乾坤燭® PROSTICKS®

ProSticks International Holdings Limited

(Incorporated in the Cayman Islands with Limited)

Stock Code : 8055

Annual Report 2006

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

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Corporate Information

Board of Directors	**Executive Directors** Ms. Tsang Wing Yee *(Chairman)* Mr. Yuen Sun Chak Mr. Chan Yat Leong Mr. Law Tin Fan Arthur **Independent Non-executive Directors** Professor Lin Chinlon Mr. Ho Ho Yee Alexandra Mr. Lau Wing
Company secretary and qualified accountant	Mr. Yuen Sun Chak *CFA, CPA, FCCA*
Authorized representatives	Ms. Tsang Wing Yee Mr. Yuen Sun Chak
Compliance officer	Ms. Tsang Wing Yee *CFA, CPA, FCCA*
Audit committee	Mr. Lau Wing *(Committee Chairman)* Professor Lin Chinlon Mr. Ho Ho Yee Alexandra
Remuneration committee	Mr. Ho Ho Yee Alexandra *(Committee Chairman)* Ms. Tsang Wing Yee Professor Lin Chinlon Mr. Lau Wing
Registered office	Cricket Square Hutchins Drive P. O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business	11th Floor, Hong Kong & Macau Building 156-157 Connaught Road Central Hong Kong

Corporate Information

Principal bankers	Wing Hang Bank Limited 161 Queen's Road Central Hong Kong Fubon Bank (Hong Kong) Limited 38 Des Voeux Road Central Hong Kong
Principal share registrar and transfer office in the Cayman Islands	Butterfield Fund Services (Cayman) Limited Butterfield House, 68 Fort Street P. O. Box 705, George Town Grand Cayman Cayman Islands
Branch share registrar and transfer office in Hong Kong	Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Hong Kong
Auditor	Lak & Associates C.P.A. Limited 3rd Floor, Chinachem Tower 34-37 Connaught Road Central Hong Kong
Legal advisers	**As to the Cayman Islands Law:** Conyers Dill & Pearman, Cayman Cricket Square Hutchins Drive P. O. Box 2681 Grand Cayman KY1-1111 Cayman Islands **As to Hong Kong Law:** Richards Butler 20th Floor, Alexandra House 16-20 Chater Road Central, Hong Kong
Stock Code	8055
Company homepage/website	http://www.prosticks.com.hk

Chairman's Statement

I am pleased to report that the Group has achieved a significant improvement in its results for the year ended 31 December 2006. The consolidated net loss for the year decreased substantially from approximately HK$4.1 million to approximately HK$0.5 million, representing a drop of approximately 87.3%. As a result, the basic loss per share decreased from 0.62 cent for the previous year to 0.15 cent for this year.

The significant upturn of the Group's performance was mainly attributable to the various restructuring measures implemented during the year. In May 2006, the Group disposed of its financial instruments analysis software products business, which has been reporting substantial losses for the past consecutive years. After the disposal, the Group focused on its operational software application products business. At the same time, additional funds were injected into the Group which enabled it to revamp its operation activities and cope with the potential liquidity problem.

Besides, a team of new management has been introduced to the Group. The management has conducted a detailed review on the business operations and financial position of the Group for the purpose of reestablishing the business plans and strategies for the future development of the Group. To better control its costs, the Group reshuffled its cost structure by outsourcing its software development and maintenance services. Together with various cost control measures, the restructuring effectively brought down the total costs of the Group.

In order to further improve its profitability, the Group has taken a more conservative approach in accepting new orders and focused on engagements that had higher profit margin. Consequently, the Group's performance turned around and a net profit from continuing operation was achieved although there was a shrinkage in revenue.

Looking ahead, the management expects that the financial software market shall remain competitive in the coming year. The general trend of rising operation costs may continue to impose stress on the future profitability of the Group. To diversify the Group's business risk, we are actively exploring opportunities for new business development with the objectives of broadening the Group's income source and enhancing the long-term growth potential of the Group.

Finally, I would like to take this opportunity to express my sincere gratitude to the members of the board of directors and staff of the Group for their utmost support and contribution to the Group.

Tsang Wing Yee
Chairman

Hong Kong, 27 March 2007

Management Discussion and Analysis

FINANCIAL REVIEW

Financial results

For the year ended 31 December 2006, the Group recorded a total revenue and net consolidated loss of approximately HK$6,714,000 (2005: HK$11,656,000) and HK$515,000 (2005: HK$4,056,000) respectively.

Continuing Operation

Approximately 81.8% of the total revenue of the Group, which amounted to approximately HK$5,493,000 (2005: HK$7,743,000), was derived from the continuing operation of the Group. The revenue from continuing operation for the year were wholly generated from the business of operational software application products as the Group's financial instruments analysis software business has ceased completely after the disposal of ProSticks.com Limited in May 2006 and the cessation of business of ProSticks Financial Solutions Limited in August 2006. When compared with last year, the revenue from continuing operation for the year has decreased by approximately 29.1%.

During the year, the Group has outsourced its software development and maintenance works to a third party. As a result, the subcontracting fee eroded the Group's gross profit margin of continuing operation to HK$2,968,000 (2005: HK$7,285,000), representing a decrease of approximately 59.3% over the previous year. On the other hand, the savings in administrative costs resulted from the outsourcing outweighed the increase in subcontracting fee. The total administrative expenses for the continuing operation reduced by approximately 33.6% to approximately HK$5,667,000 (2005: HK$8,529,000).

Since the Company has settled all the borrowings during the year, the finance costs for the year decreased by approximately 21.4% to approximately HK$563,000 (2005: HK$716,000).

Resulted from the effective restructuring measures, the consolidated net loss of the Group was abated and a net profit from continuing operation of approximately HK$20,000 (2005: loss of HK$1,804,000) was recorded for the year.

Discontinued Operation

The discontinued operation contributed a revenue of approximately HK$1,221,000 (2005: HK$3,913,000) to the Group for the year ended 31 December 2006. Excluding the gain of approximately HK$1,154,000 resulted from the disposal of a subsidiary, the discontinued operation recorded a net loss of approximately HK$1,689,000, representing a decrease of approximately 25.0% when compared with last year.

Capital structure, liquidity and financial resources

The Group financed its business operations mainly with cash revenue generated from operating activities and additional funds raised by issuance of new shares. As at 31 December 2006, the Group had current assets of approximately HK$908,000 (2005: HK$3,174,000), including cash and cash equivalents of approximately HK$239,000 (2005: HK$1,319,000). The Group kept most of its cash in Hong Kong dollar and placed them as short-term deposits in banks for interests. The total assets of the Group amounted to approximately HK$974,000 as at 31 December 2006 (2005: HK$3,652,000).

As at 31 December 2006, the Group did not have any outstanding borrowing. The total liabilities of the Group amounted to approximately HK$2,234,000 (2005: HK$13,123,000), which mainly comprised the amounts due to directors and trade and other payables. As at 31 December 2006, the net liabilities of the Group decreased to approximately HK$1,260,000 (2005: HK$9,471,000), representing a reduction of approximately 86.7% as compared with the previous year. The gearing ratio of the Group, as expressed as the ratio of total liabilities to total assets, reduced to 2.29 as at 31 December 2006 (2005: 3.59).

On 17 May 2006, the Company consolidated every ten shares of HK$0.01 each in the issued and unissued share capital of the Company into one consolidated share of HK$0.10 each in the issued and unissued share capital of the Company. On 26 May 2006, 80,000,000 new shares were issued and allotted to Magic Key International Holdings Limited and Boyce Limited. Subsequently, 1,600,000 new shares were issued upon the exercise of share options. As at 31 December 2006, the authorized share capital of the Company was HK$80,000,000 divided into 800,000,000 shares of HK$0.10 each and the issued share capital of the Company was HK$14,677,000 divided into 146,770,000 shares of HK$0.10 each.

Foreign exchange exposure

Most of the sales and expenditures of the Group are denominated in Hong Kong dollar and United States dollar while some transactions are denominated in Renminbi and Canadian dollar. As Hong Kong dollar is closely linked with United States dollar and the Group's transaction amount in other currencies are relatively immaterial, the management considers that the Group has no significant foreign exchange exposures. The Group has no foreign currency borrowings and has not used any financial instrument for hedging purposes.

Contingent liabilities and charges on the Group's assets

There were no material contingent liabilities or charges on the Group's assets as at 31 December 2006.

Management Discussion and Analysis

OPERATIONAL REVIEW

Financial instruments analysis software products

The business of financial instruments analysis software products has sustained net losses in the past consecutive years albeit various measures and development plans have been implemented. In order to relieve the Group from the continued net cash outflow for the business of financial instruments analysis software products and to improve the financial position of the Group, the Group disposed of ProSticks.com Limited, which was mainly engaged in the development, production and distribution of financial instruments analysis software products, on 31 May 2006. In addition, ProSticks Financial Solutions Limited, which was mainly engaged in the distribution of financial instruments analysis software products in North America, was dissolved on 18 October 2006. After the disposal and the dissolution of subsidiaries described above, the Group has ceased the business of financial instruments analysis software products completely.

Operational software application products

The Group's operational software application business faced with great challenges in the past year. The escalating staff costs and administrative expenses had deteriorated the profit margin of the Group substantially in the first half of the year. The leaving of several experienced technical staff had also deterred the normal operation of the Group. As a result, both revenue and segment profit plummeted during the year.

To tackle with the above challenges, the Group has outsourced its software development and maintenance services to a third party since June 2006 with the objectives of furthering efficiency and lowering the fixed costs so that the Group can be more adaptive to the increasingly competitive business environment. The Group has also shifted its business focus to high value-added projects.

Employee information

As at 31 December 2006, the Group had a total of 6 employees (including executive directors). For the year under review, the total staff costs amounted to approximately HK$5,832,000 (2005: HK$9,226,000), representing a decrease of approximately 36.8% over the previous year. The decrease in staff costs was mainly attributable to the outsourcing of the software development and maintenance services to a third party during the year.

The salaries and benefits of the Group's employees are kept at a market level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Staff benefits include contributions to mandatory provident fund and share options. During the year, options for subscribing 3,615,000 shares of the Company were granted.

