$	Website development expenditure HK\$	Total HK\$
Cost:			
At beginning of year	20,517,109	1,761,427	22,278,536
Exchange adjustment	56,012	–	56,012
At 31 December 2004	20,573,121	1,761,427	22,334,548
Accumulated amortisation:			
At beginning of year	13,216,488	804,365	14,020,853
Provided during the year	7,323,051	957,062	8,280,113
Exchange adjustment	33,582	–	33,582
At 31 December 2004	20,573,121	1,761,427	22,334,548
Net book value:			
At 31 December 2004	–	–	–
At 31 December 2003	7,300,621	957,062	8,257,683

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31 December 2004

14. FIXED ASSETS

Group

	Office equipment HK\$	Plant and machinery HK\$	Furniture and fittings HK\$	Total HK\$
Cost:				
At beginning of year	420,117	212,551	23,400	656,068
Write off	(319,270)	–	–	(319,270)
Exchange adjustment	2,515	9,449	–	11,964
At 31 December 2004	103,362	222,000	23,400	348,762
Accumulated depreciation:				
At beginning of year	201,164	187,211	16,380	404,755
Provided during the year	140,265	26,466	7,020	173,751
Write off	(245,177)	–	–	(245,177)
Exchange adjustment	2,151	8,323	–	10,474
At 31 December 2004	98,403	222,000	23,400	343,803
Net book value:				
At 31 December 2004	4,959	–	–	4,959
At 31 December 2003	218,953	25,340	7,020	251,313

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31 December 2004

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$	HK\$
Unlisted investments, at cost	12,856,638	12,856,638
Due from a subsidiary	23,373,228	11,837,570
	36,229,866	24,694,208
Provision for impairment	(18,000,000)	(13,000,000)
	18,229,866	11,694,208

Last year's amount due from a subsidiary included in the Company's current assets of HK\$8,161,928 was unsecured, interest-free and had no fixed terms of repayment. The amount due from a subsidiary included in the Company's non-current assets of HK\$23,373,228 (2003: HK\$11,837,570) is unsecured, interest-free and is repayable after one year.

Particulars of the subsidiaries as at 31 December 2004 are as follows:

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

* Shares held directly by the Company.

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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31 December 2004

16. INVENTORIES

	Group	
	2004	2003
	HK\$	HK\$
Raw materials	441,546	595,553
Finished goods	2,665	40,558
	444,211	636,111

At 31 December 2004, no inventories were stated at net realisable value (2003: Nil).

17. ACCOUNTS RECEIVABLE

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

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

	Group	
	2004	2003
	HK\$	HK\$
Within 30 days	556,499	84,582
Between 31 to 60 days	10,288	13,199
Between 61 to 90 days	476,792	12,231
Between 91 to 180 days	47,286	1,139,611
	1,090,865	1,249,623

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Cash and bank balances	4,367,054	759,032	321,573	396,931
Time deposits	17,823,159	20,204,692	4,000,501	9,525,737
	22,190,213	20,963,724	4,322,074	9,922,668

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31 December 2004

19. ACCOUNTS PAYABLE

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

	Group	
	2004	2003
	HK\$	HK\$
Within 30 days	39,301	71,974
Between 31 to 60 days	–	17,035
Between 61 to 90 days	–	2,340
Between 91 to 180 days	7,704	20,736
Between 181 to 365 days	–	94,840
	47,005	206,925

20. SHARE CAPITAL

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

	Number of ordinary shares of HK\$0.05 each	Nominal Value HK\$
Authorised:		
At 1 January 2003, 31 December 2003 and 31 December 2004	2,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2003	500,000,000	25,000,000
Exercise of share options	1,250,000	62,500
At 31 December 2003 and 1 January 2004	501,250,000	25,062,500
Exercise of share options (Note)	5,000	250
At 31 December 2004	501,255,000	25,062,750

Note: During the year, the subscription rights attaching to 5,000 share options were exercised at the subscription price of HK\$0.08 per share (note 21(i)), resulting in the issue of 5,000 shares of HK\$0.05 each for a total cash consideration, before expenses, of HK\$400.

21. SHARE OPTION SCHEMES

(i) Pre-IPO share option scheme

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

- (a) 50% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 12 months from 27 February 2002 on which the shares are first listed on the GEM;
- (b) 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 24 months from 27 February 2002; and
- (c) the remaining 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 36 months from 27 February 2002,