Material acquisitions or disposals of subsidiaries

The Group entered into a sale and purchase agreement on 27 March 2006 to dispose of its entire equity interest in ProSticks.com Limited at a total consideration of HK$2,000,000, which was settled by canceling the convertible bond in principal amount of HK$2,000,000 issued by the Company. The disposal was completed on 31 May 2006 and a gain on disposal of approximately HK$1,154,000 was recorded.

ProSticks Financial Solutions Limited, a foreign subsidiary of the Company, ceased its operation in August 2006 and was dissolved on 18 October 2006. A loss of operation of approximately HK$269,000 was recorded for the year.

The disposal and dissolution of the above subsidiaries have no material adverse impacts on the Group's business and financial position. Save for the aforementioned, no significant investments and material acquisitions or disposals of subsidiaries or affiliated companies which had significant impact on the financial results of the Group had been made during the year ended 31 December 2006.

Future plans for material investments or capital assets

As at 31 December 2006, the Group did not have any concrete plan for material investments or capital assets.

PROSPECTS

The management anticipates that the intensifying competition in the financial software market and pressure of rising operation costs may persist in the coming year. To cope with the challenges laying ahead, the Group will further strengthen its sales force and continue to capture opportunities that promote business growth. Building on a streamlined and strengthened foundation, the management remains optimistic about the long-term prospects of the Group.

Meanwhile, the Group will continue to look for new business opportunities that may increase shareholders' value of the Group.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. Tsang Wing Yee, aged 35, has been appointed as Chairman and an executive director of the Company since May 2006. Ms. Tsang is a Chartered Financial Analyst charterholder, a Certified Public Accountant and a fellow of the Association of Chartered Certified Accountants. Ms. Tsang holds a master degree in financial management and a bachelor degree in business administration. She has more than 12 years of experience in the investment and finance fields. Ms. Tsang is the spouse of Mr. Chan Yat Leong, an executive director of the Company.

Mr. Yuen Sun Chak, aged 38, has been appointed as Chief Executive Officer and an executive director of the Company since May 2006. Mr. Yuen is a Chartered Financial Analyst charterholder, a Certified Public Accountant and a fellow of the Association of Chartered Certified Accountants. Mr. Yuen holds a master degree in business administration and a bachelor degree in social science. Mr. Yuen has also served as the qualified accountant and company secretary of the Company since June 2005. He has more than 15 years of experience in the accounting and finance fields.

Mr. Chan Yat Leong, aged 36, joined the Group as an executive director in May 2006. Mr. Chan graduated from Hong Kong Polytechnic University with a master degree in computer science. Mr. Chan has been in the field of computer science for more than ten years. Prior to joining the Group, Mr. Chan served as a chief technical officer in a technology company. Mr. Chan is the spouse of Ms. Tsang Wing Yee, Chairman and an executive director of the Company.

Mr. Law Tin Fan Arthur, aged 40, joined the Group as an executive director in May 2006. Mr. Law has attained over 14 years' management experience in the fields of financial information and telecommunication from global companies in the U.S. and Europe, including Dun & Bradstreet, Dow Jones, Financial Times, Agence France-Presse, MCI WorldCom and Standard & Poor's. Mr. Law holds a bachelor of science degree in business administration from Pepperdine University.

Each of Ms. Tsang Wing Yee, Mr. Yuen Sun Chak, Mr. Chan Yat Leong and Mr. Law Tin Fan Arthur is a director of Magic Key International Holdings Limited and Boyce Limited, both of which have an interest in the share capital of the Company which fall to be disclosed to the Company under the provisions in Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Lin Chinlon, aged 61, has been appointed as an independent non-executive director of the Company since September 2006. Professor Lin is a Professor of Photonics with joint appointment in the Department of Information Engineering & Department of Electronic Engineering of The Chinese University of Hong Kong. He is a fellow of Institute of Electrical and Electronics Engineers and Optical Society of America. He has more than 33 years of experience in photonics research and development. He joined The Chinese University of Hong Kong in 2003 as director of the Institute of Optical Science and Technology. Professor Lin has also served on the technical program committees of several international conferences.

Mr. Lau Wing, aged 36, has been appointed as an independent non-executive director of the Company since May 2006. He also serves as Chairman of the audit committee of the Company. Mr. Lau is a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the Taxation Institute of Hong Kong. He has more than 12 years of auditing and taxation experiences gained from an international accounting firm. Mr. Lau received his master degree in business administration and executive diploma in e-Commerce from The Hong Kong University of Science and Technology.

Mr. Ho Ho Yee Alexendra, aged 35, has been appointed as an independent non-executive director of the Company since May 2006. He also serves as Chairman of the remuneration committee of the Company. Mr. Ho is a Registered Physiotherapist in Hong Kong with a master degree in Exercise Science. His clinical interests include orthopedics, ergonomics, sports injuries prevention/rehabilitation and physical conditioning. Mr. Ho has been in the field of sports training for more than 10 years and he has acquired coaching qualification in different national sports associations. He is currently putting his effort in training sports professionals in Hong Kong as well as in China.

SENIOR MANAGEMENT

Ms. Fan Hoi Yan Helen, aged 28, joined the Group as the Chief Accountant in October 2006. Ms. Fan is a Certified Public Accountant and an associate of the Association of Chartered Certified Accountants. Ms. Fan holds a bachelor degree in business administration (accountancy) and has more than 6 years of experience in auditing and accounting fields.

Report of the Directors

The board (the "Board") of directors (the "Directors") of ProSticks International Holdings Limited (the "Company") presents herewith the annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 18 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's revenue and profit/(loss) from operating activities by principal activity and geographical area of operations for the year ended 31 December 2006 is set out in note 15 to the financial statements.

RESULTS AND DIVIDEND

The Group's results for the year ended 31 December 2006 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 27 to 29.

The Directors do not recommend payment of any final dividend in respect of the reporting year (2005: HK$Nil).

SUMMARY FINANCIAL INFORMATION

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

	2006	2005	2004	2003	2002
	HK'000	HK'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	
Revenue	**6,714**	11,656	8,556	6,111	4,110
Loss before tax	**515**	4,056	9,673	12,669	20,292
Net loss after tax	**515**	4,056	9,673	12,669	20,292
Total assets	**974**	3,652	3,935	3,855	13,518
Total liabilities	**2,234**	13,123	9,317	5,270	4,070

Note: The figures for the two years ended 31 December 2004 and 2003 have been restated in accordance with the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants. The figures for the years ended 31 December 2005 and 2002 were extracted from the Company's 2005 and 2002 annual report respectively.

PLANT AND EQUIPMENT

Movements of plant and equipment are set out in note 16 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 18 to the financial statements.

INTEREST-BEARING BORROWINGS

Details of the interest-bearing borrowings of the Group are set out in note 23 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in notes 24 and 26 to the financial statements respectively.

CONVERTIBLE SECURITIES

Save as disclosed in note 26 to the financial statements, no convertible securities, options, warrants or similar rights were issued or granted by the Company during the year.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 30 and note 25 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company did not have any reserve available for cash distribution (2005: HK$Nil). In accordance with the laws of the Cayman Islands and the Company's Articles of Association, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales	
— the largest customer	26%
— five largest customers	64%
Purchases	
— the largest supplier	73%
— five largest suppliers	86%

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

DIRECTORS

The Directors of the Company during the financial year and at the date of this report were:—

Executive Directors

Ms. Tsang Wing Yee	(appointed on 31 May 2006)
Mr. Yuen Sun Chak	(appointed on 31 May 2006)
Mr. Chan Yat Leong	(appointed on 31 May 2006)
Mr. Law Tin Fan Arthur	(appointed on 31 May 2006)
Dr. Chan Lai Yin Simon	(appointed on 31 May 2006 and resigned on 15 February 2007)
Mr. Li Ching Ping Vincent	(resigned on 1 September 2006)
Mr. Fung Yan Shun	(resigned on 31 May 2006)

DIRECTORS *(Continued)*

Independent Non-executive Directors

Prof. Lin Chinlon	(appointed on 1 September 2006)
Mr. Lau Wing	(appointed on 31 May 2006)
Mr. Ho Ho Yee Alexendra	(appointed on 31 May 2006)
Mr. Ng Ge Bun	(resigned on 31 May 2006)
Mr. Wan Yiu Kwan Stephen	(resigned on 31 May 2006)
Mr. Lee Kar Wai	(resigned on 31 May 2006)

The Company has received from each of the independent non-executive Directors the annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all independent non-executive Directors are independent to the Group in accordance with the terms of the guidelines as set out in Rule 5.09 of the GEM Listing Rules.

In accordance with Article 86(3) of the Company's Articles of Association, Ms. Tsang Wing Yee, Mr. Yuen Sun Chak, Mr. Chan Yat Leong, Mr. Law Tin Fan Arthur, Prof. Lin Chinlon, Mr. Lau Wing and Mr. Ho Ho Yee Alexendra will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 33 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the Directors and the five highest paid employees in the Group are set out in notes 9 and 10 to the financial statements respectively.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2006, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares of the Company

		Number of shares or underlying shares held			Percentage
Name of Directors	**Capacity**	**Ordinary shares**	**Share options**	**Total**	**of issued share capital**
Tsang Wing Yee	Interest of a controlled corporation	80,000,000 *(Note 1)*	—	80,000,000	54.51%
	Beneficial owner	—	145,000	145,000	0.10%
	Family interest	—	145,000 *(Note 2)*	145,000	0.10%
	Sub-total	80,000,000	290,000	80,290,000	54.71%
Chan Yat Leong	Interest of a controlled corporation	80,000,000 *(Note 1)*	—	80,000,000	54.51%
	Beneficial owner	—	145,000	145,000	0.10%
	Family interest	—	145,000 *(Note 3)*	145,000	0.10%
	Sub-total	80,000,000	290,000	80,290,000	54.71%

DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

Long position in shares of the Company *(Continued)*

		Number of shares or underlying shares held			
Name of Directors	**Capacity**	**Ordinary shares**	**Share options**	**Total**	**Percentage of issued share capital**
Yuen Sun Chak	Beneficial owner	—	500,000	500,000	0.34%
Law Tin Fan Arthur	Beneficial owner	—	500,000	500,000	0.34%
Lin Chinlon	Beneficial owner	—	145,000	145,000	0.10%
Lau Wing	Beneficial owner	—	145,000	145,000	0.10%
Ho Ho Yee Alexendra	Beneficial owner	—	145,000	145,000	0.10%

Notes:

1. 43,551,000 shares and 36,449,000 shares of the Company were held by Magic Key International Holdings Limited and Boyce Limited respectively. Each of Magic Key International Holdings Limited and Boyce Limited is owned as to 46.50% by Ms. Tsang Wing Yee, 32.55% by Mr. Chan Yat Leong, 13.95% by Mr. Yuen Sun Chak and 7.00% by Mr. Law Tin Fan Arthur.

2. Ms. Tsang Wing Yee is the spouse of Mr. Chan Yat Leong and thus Ms. Tsang Wing Yee was deemed to be interested in the share options held by Mr. Chan Yat Leong.

3. Mr. Chan Yat Leong is the spouse of Ms. Tsang Wing Yee and thus Mr. Chan Yat Leong was deemed to be interested in the share options held by Ms. Tsang Wing Yee.

4. Nominee shares in subsidiaries were held by a Director in trust for the Group.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, so far as known to any Director or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company

		Number of shares or underlying shares held			
Name of Directors	**Capacity**	**Ordinary shares**	**Share options**	**Total**	**Percentage of issued share capital**
Magic Key International Holdings Limited	Beneficial owner	43,551,000	—	43,551,000	29.67%
Boyce Limited	Beneficial owner	36,449,000	—	36,449,000	24.83%
Investec Bank (UK) Limited	Beneficial owner	18,340,000	—	18,340,000	12.50%
Great Power Associates Limited *(Note 1)*	Beneficial owner	9,047,924	—	9,047,924	6.16%
Li Ching Ping Vincent *(Note 1)*	Interest of a controlled corporation	9,047,924	—	9,047,924	6.16%
	Beneficial owner	—	2,400,000	2,400,000	1.64%
	Sub-total	9,047,924	2,400,000	11,447,924	7.80%
Frankie Dominion International Limited *(Note 2)*	Beneficial owner	7,526,098	—	7,526,098	5.13%
Lam Po Kwai *(Note 2)*	Interest of a controlled corporation	7,526,098	—	7,526,098	5.13%

Notes:

1. Great Power Associates Limited is wholly owned by Mr. Li Ching Ping Vincent. Accordingly, Mr. Li Ching Ping Vincent was deemed to be interested in the shares held by Great Power Associates Limited.

2. Frankie Dominion International Limited is beneficially owned as to 44.2% by Mr. Lam Po Kwai. Accordingly, Mr. Lam Po Kwai was deemed to be interested in the shares held by Frankie Dominion International Limited.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long position in shares of the Company *(Continued)*

Save as disclosed above, as at 31 December 2006, the Directors were not aware of any other persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

INTEREST IN COMPETING BUSINESS

During the year under review, neither the Directors nor the substantial shareholders of the Company and their respective associates had any interest in business that compete, either directly or indirectly, with the business of the Group.

AUDITOR

The Company's financial statements for the two years ended 31 December 2006 were audited by Messrs. Lak & Associates C.P.A. Limited, which was appointed as auditor of the Company following the dissolution of Messrs. Fan, Mitchell & Co. The financial statements for the year ended 31 December 2004 were audited by Messrs. Fan, Mitchell & Co., which replaced Messrs. Moores Rowland Mazars as auditor of the Company on 3 January 2005. Save as disclosed herein, there were no changes in auditor of the Company in any of the preceding 3 years.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Lak & Associates C.P.A. Limited as auditor of the Company.

On Behalf of the Board

Tsang Wing Yee
Chairman

Hong Kong
27 March 2007

The Company is committed to maintaining high standard of corporate governance and has applied the principles set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 to the GEM Listing Rules by making its best effort (i) to respect the rights of the shareholders and fully recognize the legitimate interests of the shareholders; (ii) to disclose information to shareholders in a timely manner and to increase the transparency of the Company; (iii) to enhance the risk management and internal control policies of the Company; and (iv) to maintain responsible decision making so as to safeguard the interests of the shareholders and the Company as a whole.

Save as the deviations as disclosed in this report, the Company has complied with all the code provisions on corporate governance practices as set out in the GEM Listing Rules.

DIRECTORS' SECURTIEIS TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors 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. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2006.

BOARD OF DIRECTORS AND BOARD MEETING

The Board of Directors, which currently comprises four executive Directors, namely Ms. Tsang Wing Yee, Mr. Yuen Sun Chak, Mr. Chan Yat Leong and Mr. Law Tin Fan Arthur, and three independent non-executive Directors, namely Professor Lin Chinlon, Mr. Ho Ho Yee Alexendra and Mr. Lau Wing, is responsible for the overall management of the Group. It focuses on directing the corporate strategies and supervising the business and significant affairs of the Group while the duties of the daily operation management are delegated to the management of the Company.

According to Rules 5.05 and 5.28 of the GEM Listing Rules, every board of directors of an issuer must include at least three independent non-executive directors and the audit committee must comprise a minimum of three members. However, during the period from 1 June 2006 to 31 August 2006, the Board had only two independent non-executive Directors and the audit committee comprised only two members. Therefore, the Company was unable to strictly comply with the relevant requirements of the GEM Listing Rules during the aforementioned period.

Ms. Tsang Wing Yee and Mr. Yuen Sun Chak are the chairman and chief executive officer of the Company respectively and their roles are clearly segregated.

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Each of the independent non-executive Directors has entered into a service contract with the Company for an initial period of two years, provided that either party may terminate the appointment by giving the other not less than one month's written notice. Each of the independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

The Board held six meetings during the year ended 31 December 2006 and the attendance of each Director at the board meetings are set out as follows:

Executive Directors:	**Attendance**
Ms. Tsang Wing Yee *(Note 1)*	2/2
Mr. Yuen Sun Chak *(Note 1)*	2/2
Mr. Chan Yat Leong *(Note 1)*	2/2
Mr. Law Tin Fan Arthur *(Note 1)*	2/2
Dr. Chan Lai Yin Simon *(Note 2)*	2/2
Mr. Li Ching Ping Vincent *(Note 3)*	5/5
Mr. Fung Yan Shun *(Note 4)*	4/4
Independent Non-executive Directors:	
Mr. Ho Ho Yee Alexendra *(Note 1)*	2/2
Mr. Lau Wing *(Note 1)*	2/2
Professor Lin Chinlon *(Note 5)*	1/1
Mr. Lee Kar Wai *(Note 4)*	4/4
Mr. Wan Yiu Kwan Stephen *(Note 4)*	4/4
Mr. Ng Ge Bun *(Note 4)*	4/4

Notes:

(1) Appointed on 31 May 2006.
(2) Appointed on 31 May 2006 and resigned on 15 February 2007.
(3) Resigned on 1 September 2006.
(4) Resigned on 31 May 2006.
(5) Appointed on 1 September 2006.

AUDIT COMMITTEE

The Company's audit committee was established on 26 November 2001 for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. The committee comprises three independent non-executive Directors, namely Mr. Lau Wing (the chairman of the committee), Professor Lin Chinlon and Mr. Ho Ho Yee Alexendra.

In 2006, the audit committee held four meetings and details of the attendance of each member of the committee are set out as follows:

Committee Members	Attendance
Mr. Lau Wing *(Note 1)*	2/2
Mr. Ho Ho Yee Alexendra *(Note 1)*	2/2
Professor Lin Chinlon *(Note 2)*	1/2
Mr. Lee Kar Wai *(Note 3)*	2/2
Mr. Wan Yiu Kwan *(Note 3)*	2/2
Mr. Ng Ge Bun *(Note 3)*	2/2

Notes:

(1) Appointed on 31 May 2006.
(2) Appointed on 1 September 2006.
(3) Resigned on 31 May 2006.

During the year, the audit committee, together with the financial controller of the Company and external auditor, has reviewed the accounting policies and methods adopted by the Group and discussed with the management of the Company, inter alia, the matters relating to internal control and financial statements of the Company. Relevant recommendations have been made to the management.

REMUNERATION COMMITTEE

The remuneration committee was established on 23 March 2005 with major functions of (i) making recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management of the Group; and (ii) determining the remuneration packages of all Directors and senior management of the Group; and (iii) reviewing and approving the performance-based remuneration.

REMUNERATION COMMITTEE *(Continued)*

The remuneration committee of the Company is chaired by Mr. Ho Ho Yee Alexendra. Other members include Ms. Tsang Wing Yee, Professor Lin Chinlon and Mr. Lau Wing. The majority of the members of the remuneration committee are independent non-executive Directors.

During the year ended 31 December 2006, a meeting of the remuneration committee was held. All members of the remuneration committee, at the time being, attended the meeting. The Company's policy for the remuneration of Directors and senior management was discussed in the meeting and no changes on the policy were recommended by the remuneration committee.

NOMINATION OF DIRECTORS

The Company has not set up a nomination committee, and Directors are nominated by existing member(s) of the Board. Board members, except the one who nominates the candidate, shall assess the candidate's suitability of becoming a board member with reference to the nominated candidate's qualification, working experience, past performance and requirements of the Company and relevant provisions in the GEM Listing Rules.

In the meeting held by the Board, it was resolved that all the existing Directors would be recommended to be retained by the Company. Furthermore, in accordance with Article 86(3) of the Company's articles of association, all existing directors shall retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

AUDITOR'S REMUNERATION

An audit fee of approximately HK$200,000 was charged to the Group's income statement for the year ended 31 December 2006.

INTERNAL CONTROL

The Company has conducted a review, which covered the major control procedures in areas of financial and operations of the Company, on the internal control system of the Group and was satisfied with the effectiveness of the Group's internal control procedures.

FINANCIAL STATEMENTS

The responsibilities of the Directors for preparing the financial statements and the auditor's reporting responsibilities on the financial statements are set out in the auditor's report contained in this annual report.