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

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

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

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31 December 2004

21. SHARE OPTION SCHEMES (CONTINUED)

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

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

Name of participant	Number of share options				Exercise period of share options	Exercise price of share options (Note a) HK\$	Price of Company's shares at exercise date of share options (Note b) HK\$
	At 1 January 2004	Exercised during the year	Lapsed during the year	At 31 December 2004			
Directors							
Ngiam Mia Hai Bernard	3,800,000	–	–	3,800,000	27 February 2003 to 1 February 2008	0.08	–
	1,900,000	–	–	1,900,000	27 February 2004 to 1 February 2008	0.08	–
	1,900,000	–	–	1,900,000	27 February 2005 to 1 February 2008	0.08	–
	<u>7,600,000</u>	–	–	<u>7,600,000</u>			
Ngiam Mia Hong Alfred	3,600,000	–	–	3,600,000	27 February 2003 to 1 February 2008	0.08	–
	1,800,000	–	–	1,800,000	27 February 2004 to 1 February 2008	0.08	–
	1,800,000	–	–	1,800,000	27 February 2005 to 1 February 2008	0.08	–
	<u>7,200,000</u>	–	–	<u>7,200,000</u>			
Fomer director							
William Michael Driscoll	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2008	0.08	–
	900,000	–	–	900,000	27 February 2004 to 1 February 2008	0.08	–
	900,000	–	–	900,000	27 February 2005 to 1 February 2008	0.08	–
	<u>3,600,000</u>	–	–	<u>3,600,000</u>			

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31 December 2004

21. SHARE OPTION SCHEMES (CONTINUED)

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

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

Name of participant	Number of share options				Exercise period of share options	Exercise price of share options (Note a) HK\$	Price of Company's shares at exercise date of share options (Note b) HK\$
	At 1 January 2004	Exercised during the year	Lapsed during the year	At 31 December 2004			
Directors of subsidiaries							
Ngiam Mia Je Patrick	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2008	0.08	–
	900,000	–	–	900,000	27 February 2004 to 1 February 2008	0.08	–
	900,000	–	–	900,000	27 February 2005 to 1 February 2008	0.08	–
	<u>3,600,000</u>	<u>–</u>	<u>–</u>	<u>3,600,000</u>			
Ngiam Mia Kiat Benjamin	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2008	0.08	–
	900,000	–	–	900,000	27 February 2004 to 1 February 2008	0.08	–
	900,000	–	–	900,000	27 February 2005 to 1 February 2008	0.08	–
	<u>3,600,000</u>	<u>–</u>	<u>–</u>	<u>3,600,000</u>			
Lauw Hui Kian	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2008	0.08	–
	900,000	–	–	900,000	27 February 2004 to 1 February 2008	0.08	–
	900,000	–	–	900,000	27 February 2005 to 1 February 2008	0.08	–
	<u>3,600,000</u>	<u>–</u>	<u>–</u>	<u>3,600,000</u>			

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31 December 2004

21. SHARE OPTION SCHEMES (CONTINUED)

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

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

Name of participant	Number of share options				Exercise period of share options	Exercise price of share options (Note a) HK\$	Price of Company's shares at exercise date of share options (Note b) HK\$
	At 1 January 2004	Exercised during the year	Lapsed during the year	At 31 December 2004			
Other employees							
In aggregate	8,100,000	(5,000)	–	8,095,000	27 February 2003 to 1 February 2008	0.08	0.20
	4,275,000	–	–	4,275,000	27 February 2004 to 1 February 2008	0.08	–
	4,275,000	–	–	4,275,000	27 February 2005 to 1 February 2008	0.08	–
	<u>16,650,000</u>	<u>(5,000)</u>	<u>–</u>	<u>16,645,000</u>			
	2,300,000	–	(1,800,000)	500,000	27 February 2003 to 1 February 2008	0.20	–
	1,550,000	–	(900,000)	650,000	27 February 2004 to 1 February 2008	0.20	–
	1,550,000	–	(900,000)	650,000	27 February 2005 to 1 February 2008	0.20	–
	<u>5,400,000</u>	<u>–</u>	<u>(3,600,000)</u>	<u>1,800,000</u>			
	<u>51,250,000</u>	<u>(5,000)</u>	<u>(3,600,000)</u>	<u>47,645,000</u>			

Notes:

- (a) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (b) The price of the Company's share disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

5,000 share options exercised during the year resulted in the issue of 5,000 ordinary shares of the Company and additional share capital of HK\$250 and share premium account of HK\$150 (before issue expenses).

At the balance sheet date, the Company had 47,645,000 share options outstanding under the Pre-Scheme, which represented approximately 9.5% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 47,645,000 additional ordinary shares of the Company and additional share capital of HK\$2,382,250 and share premium account of HK\$1,645,350 (before issue expenses).

21. SHARE OPTION SCHEMES (CONTINUED)

(ii) Post-IPO share option scheme

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

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

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

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

The share options granted may be exercised at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the board of directors which shall not be more than 10 years from the date on which the share option is deemed to be granted and accepted. The Post-Scheme remains in force for a period of 10 years with effect from 2 February 2002. No share options were granted by the Company under the Post-Scheme during the year and up to the date of approval of these financial statements.

22. RESERVES/(DEFICIT)**(a) Group**

The amounts of the Group's reserves/(deficit) and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 20 of the financial statements.