The financial statements have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities of HK$1,326,000 (2005: HK$5,011,000). The Directors have carefully reviewed the Group's cash position as at the balance sheet date and the cash flow forecast for the next twelve months and believe that the Group is able to meet its financial obligations in full as and when they fall due, after taking into consideration the funding plan of the Group and the commitments made by the Directors and a related party to provide continuing financial support to the Group so as to enable the Group to continue in business as a going concern. In view of the above, the Directors consider that the preparation of financial statements on a going concern basis is appropriate.

The independent auditor, in forming its opinion, has considered the adequacy of the disclosures made in the audited financial statements for the year ended 31 December 2006 concerning the appropriateness of the adoption of the going concern basis in the preparation of the financial statements. The auditor considers that appropriate disclosures have been made and its opinion is not qualified in this respect.

Auditor's Report

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF PROSTICKS INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of ProSticks International Holdings Limited (the "Company") set out on pages 27 to 75, which comprise the consolidated and Company balance sheets as at 31 December 2006 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

AUDITOR'S RESPONSIBILITY *(Continued)*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

FUNDAMENTAL UNCERTAINTY

At the balance sheet date, both the Company and the Group had significant capital deficiencies. In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain the basis of preparation of the financial statements. The Group is currently undertaking a number of measures to relieve its current profitability and liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the generation of sufficient working capital from the Group's future operations and the successful outcome of the Group's funding plan. The directors, after careful review of the cash generated from the ordinary course of business, the availability of new working capital and other significant factors that would affect the future cash flows of the Group, have concluded that the preparation of the financial statements on a going concern basis is appropriate. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Lak & Associates C.P.A. Limited
Certified Public Accountants
3rd Floor, Chinachem Tower
34-37 Connaught Road Central
Hong Kong
27 March 2007

Fung Lak
Practising Certificate Number P01301

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Continuing operation			
Revenue	7	**5,493**	7,743
Cost of sales		**(2,525)**	(458)
Gross profit		**2,968**	7,285
Other income	7	**3,283**	156
Administrative expenses		**(5,667)**	(8,529)
Other operating expenses		**(1)**	—
Profit/(loss) from operation		**583**	(1,088)
Finance costs	8	**(563)**	(716)
Profit/(loss) before taxation	8	**20**	(1,804)
Taxation	11a	**—**	—
Profit/(loss) for the year from continuing operation		**20**	(1,804)
Discontinued operation			
Loss for the year from discontinued operation	13	**(535)**	(2,252)
Loss for the year		**(515)**	(4,056)
Earnings/(loss) per share	14		
From continuing and discontinued operations			
Basic		**(0.1549 cent)**	(0.6225 cent)
Diluted		**N/A**	N/A
From continuing operation			
Basic		**0.0062 cent**	(0.2769 cent)
Diluted		**0.0056 cent**	N/A

The annexed notes on pages 32 to 75 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Plant and equipment	16	**66**	478
Intangible assets	17	**—**	—
		66	478
Current assets			
Trade and other receivables	19	**669**	1,855
Cash and cash equivalents	20	**239**	1,319
		908	3,174
Current liabilities			
Trade and other payables	21	**(1,158)**	(3,142)
Amounts due to directors	22 & 33c	**(1,076)**	(153)
Interest-bearing borrowings	23	**—**	(4,890)
		(2,234)	(8,185)
Net current liabilities		**(1,326)**	(5,011)
Total assets less current liabilities		**(1,260)**	(4,533)
Non-current liabilities			
Interest-bearing borrowings	23	**—**	(4,938)
NET LIABILITIES		**(1,260)**	(9,471)
CAPITAL AND RESERVES			
Share capital	24	**14,677**	6,517
Reserves	25a	**(15,937)**	(15,988)
TOTAL EQUITY		**(1,260)**	(9,471)

The annexed notes on pages 32 to 75 form an integral part of these financial statements.

Approved and authorized for issue by the Board of Directors on 27 March 2007.

Tsang Wing Yee
Director

Yuen Sun Chak
Director

Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Interests in subsidiaries	18	**12**	12
Current assets			
Amounts due from subsidiaries	18	**—**	7,857
Other receivables	19	**101**	219
Cash and cash equivalents	20	**142**	5
		243	8,081
Current liabilities			
Other payables	21	**(220)**	(1,265)
Amounts due to directors	22 & 33c	**(1,076)**	(153)
Interest-bearing borrowings	23	**—**	(4,890)
		(1,296)	(6,308)
Net current (liabilities)/assets		**(1,053)**	1,773
Total assets less current liabilities		**(1,041)**	1,785
Non-current liabilities			
Interest-bearing borrowings	23	**—**	(4,938)
NET LIABILITIES		**(1,041)**	(3,153)
CAPITAL AND RESERVES			
Share capital	24	**14,677**	6,517
Reserves	25b	**(15,718)**	(9,670)
TOTAL EQUITY		**(1,041)**	(3,153)

The annexed notes on pages 32 to 75 form an integral part of these financial statements.

Approved and authorized for issue by the Board of Directors on 27 March 2007.

Tsang Wing Yee
Director

Yuen Sun Chak
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Notes	Share capital HK$'000	Share premium HK$'000	Share-based payment reserve HK$'000	Capital reserve HK$'000	Convertible bonds-equity component HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		6,517	26,798	873	24,415	481	(359)	(64,107)	(5,382)
Net loss for the year		—	—	—	—	—	—	(4,056)	(4,056)
Issue of a convertible bond	23	—	—	—	—	81	—	—	81
Redemption of a convertible bond	23	—	—	—	—	(163)	—	163	—
Forfeited share options expensed off to accumulated losses		—	—	(343)	—	—	—	343	—
Exchange differences on translation of the financial statements of an overseas subsidiary		—	—	—	—	—	(114)	—	(114)
At 31 December 2005 and at 1 January 2006		**6,517**	**26,798**	**530**	**24,415**	**399**	**(473)**	**(67,657)**	**(9,471)**
Net loss for the year		**—**	**—**	**—**	**—**	**—**	**—**	**(515)**	**(515)**
Redemption and cancellation of convertible bonds	**23**	**—**	**—**	**—**	**—**	**(399)**	**—**	**399**	**—**
Issue of new shares	**24**	**8,000**	**—**	**—**	**—**	**—**	**—**	**—**	**8,000**
Share issue expenses		**—**	**(212)**	**—**	**—**	**—**	**—**	**—**	**(212)**
Shares issued under share option scheme	**24**	**160**	**245**	**(69)**	**—**	**—**	**—**	**—**	**336**
Share-based payment expenses	**8**	**—**	**—**	**129**	**—**	**—**	**—**	**—**	**129**
Forfeited share options expensed off to accumulated losses		**—**	**—**	**(298)**	**—**	**—**	**—**	**298**	**—**
Exchange differences on translation of the financial statements of an overseas subsidiary		**—**	**—**	**—**	**—**	**—**	**473**	**—**	**473**
At 31 December 2006		**14,677**	**26,831**	**292**	**24,415**	**—**	**—**	**(67,475)**	**(1,260)**

The annexed notes on pages 32 to 75 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	**2006 HK$'000**	2005 HK$'000
Operating activities			
Cash used in operations	28	**(2,429)**	(1,345)
Net cash used in operating activities		**(2,429)**	(1,345)
Investing activities			
Interest received		**64**	4
Proceeds from disposal of a subsidiary (net of cash and cash equivalents disposed of)	29	**(410)**	—
Purchase of plant and equipment		**—**	(75)
Net cash used in investing activities		**(346)**	(71)
Financing activities			
Issue of a convertible bond	23	**—**	2,000
Redemption of convertible bonds	23	**(5,000)**	(3,000)
Proceeds from a new unsecured loan	23	**—**	3,000
Proceeds from issue of ordinary shares	24	**8,336**	—
Share issue expenses paid		**(212)**	—
Interest paid	8, 21 & 23	**(695)**	(327)
Cash advance from directors		**—**	1,086
Cash repaid to directors		**(528)**	(933)
Net cash from financing activities		**1,901**	1,826
Net (decrease)/increase in cash and cash equivalents		**(874)**	410
Cash and cash equivalents at beginning of year		**1,319**	1,023
Effect of foreign exchange rate changes		**(206)**	(114)
Cash and cash equivalents at end of year	20	**239**	1,319

The annexed notes on pages 32 to 75 form an integral part of these financial statements.

1. GENERAL

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

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in note 18 to the financial statements.

The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Group.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all applicable Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. The financial statements comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). They have been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in note 4.

The Group's financial statements have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities of approximately HK$1,326,000 (2005: HK$5,011,000). The directors of the Company (the "Directors") have carefully reviewed the Group's cash position as at the balance sheet date and the cash flow forecast for the next twelve months and believe that the Group is able to meet its financial obligations in full as and when they fall due, after taking into consideration the funding plan of the Group and the commitments made by the Directors and a related party to provide continuing financial support to the Group so as to enable the Group to continue in business as a going concern. In view of the above, the Directors consider that the preparation of the financial statements on a going concern basis is appropriate.

The preparation of the financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in note 5.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new and revised HKFRSs and HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the following new HKFRSs, which are relevant to the Group, has no material effects on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments have been made.

HKAS 1, HKAS 27 & HKFRS 3 (Amendment)	Presentation of Financial Statements, Consolidated and Separate Financial Statements & Business Combinations — Amendments as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005
HKAS 19 (Amendment)	Employee Benefit — Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement — Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement — The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts
HKAS 1	First-time Adoption of Hong Kong Financial Reporting Standards
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a Lease

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (the “Group”) made up to 31 December each year. 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 inter-company transactions and balances within the Group are eliminated on consolidation.

b) Subsidiaries

Subsidiaries are entities over which the Company has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from date that control ceases.

In the Company’s balance sheet, an investment in a subsidiary is stated at cost less impairment losses (note 4(e)), unless the investment is classified as held for sale. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for to the extent of dividends received and receivable.

c) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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 an asset, the expenditure is capitalized as an additional cost of that asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Plant and equipment *(Continued)*

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

Depreciation is provided to write off the cost of the assets to their estimated residual value, if any, over their estimated useful lives from the date on which they become fully operational, using the straight-line method, at the following rates per annum:

Leasehold Improvements	Over the terms of the relevant leases
Equipment	20%
Furniture and Fixtures	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

d) Intangible assets — research and development costs

Expenditure on research activities is recognized as an expense in the year in which it is incurred.

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

The development costs that have been capitalized are amortized from the commencement of sale of products or provision of services on a straight-line method not more than three years or over the useful lives of such applications, whichever are shorter.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

f) Leased assets

Leases that transfer substantially all the risks and rewards of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in plant and equipment and depreciated over the shorter of the lease terms and the useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

h) Cash and cash equivalents

Cash and cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from bank repayable within three months from the date of the advance.

i) Trade and other payables

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

j) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings using the effective interest method.

k) Taxation

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Taxation *(Continued)*

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

l) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) Translation of foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are included in a separate component of equity, the exchange reserve. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

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.

n) Revenue recognition

Revenue is recognized 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:

System services and maintenance income is recognized when services are rendered.

Membership subscription fees are recognized when services are rendered.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Borrowing costs

All borrowing costs are recognized as and included in finance costs in the income statement in the period in which they are incurred.

p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

a) The obligations for contributions to defined contribution retirement scheme are recognized as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independent administered fund.

b) Employee entitlements to annual leave and long service payments are recognized when they accrue to employees. A provision will be made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date.

c) Employee entitlements to sick leave and maternity or paternity leave are not recognized until the time of leave.

(ii) Share-based payments

The Group operates equity-settled share-based compensation scheme (“Scheme”) to remunerate its employees.

For share options granted under the Scheme, the fair value of the employee’s services rendered in exchange for the grant of the options is recognized as an expense immediately and credited to the share-based payment reserve under equity. Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting periods. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to the share-based payment reserve.

Upon exercise of the 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 over the nominal value of the shares is recorded by the Company in the share premium account. The equity amount is recognized in the share-based payment reserve until the option is exercised when it is transferred to the share premium account. If the options lapse unexercised, the related share-based payment reserve is transferred directly to retained earnings.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Convertible bonds

Convertible bonds that can be converted into share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition, the liability component of the convertible bonds is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognized as the liability component is recognized as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortized cost. The interest expense recognized in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognized in the capital reserve until either the bonds are converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

r) Segment reporting

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Segment reporting *(Continued)*

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

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

s) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly, through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

i. the post-tax profit or loss of the discontinued operation; and

ii. the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

u) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

a) Depreciation and amortization

The Group depreciates the plant and equipment on a straight-line basis over the estimated useful life of five years and the terms of the relevant leases, commencing from the date the plant and equipment is placed into productive use. The estimated useful life and dates that the Group places the plant and equipment into productive use reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's plant and equipment.

b) Allowances for bad and doubtful debts

The provision of allowance for bad and doubtful debts of the Group is based on the management's evaluation of collectability and aging analysis of the debts and receivables. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current credit-worthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

c) Income taxes

As at 31 December 2006, a deferred tax asset of HK$66,000 in relation to unused tax losses was recognized in the Group's financial statements. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in the income statement for the period in which such a reversal takes place.

d) Valuation of share options granted

The fair value of share options granted was calculated using the Black-Scholes valuation model which requires the management's estimates and assumptions on significant calculation inputs, including the estimated life of share options granted, the volatility of share price and expected dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate.

6. FINANCIAL RISK MANAGEMENT

Exposure to currency, credit, interest rate and liquidity risks arises in the normal course of the Group's business. These risks are mitigated by the Group's financial management policies and practices described below:

a) Foreign currency risk

Most of the sales and expenditures of the Group are denominated in Hong Kong dollar and United States dollar while some transactions are denominated in Renminbi and Canadian dollar. As Hong Kong dollar is closely linked with United States dollar and the Group's transaction amount in other currencies are relatively immaterial, the management considers that the Group has no significant foreign currency risk. The Group has not used any financial instrument for hedging purposes.

b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group manages its exposure to credit risk through continual monitoring of the credit quality of its customers, taking into account their financial position, collection history, past experience and other relevant factors. Normally, credit is granted to reputable banks and financial institutions only. The Group does not provide any financial guarantee that would expose the Group to credit risk.

c) Cash flow interest rate risks

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing borrowings and interest-bearing assets. As at the balance sheet date, the Group did not have any outstanding interest-bearing borrowings and the Group's interest-bearing assets were immaterial in amount. Therefore, the Group's exposure to cash flow interest rate risks is limited.

d) Liquidity risk

The Group is exposed to liquidity risk. As at 31 December 2006, the current liabilities of the Group exceeded its current assets by approximately HK$1,326,000. The maintenance of the Group as a going concern depends on the successful outcome of the Group's funding plan and the ongoing support from the Directors and a related party.

7. REVENUE AND OTHER INCOME

The Group was principally engaged in the development, production and distribution of financial instruments analysis software products and operational software application products. The business of financial instruments analysis software products was discontinued during the year.

Revenue and other income recognized by category, for both continuing and discontinued operations, are as follows:—

	2006 HK$'000	2005 HK$'000
Continuing operation		
Revenue		
System services and maintenance income	**5,493**	7,743
Other income		
Interest income	**63**	2
Exchange gain	**210**	113
Gain on novation of a loan (note)	**3,000**	—
Others	**10**	41
	3,283	156
	8,776	7,899
Discontinued operation (note 13)		
Revenue		
Membership subscription fees	**738**	1,682
System services and maintenance income	**483**	2,231
	1,221	3,913
Other income		
Interest income	**1**	2
Exchange loss	**(1)**	(3)
Gain on disposal of a subsidiary	**1,154**	—
Others	**10**	26
	1,164	25
	2,385	3,938
Total	**11,161**	11,837

Note: The amount represents the gain arising from the novation of an unsecured loan of HK$3,000,000 owed by the Company as set out in note 23(ii) to the financial statements.

8. PROFIT/(LOSS) BEFORE TAXATION

	Continuing operation		Discontinued operation		Consolidated	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
This is stated after charging:						
Finance costs						
Interest on convertible bonds wholly repayable within five years	**488**	580	**—**	—	**488**	580
Interest on other loans wholly repayable within five years	**75**	136	**—**	—	**75**	136
	563	716	**—**	—	**563**	716
Other items						
Staff costs (including Directors' emoluments (note 9))						
— Basic salaries and allowances	**4,579**	6,768	**871**	1,971	**5,450**	8,739
— Contributions to defined contribution plans	**123**	202	**27**	57	**150**	259
— Share-based payment expenses (note 26)	**129**	—	**—**	—	**129**	—
— Miscellaneous	**10**	4	**93**	224	**103**	228
	4,841	6,974	**991**	2,252	**5,832**	9,226
Auditor's remuneration						
— Provision for the year	**200**	240	**—**	—	**200**	240
— Underprovision in prior year	**—**	8	**—**	—	**—**	8
	200	248	**—**	—	**200**	248
Depreciation of plant and equipment						
— included in cost of sales	**—**	—	**62**	212	**62**	212
— included in administrative expenses	**21**	15	**(2)**	122	**19**	137
	21	15	**60**	334	**81**	349
Operating leases charges						
— Premises	**—**	—	**194**	410	**194**	410
— Plant and equipment	**—**	—	**79**	282	**79**	282
	—	—	**273**	692	**273**	692
Research and development expenditure (included in administrative expenses)	**1,338**	3,580	**346**	885	**1,684**	4,465
Bad debt written off	**—**	—	**1**	4	**1**	4
Write-off of plant and equipment	**2**	—	**5**	29	**7**	29
Loss on disposal of plant and equipment	**—**	—	**—**	4	**—**	4
Exchange reserve transferred to consolidated income statement upon dissolution of a foreign subsidiary	**—**	—	**679**	—	**679**	—
and crediting:						
Bank interest income	**63**	2	**1**	2	**64**	4
Exchange gain/(loss)	**210**	113	**(1)**	(3)	**209**	110
Gain on novation of a loan	**3,000**	—	**—**	—	**3,000**	—
Gain on disposal of a subsidiary	**—**	—	**1,154**	—	**1,154**	—
Others	**10**	41	**10**	26	**20**	67

9. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the GEM Listing Rules are as follows:

2006	**Directors' fees HK$'000**	**Salaries, allowances and benefits in kind HK$'000**	**Discretionary bonus HK$'000**	**Retirement scheme contributions HK$'000**	**Share-based payments HK$'000**	**Total HK$'000**
Executive Directors						
Mr. Li Ching Ping Vincent (note i)	—	960	—	8	—	968
Mr. Fung Yan Shun (note i)	—	250	—	5	—	255
Dr. Chan Lai Yin Simon (note ii)	—	81	—	7	5	93
Mr. Chan Yat Leong (note iii)	—	350	—	7	5	362
Mr. Law Tin Fan Arthur (note iii)	—	350	—	7	18	375
Ms. Tsang Wing Yee (note iii)	—	350	—	7	5	362
Mr. Yuen Sun Chak (note iii)	—	350	—	7	18	375
Independent Non-executive Directors						
Mr. Ho Ho Yee Alexendra (note iii)	—	—	—	—	5	5
Mr. Lau Wing (note iii)	—	—	—	—	5	5
Prof. Lin Chinlon (note iv)	—	—	—	—	5	5
Mr. Ng Ge Bun (note v)	46	—	—	—	—	46
Mr. Wan Yiu Kwan Stephen (note v)	46	—	—	—	—	46
Mr. Lee Kar Wai (note v)	46	—	—	—	—	46
	138	**2,691**	**—**	**48**	**66**	**2,943**

2005	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Retirement scheme contributions HK$'000	Share-based payments HK$'000	Total HK$'000
Executive Directors						
Mr. Li Ching Ping Vincent	—	1,440	60	12	—	1,512
Mr. Fung Yan Shun	—	600	11	12	—	623
Non-executive Directors						
Mr. Chan Chee Ming Harris (note vi)	—	—	—	—	—	—
Mr. Yip James (note vi)	—	—	—	—	—	—
Independent Non-executive Directors						
Mr. Ng Ge Bun	110	—	—	—	—	110
Mr. Wan Yiu Kwan Stephen	110	—	—	—	—	110
Mr. Lee Kar Wai	110	—	—	—	—	110
	330	2,040	71	24	—	2,465