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

The capital reserve of the Group represents the difference between the aggregate nominal value of share capital of the subsidiaries acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares over the nominal value of share capital of the Company issued as consideration in exchange therefor.

(b) Company

	Share premium account HK\$ (Note)	Accumulated losses HK\$	Total HK\$
At 1 January 2003	21,207,586	(3,768,761)	17,438,825
Exercise of share options	133,500	–	133,500
Net loss for the year	–	(15,848,654)	(15,848,654)
<hr/>			
At 31 December 2003 and 1 January 2004	21,341,086	(19,617,415)	1,723,671
Exercise of share options (note 21(i))	150	–	150
Net loss for the year	–	(7,251,031)	(7,251,031)
<hr/>			
At 31 December 2004	21,341,236	(26,868,446)	(5,527,210)

Note: The share premium account of the Company includes: (i) the shares of the Company issued at a premium; and (ii) the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

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23. OPERATING LEASE ARRANGEMENTS

At 31 December 2004, the Company and the Group had not entered into any non-cancellable operating lease arrangement and had no other significant commitment.

During the year ended 31 December 2003, the Group leased certain of its office premises under operating lease arrangements. Leases for properties were negotiated for terms ranging from two to five years. The leases were terminated in April 2004. At 31 December 2003, the Group's total future minimum lease payments under non-cancellable operating leases falling due were as follows:

	Group
	2003
	HK\$
Within one year	280,800
In the second to fifth years, inclusive	608,400
	<hr/>
	889,200

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

24. RELATED PARTY TRANSACTIONS

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

		2004	2003
	Notes	HK\$	HK\$
IPC:			
Purchases	(i)	30,190	16,951
Operating lease rentals in respect of land and buildings	(ii)	338,400	324,000
Management fees	(iii)	169,200	162,000
Essex Bio-Pharmacy Limited#:			
Operating lease rentals in respect of land and buildings	(ii), (iv)	-	938,580

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

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31 December 2004

24. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (i) The directors of the Company have confirmed that the prices and terms of these sale and purchase transactions approximated to those with independent third parties.
- (ii) The rental expenses were determined based on the then fair market value.
- (iii) The management fees were paid at S\$3,000 (approximately equivalent to HK\$14,100) per month. The management fees are charged with reference to the costs incurred in respect of, inter alia, the provision of office space and equipment and other overheads.
- (iv) During the year, the Company replaced the rental agreement with Essex Bio-Pharmacy Limited by entering into a management service agreement with a company incorporated in Hong Kong of which an officer of the Company is also a director and a shareholder. The management fees of HK\$938,580 are charged with reference to costs incurred in respect of, inter alia, the provision of office space and equipment and other overheads.

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

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 January 2005.

49 FIVE YEAR FINANCIAL SUMMARY

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

RESULTS

Year ended 31 December

	2004	2003	2002	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER	17,972,049	19,215,548	15,554,668	28,335,059	68,202,269
Cost of sales	(15,435,204)	(18,334,948)	(9,955,463)	(15,032,286)	(54,908,619)
Gross profit	2,536,845	880,600	5,599,205	13,302,773	13,293,650
Other income	292,062	286,533	492,307	1,122,806	1,536,806
Distribution and selling expenses	(123,245)	(282,116)	(1,275,472)	(297,345)	(499,226)
General and administrative expenses	(10,261,072)	(12,680,828)	(14,025,955)	(8,171,825)	(6,905,532)
Other operating expenses	(247,855)	–	(32,768)	(380,971)	(2,828,396)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(7,803,265)	(11,795,811)	(9,242,683)	5,575,438	4,597,302
Finance costs	–	–	452,494	(472,364)	(1,080)
PROFIT/(LOSS) BEFORE TAX	(7,803,265)	(11,795,811)	(8,790,189)	5,103,074	4,596,222
Tax credit/(charge)	112,321	231,447	543,587	(1,314,885)	(1,702,530)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(7,690,944)	(11,564,364)	(8,246,602)	3,788,189	2,893,692

ASSETS AND LIABILITIES

31 December

	2004	2003	2002	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$
Non-current assets	4,959	8,508,996	15,681,504	11,994,974	3,087,099
Current assets	23,990,639	23,185,932	28,758,672	12,943,915	27,751,989
Current liabilities	(4,287,182)	(4,915,548)	(6,925,298)	(12,548,657)	(21,800,452)
	19,708,416	26,779,380	37,514,878	12,390,232	9,038,636

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period and the consolidated results of the Group for the years ended 31 December 2004 and 2003 are also set out on page 18 of the audited financial statements.
2. The consolidated balance sheets as at 31 December 2002, 2001 and 2000 are extracted from the published audited financial statements for the years ended 31 December 2002, 2001 and 2000, prepared on the basis as if the Group had been in existence for these years. The consolidated balance sheets of the Group as at 31 December 2004 and 2003 are also set out on page 19 of the audited financial statements.