9. DIRECTORS' EMOLUMENTS *(Continued)*

Notes:

i. Mr. Li Ching Ping Vincent and Mr. Fung Yan Shun resigned on 1 September 2006 and 31 May 2006 respectively.

ii. Dr. Chan Lai Yin Simon was appointed on 31 May 2006 and resigned on 15 February 2007.

iii. The directors were appointed on 31 May 2006.

iv. Prof. Lin Chinlon was appointed on 1 September 2006.

v. The directors resigned on 31 May 2006.

vi. Mr. Chan Chee Ming Harris and Mr. Yip James resigned on 1 April 2005 and 21 April 2005 respectively.

vii. The amounts of share-based payments are measured according to the Group's accounting policies for share-based payment transactions as set out in note 4p(ii) to the financial statements. Particulars of share options to the directors under the Company's share option scheme are set out in note 26 to the financial statements.

viii. There were no arrangements under which a Director waived or agreed to waive any emolument during both years presented.

ix. During the years ended 31 December 2006 and 2005, no emoluments were paid by the Group to the Directors as inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include four existing Directors and one former Director (2005: two Directors), details of whose emoluments are set out in note 9 above. The details of the emoluments paid to the remaining highest paid employees in 2005 are as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries, allowances and benefits in kind	—	1,260
Discretionary bonus	—	53
Retirement scheme contributions	—	36
	—	1,349

Note: During the years ended 31 December 2006 and 2005, no emoluments were paid by the Group to the five highest paid individuals (other than the Directors) as inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**—**	3

11. TAXATION

a) No Hong Kong or overseas income taxes have been provided for in the financial year as neither the Company nor any of its subsidiaries derived any profit that is subject to Hong Kong or overseas income taxes (2005: HK$Nil).

b) Reconciliation of tax expense

	2006 HK$'000	2005 HK$'000
Loss before taxation	**(515)**	(4,056)
Income tax at rates applicable to profits in the tax jurisdiction	**(145)**	(876)
Tax effect of non-deductible expenses	**204**	35
Tax effect of non-taxable income	**(831)**	(21)
Tax effect of unrecognized tax losses	**958**	1,126
Tax effect of prior year's tax losses utilized	**(203)**	(313)
Tax effect of unrecognized temporary differences	**17**	49
Tax expense for the year	**—**	—

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

12. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders includes a loss of approximately HK$6,141,000 (2005: HK$154,000) which has been dealt with in the financial statements of the Company.

13. DISCONTINUED OPERATION

On 27 March 2006, the Group entered into a sale and purchase agreement to dispose of a subsidiary, ProSticks.com Limited, which carried out a substantial part of the Group's operation of financial instruments analysis software products and a limited portion of the Group's operation of operational software application products. The subsidiary has sustained net losses in the past consecutive years and the disposal was effected in order to relieve the Group from continuous losses and cash outflow. The disposal was completed on 31 May 2006, on which date control of ProSticks.com Limited was passed to the purchaser.

ProSticks Financial Solutions Limited, an overseas subsidiary of the Company which was mainly engaged in the operation of financial instruments analysis software products, has ceased its operation since 31 August 2006 and was dissolved in October 2006. The Group's operation of financial instruments analysis software products has been ceased completely since then.

The loss from the discontinued operation is analyzed as follows:

	2006	2005
	HK$'000	HK$'000
Loss for the year from discontinued operation	**(1,010)**	(2,252)
Gain on disposal of a subsidiary	**1,154**	—
Exchange reserve transferred to consolidated income statement upon dissolution of a foreign subsidiary	**(679)**	—
	(535)	(2,252)

The results of the discontinued operation for the year, which have been included in the consolidated income statement, were as follows:

	2006	2005
	HK$'000	HK$'000
Revenue	**1,221**	3,913
Cost of sales	**(727)**	(2,181)
Other income	**10**	25
Advertising and promotion expenses	**(65)**	(322)
Administrative expenses	**(1,443)**	(3,650)
Other operating expenses	**(6)**	(37)
Loss before taxation	**(1,010)**	(2,252)
Taxation	**—**	—
Loss for the year	**(1,010)**	(2,252)

13. DISCONTINUED OPERATION *(Continued)*

The net cash flows incurred by the discontinued operation are as follows:

	2006 HK$'000	2005 HK$'000
Operating activities	(1,379)	(1,726)
Investing activities	(409)	(2)
Net cash outflow	(1,788)	(1,728)

14. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the issue of shares, share consolidation and exercise of share options during the year.

The calculation of diluted earnings per share from continuing operation is based on the profit from continuing operation for the year attributable to equity holders of the Company, adjusted to reflect the effective interest on the liability component of the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, plus the weighted average number of ordinary shares that would be issued on the exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

	2006 HK$'000	2005 HK$'000
Profit/(loss) attributable to equity holders of the Company		
from continuing operation	20	(1,804)
from discontinued operation	(535)	(2,252)
	(515)	(4,056)
Effective interest on the liability component of convertible bonds	488	580
Loss attributable to equity holders of the Company (diluted)	(27)	(3,476)
Attributable to:		
continuing operation	508*	(1,224)
discontinued operation	(535)	(2,252)
	(27)	(3,476)

14. EARNINGS/(LOSS) PER SHARE *(Continued)*

Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share

	2006 **'000**	2005 '000
Issued ordinary shares at 1 January	**651,700**	651,700
Effect of share consolidation (note 24)	**(367,987)**	—
Effect of issue of new shares (note 24)	**48,219**	—
Effect of exercise of share options (note 26)	**324**	—
Weighted average number of ordinary shares	**332,256**	651,700

Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share

	2006 **'000**
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**332,256**
Effect of deemed conversion of convertible bonds (note 23)	**76,043**
Effect of deemed exercise of outstanding share options (note 26)	**31,572**
Weighted average number of ordinary shares (diluted)	**439,871***

* The convertible bonds have an anti-dilutive effect on the basic earnings/(loss) per share for the year as it will increase the earnings per share amounts and decrease the loss per share amounts when they are taken into account in the calculation of the diluted earnings/(loss) per share amounts. Therefore, the dilutive effect of convertible bonds are ignored in the calculation of diluted earnings per share from continuing operation, which is based on the profit attributable to continuing operation of approximately HK$20,000, and the weighted average of approximately 363,828,000 ordinary shares in issue during the year.

The diluted loss per share from continuing and discontinued operations for the two years ended 31 December 2006 and 2005 and the diluted loss per share from continuing operations for the year ended 31 December 2005 have not been disclosed as the convertible securities outstanding during the years had an anti-dilutive effect on the basic loss per share for the said years.

15. SEGMENT REPORTING

(a) Primary reporting format — business segments

The Group comprised two major business segments:

Financial instruments analysis software products ("FIASP")

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

Operational software application products ("OSAP")

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

	Continuing operation		Discontinued operation						Consolidated	
	OSAP	OSAP	FIASP	FIASP	OSAP	OSAP	Sub-total	Sub-total		
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Revenue										
Segment revenue	**5,493**	7,743	**738**	1,682	**483**	2,231	**1,221**	3,913	**6,714**	11,656
Result										
Segment result	**1,545**	3,525	**292**	(2,981)	**(732)**	1,619	**(440)**	(1,362)	**1,105**	2,163
Unallocated operating income and expenses	**(962)**	(4,613)					**(95)**	(890)	**(1,057)**	(5,503)
Profit/(loss) from operations	**583**	(1,088)					**(535)**	(2,252)	**48**	(3,340)
Finance costs									**(563)**	(716)
Loss before taxation									**(515)**	(4,056)
Taxation									**—**	—
Loss for the year									**(515)**	(4,056)
Assets and liabilities										
Segment assets	**621**	1,032	**—**	458	**—**	269	**—**	727	**621**	1,759
Unallocated assets	**353**	274					**—**	1,619	**353**	1,893
Total assets	**974**	1,306					**—**	2,346	**974**	3,652
Segment liabilities	**933**	1,348	**—**	324	**—**	—	**—**	324	**933**	1,672
Unallocated liabilities	**1,301**	11,246					**—**	205	**1,301**	11,451
Total liabilities	**2,234**	12,594					**—**	529	**2,234**	13,123
Other information										
Capital expenditure incurred during the year	**—**	70	**—**	4	**—**	1	**—**	5		
Depreciation for the year	**21**	15	**18**	84	**29**	176	**47**	260		
Bad debt written off	**—**	—	**1**	4	**—**	—	**1**	4		
Write-off of plant and equipment	**2**	—	**5**	—	**—**	—	**5**	—		
Loss on disposal of plant and equipment	**—**	—	**—**	4	**—**	—	**—**	4		

15. SEGMENT REPORTING *(Continued)*

(b) Secondary reporting format — geographical segments

The Group's operations are principally located in Hong Kong throughout the year and therefore no analyses by geographical segments are provided.

16. PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Equipment HK$'000	Furniture and fixtures HK$'000	Total HK$'000
The Group				
Cost				
At 1 January 2005	228	2,245	190	2,663
Exchange adjustments	—	4	—	4
Additions	—	75	—	75
Disposals	—	(20)	(9)	(29)
Write-off	(78)	—	—	(78)
At 31 December 2005 and 1 January 2006	150	2,304	181	2,635
Exchange adjustments	—	6	—	6
Disposal of a subsidiary	—	(2,059)	(181)	(2,240)
Write-off	—	(150)	—	(150)
At 31 December 2006	150	101	—	251
Accumulated depreciation and accumulated impairment losses				
At 1 January 2005	111	1,648	119	1,878
Exchange adjustments	—	4	—	4
Charge for the year	82	229	38	349
Eliminated on disposal	—	(19)	(6)	(25)
Eliminated on write-off	(49)	—	—	(49)
At 31 December 2005 and 1 January 2006	144	1,862	151	2,157
Exchange adjustments	—	6	—	6
Charge for the year	6	83	(8)	81
Eliminated on disposal of a subsidiary	—	(1,773)	(143)	(1,916)
Eliminated on write-off	—	(143)	—	(143)
At 31 December 2006	150	35	—	185
Net book value				
At 31 December 2006	—	66	—	66
At 31 December 2005	6	442	30	478

17. INTANGIBLE ASSETS

	Financial software application HK$'000	Development costs HK$'000	Total HK$'000
The Group			
Cost			
At 1 January, 31 December 2005 & 1 January 2006	1,800	851	2,651
Disposal of a subsidiary	(1,800)	(851)	(2,651)
At 31 December 2006	—	—	—
Accumulated amortization and impairment losses			
At 1 January, 31 December 2005 & 1 January 2006	1,800	851	2,651
Eliminated on disposal of a subsidiary	(1,800)	(851)	(2,651)
At 31 December 2006	—	—	—
Net book value			
At 31 December 2006 and 31 December 2005	—	—	—

During 2003, the products developed by the Group were not well received by the market. For prudence sake, impairment loss for the whole amount of the financial software application was provided in the financial year ended 31 December 2003. The cost and impairment losses were full eliminated during the year upon disposal of the relevant subsidiary.

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2006 **HK$'000**	2005 HK$'000
Unlisted shares, at cost	**12**	12
Due from subsidiaries	**—**	34,801
Less: Allowances for amounts due from subsidiaries	**—**	(26,944)
	—	7,857
	12	7,869

The amounts due from subsidiaries included in the Company's current assets were unsecured, interest free and repayable on demand. The carrying amounts of due from subsidiaries approximate their fair values.

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

Name of subsidiary	Place of incorporation and operations	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by the subsidiary	Principal activities
ProSticks (B.V.I.) Limited*	British Virgin Islands	US$1,235,700 Ordinary	100%	100%	—	Investment holding
iEngines Limited	Hong Kong	HK$5,000,000 Ordinary	100%	—	100%	Development and provision of operational software application products
HIS Photonic Systems Limited	Hong Kong	HK$1 Ordinary	100%	—	100%	Dormant

* Not audited by Messrs. Lak & Associates C.P.A. Limited.

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivable	**555**	1,332	**—**	—
Other receivables				
Deposits, prepayments and other debtors	**114**	523	**101**	219
	669	1,855	**101**	219

All of the trade and other receivables are expected to be recovered within one year. An aging analysis of the trade receivable as at the balance sheet date, based on the invoice date and net of impairment losses for bad and doubtful debts is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within 30 days	**255**	1,041
Between 31 days and 60 days	**81**	115
Between 61 days and 90 days	**—**	—
Over 90 days	**219**	176
	555	1,332

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

The carrying amounts of the trade and other receivables approximate their fair values.

Included in the trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
United States Dollars (US$'000)	**20**	71	**—**	5
Renminbi (RMB'000)	**—**	4	**—**	—
Canadian Dollars (CAD'000)	**—**	1	**—**	—

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Bank balances	**225**	1,314	**140**	5
Cash balances	**14**	5	**2**	—
Cash and cash equivalents in the consolidated cash flow statement	**239**	1,319	**142**	5

Included in the cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
United States Dollars (US$'000)	**1**	27	**—**	—
Renminbi (RMB'000)	**—**	5	**—**	—
Canadian Dollars (CAD'000)	**1**	1	**—**	—

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and cash equivalents approximate their fair values.

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Trade payable	**503**	—	**—**	—
Other payables				
Receipts in advance				
— membership subscription fees	**—**	143	**—**	—
— system services and maintenance income	**177**	445	**—**	—
— trade deposit received	**195**	500	**—**	—
Accrued charges and other creditors	**283**	1,750	**220**	961
Accrued interests	**—**	304	**—**	304
	1,158	3,142	**220**	1,265

21. TRADE AND OTHER PAYABLES *(Continued)*

All of the trade and other payables are expected to be settled within one year. An aging analysis of the trade payable as at the balance sheet date is as follows:

	The Group	
	2006 **HK$'000**	2005 HK$'000
Within 30 days	**252**	—
Between 31 days and 60 days	**251**	—
	503	—

The carrying amounts of the trade and other payables approximate their fair values.

Included in the trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
United States Dollars (US$'000)	**23**	4	**—**	—
Renminbi (RMB'000)	**—**	15	**—**	—
Canadian Dollars (CAD'000)	**—**	1	**—**	—

22. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest free and repayable on demand. The carrying amounts of the amounts due to directors approximate their fair values.

23. INTEREST-BEARING BORROWINGS

	The Group and The Company	
	2006	2005
	HK$'000	HK$'000
Current		
Repayable within one year		
— Convertible bonds (Note i)	—	4,890
Non-current		
Repayable after one year but not exceeding 2 years		
— Convertible bonds (Note i)	—	1,938
— Unsecured loan (Note ii)	—	3,000
	—	4,938
	—	9,828

The amortized cost of the unsecured loan at the balance sheet date did not differ materially from its face amount. The carrying amount of the unsecured loan approximates its fair value, which was calculated by discounting the expected future cash flows at prevailing interest rates.

The convertible bonds of the Company bore interest at floating interest rates. The fair value of the liability component of the convertible bonds was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component and was included in shareholders' equity.

23. INTEREST-BEARING BORROWINGS *(Continued)*

The net proceeds received from the issue of the convertible bonds were split between the liability and equity components, as follows:

	The Group and The Company	
	2006	2005
	HK$'000	HK$'000
Nominal value of convertible bonds issued on:		
— 1 September 2004	—	5,000
— 22 August 2005	—	2,000
Total nominal value of convertible bonds	—	7,000
Equity component	—	(399)
Liability component at the issuance date	—	6,601
Liability component at beginning of the year	**6,828**	7,711
Liability component of new convertible bonds issued during the year	—	1,919
Interest expense at effective interest rate	**488**	580
Interest expense at coupon rate	**(316)**	(382)
Redemption and cancellation of convertible bonds during the year	**(7,000)**	(3,000)
Liability component at the end of the year, at amortized cost	—	6,828

Interest expense on the convertible bonds was calculated using the effective interest method by applying the effective interest rate of Hong Kong prime rate plus 3% per annum to the liability component.

The carrying amounts of the current portion of the convertible bonds approximate their fair values. The fair value of the non-current portion of the convertible bonds was calculated by discounting the expected future cash flows at prevailing interest rates.

23. INTEREST-BEARING BORROWINGS *(Continued)*

The carrying amounts and fair values of the Group's and the Company's non-current portion of the convertible bonds are shown as follows:

	Carrying amounts		Fair values	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Convertible bonds	—	1,938	—	1,836

Notes:

(i) Convertible bonds

On 1 September 2004, two convertible bonds in aggregate principal amount of HK$5,000,000 were issued by the Company. The bonds bore interest at the rate of Hong Kong prime rate less 0.5% per annum. The whole principal amount of the bonds together with any outstanding interest was repayable on 1 September 2006. The bondholders had a right to convert all or part of the principal of the bonds into ordinary shares of the Company before the maturity date at an initial conversion price of HK$0. 50 per share (after adjustment for share consolidation of the Company effected during the year). A total of 10,000,000 new shares would be issued upon full conversion of the bonds. No parts of the principal of the bonds were converted during the year. The two convertible bonds were fully redeemed on 31 August 2006.

On 22 August 2005, the Company issued a convertible bond in aggregate principal amount of HK$2,000,000, which bore interest at the rate of Hong Kong prime rate per annum. The whole principal amount of the bond together with any outstanding interest was repayable on 21 February 2007. The bondholder had the right to convert all or part of the principal of the bond into ordinary shares of the Company before the maturity date at an initial conversion price of HK$0. 21 per share (after adjustment for share consolidation of the Company effected during the year). A total of 9,523,809 new shares would be issued upon full conversion of the bond. No parts of the principal of the bond were converted during the year. The convertible bond was cancelled as a consideration for the disposal of a subsidiary on 31 May 2006 as set out in note 29 to the financial statements.

(ii) Unsecured loan

The Company borrowed an unsecured loan of HK$3,000,000 ("the Loan") pursuant to the loan agreement dated 22 March 2005. The Loan bore interest at a fixed rate of 6% per annum and was repayable on 1 April 2007.

On 31 May 2006, the Company entered into a novation agreement with Mr. Li Ching Ping Vincent ("Mr. Li"), a former director of the Company, and Rapid Falcon Limited, the creditor of the Loan, pursuant to which, Mr. Li agreed to assume all liabilities in connection with the Loan in replacement of the Company at a consideration of HK$1.

24. SHARE CAPITAL

	2006		2005	
	Number of shares	HK$'000	Number of shares	HK$'000
Authorized:				
At 1 January				
Ordinary shares of HK$0.01 each	**8,000,000,000**	**80,000**	8,000,000,000	80,000
Share consolidation (note i)	**(7,200,000,000)**	**—**	—	—
At 31 December				
Ordinary shares of HK$0.10 (2005: HK$0.01) each	**800,000,000**	**80,000**	8,000,000,000	80,000
Issued and fully paid:				
At 1 January				
Ordinary shares of HK$0.01 each	**651,700,000**	**6,517**	651,700,000	6,517
Share consolidation (note i)	**(586,530,000)**	**—**	—	—
New shares issued (note ii)	**80,000,000**	**8,000**	—	—
Shares issued on exercise of share option (note iii)	**1,600,000**	**160**	—	—
At 31 December				
Ordinary shares of HK$0.10 (2005: HK$0.01) each	**146,770,000**	**14,677**	651,700,000	6,517

Notes:

i. Subsequent to an ordinary resolution passed at the extraordinary general meeting held on 16 May 2006, every ten issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK$0.10 each in the share capital of the Company with effect from 17 May 2006.

ii. Pursuant to a subscription agreement approved by the shareholders on 16 May 2006, 80,000,000 ordinary shares of HK$0.10 each were issued for cash to Magic Key International Holdings Limited and Boyce Limited on 26 May 2006. The shares rank pari passu with the existing shares in all respects.

iii. On 19 October 2006, share options were exercised to subscribe for 1,600,000 ordinary shares of the Company at a consideration of HK$336,000 of which HK$160,000 were credited to share capital and the balance of HK$176,000 were credited to the share premium account.

25. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 of the annual report.

(b) The Company

	Notes	Share premium HK$'000	Share-based payment reserve HK$'000	Convertible bonds-equity component HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		26,798	873	481	(37,749)	(9,597)
Net loss for the year		—	—	—	(154)	(154)
Issue of a convertible bond	23	—	—	81	—	81
Redemption of a convertible bond	23	—	—	(163)	163	—
Forfeited share options expensed off to accumulated losses		—	(343)	—	343	—
At 31 December 2005 and at 1 January 2006		26,798	530	399	(37,397)	(9,670)
Net loss for the year		—	—	—	(6,141)	(6,141)
Redemption and cancellation of convertible bonds	23	—	—	(399)	399	—
Shares issued under share option scheme	24	245	(69)	—	—	176
Share issue expenses		(212)	—	—	—	(212)
Share-based payment expenses	26	—	129	—	—	129
Forfeited share options expensed off to accumulated losses		—	(298)	—	298	—
At 31 December 2006		26,831	292	—	(42,841)	(15,718)

25. RESERVES *(Continued)*

(b) The Company *(Continued)*

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

Pursuant to the Companies Law of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business. As at 31 December 2006, in the opinion of the Directors, the Company did not have any reserve available for distribution to shareholders (2005: HK$Nil).

The share-based payment reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 26 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

26. SHARE-BASED EMPLOYEE COMPENSATION

Pre-IPO Share Option Scheme

The Company adopted a Pre-IPO Share Option Scheme on 24 November 2001, pursuant to which, the Board might during the period commencing on the adoption date of the Pre-IPO Share Option Scheme and ending on the day immediately prior to the day when bulk printing of the prospectus for listing of shares of the Company took place grant options to any employee of the Group or any other persons who, in the sole discretion of the Board, have contributed or would contribute to the Group to subscribe for shares of the Company at HK$0.12 per share, representing a discount of approximately 64% of the placing price when the shares of the Company were first listed on GEM of the Stock Exchange on 5 December 2001. The exercise price was subsequently adjusted to HK$1.2 per share after the share consolidation of the Company effected during the year.

On 27 November 2001, options to subscribe for a total of 44,000,000 shares of the Company were granted to a Director and an employee at a total consideration of HK$2. The options granted may be exercised at any time during the period from 5 December 2001 to 4 December 2011. No options were granted under the Pre-IPO Share Option Scheme after the listing of the shares of the Company. The option for subscribing 40,000,000 shares of the Company was lapsed and an option to subscribe for 400,000 shares (after adjustment for the share consolidation of the Company effected during the year) was outstanding as at 31 December 2006. No options granted under the Pre-IPO Share Option Scheme were exercised, cancelled or lapsed during the year.

26. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Share Option Scheme

The Company adopted a Share Option Scheme on 24 November 2001 for the purpose of providing incentives or rewards to selected persons for their contribution to the Group. The Share Option Scheme shall be valid and effective for 10 years with expiry date of 5 December 2011. Pursuant to the Share Option Scheme, the Board may grant options to any employee of the Group or any other persons who, in the sole discretion of the Board, have contributed or will contribute to the Group to subscribe for shares of the Company at a price determined by the Board and shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer of the option which must be a business day, (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of the options; and (iii) the nominal value of a share on the date of offer of the options.

The total number of securities which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 6,517,000 shares (equivalent to 65,170,000 shares before adjustment for the share consolidation of the Company effected during the year, representing 10 per cent of the shares in issue as at 7 May 2004, the date of the annual general meeting of the Company in which shareholders' approval for refreshing the scheme mandate limit was obtained). The maximum entitlement of each participant under the Share Option Scheme in any 12-month period is 1 per cent of the shares in issue.

The grantees may accept the offer of options by paying HK$1 as the consideration of the grant to the Company within 28 days from the date of offer. Any offer which is not accepted within such period will be deemed to have been irrevocably declined. The options may be exercised at any time during a period of 10 years from the date of grant of the options and there is no lock-up period for exercise of the options.

26. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

The movements in the share options of the Company during the year are shown in the following table:

Name of Participants	Date of Grant	Exercise Period and Vesting Period	Exercise Price per Share (HK$)	Options outstanding as at 01-01-2006	Adjustment for share consolidation	Reclassification	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options outstanding as at 31-12-2006
Directors:										
Li Ching Ping Vincent	20/11/2003	20/11/2003 — 19/11/2013	0.2100	24,000,000	(21,600,000)	(2,400,000)	—	—	—	—
Tsang Wing Yee	10/11/2006	10/11/2006 — 09/11/2016	0.2118	—	—	—	145,000	—	—	145,000
Yuen Sun Chak	10/11/2006	10/11/2006 — 09/11/2016	0.2118	—	—	—	500,000	—	—	500,000
Chan Yat Leong	10/11/2006	10/11/2006 — 09/11/2016	0.2118	—	—	—	145,000	—	—	145,000
Chan Lai Yin Simon	10/11/2006	10/11/2006 — 09/11/2016	0.2118	—	—	—	145,000	—	—	145,000
Law Tin Fan Arthur	10/11/2006	10/11/2006 — 09/11/2016	0.2118	—	—	—	500,000	—	—	500,000
Lin Chinlon	10/11/2006	10/11/2006 — 09/11/2016	0.2118	—	—	—	145,000	—	—	145,000
Lau Wing	10/11/2006	10/11/2006 — 09/11/2016	0.2118	—	—	—	145,000	—	—	145,000
Ho Ho Yee Alexendra	10/11/2006	10/11/2006 — 09/11/2016	0.2118	—	—	—	145,000	—	—	145,000
Sub-total				24,000,000	(21,600,000)	(2,400,000)	1,870,000	—	—	1,870,000
Participants with options granted in excess of the individual limit:										
Li Ching Ping Vincent	20/11/2003	20/11/2003 — 19/11/2013	0.2100	—	—	2,400,000	—	—	—	2,400,000
Li Yue Toa Gilbert	14/07/2003	14/07/2003 — 04/07/2013	0.2100	16,000,000	(14,400,000)	—	—	(1,600,000)	—	—
Chan Cheong Pang	01/12/2003	01/12/2003 — 30/11/2013	0.2100	5,000,000	(4,500,000)	—	—	—	(500,000)	—
Chan Oi Chi Joyce	02/12/2003	02/12/2003 — 01/12/2013	0.2100	5,000,000	(4,500,000)	—	—	—	(500,000)	—
Cheng Chi Kong	09/12/2003	09/12/2003 — 08/12/2013	0.2100	3,600,000	(3,240,000)	—	—	—	(360,000)	—
Lau Chi Ming	11/12/2003	11/12/2003 — 10/12/2013	0.2100	5,000,000	(4,500,000)	—	—	—	(500,000)	—
Sub-total				34,600,000	(31,140,000)	2,400,000	—	(1,600,000)	(1,860,000)	2,400,000
Employees:										
In aggregate	12/07/2003	12/07/2003 — 04/07/2013	0. 2100	1,800,000	—	—	—	—	(1,800,000)	—
	14/07/2003	14/07/2003 — 04/07/2013	0. 2100	800,000	(720,000)	—	—	—	(80,000)	—
	21/07/2003	21/07/2003 — 04/07/2013	0. 2100	2,000,000	(1,800,000)	—	—	—	(200,000)	—
	30/07/2003	30/07/2003 — 04/07/2013	0. 2100	2,000,000	(1,800,000)	—	—	—	(200,000)	—
	01/08/2003	01/08/2003 — 04/07/2013	0. 2100	600,000	(540,000)	—	—	—	(60,000)	—
	03/02/2004	03/02/2004 — 29/01/2014	0.5000	2,200,000	(1,350,000)	—	—	—	(850,000)	—
Sub-total				9,400,000	(6,210,000)	—	—	—	(3,190,000)	—
Others:										
In aggregate	16/07/2003	16/07/2003 — 04/07/2013	0.2100	4,200,000	(3,780,000)	—	—	—	—	420,000
	13/02/2004	13/02/2004 — 29/01/2006	0.5000	1,200,000	—	—	—	—	(1,200,000)	—
	10/11/2006	10/11/2006 — 09/11/2016	0.2118	—	—	—	1,745,000	—	—	1,745,000
Sub-total				5,400,000	(3,780,000)	—	1,745,000	—	(1,200,000)	2,165,000
TOTAL				73,400,000	(62,730,000)	—	3,615,000	(1,600,000)	(6,250,000)	6,435,000
Weighted average exercise prices				0.2234	N/A	N/A	0.2118	0.2100	0.3051	0.2110

26. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Notes:

(a) Share options for subscribing 3,615,000 shares of the Company were granted for a total consideration of HK$11 during the year under review. The aggregate fair value of options granted under the Share Option Scheme, measured at their respective date of grant, amounted to approximately HK$129,000. The fair values of the outstanding options were derived from Black-Scholes option pricing model by applying the following bases and assumptions:

Date of grant (dd-mm-yy)	Expected volatility	Expected life (in years)	Risk-free interest rate	Expected dividend yield
16/07/03	2.03%	10	4.27%	Nil
20/11/03	1.02%	10	4.35%	Nil
10/11/06	4.17%	10	3.83%	Nil

(i) the expected volatilities of the options were calculated based on the annualized historical volatility of the closing price of the shares of the Company for the 12 months immediately preceding the date of grant of the options;

(ii) the monthly average yields of Exchange Fund Notes were applied as the risk-free interest rates; and

(iii) the expected dividend yields were estimated based on the historical dividend, which was zero.

(b) The values of the options are subject to the limitations of the Black-Scholes option pricing model and a number of assumptions which are subjective and difficult to ascertain. Changes in the subjective input assumptions could materially affect the fair value estimate.

(c) The closing price of the Company's shares immediately before the date on which the share options were granted is approximately HK$0.222.

(d) The weighted average share price of the Company's shares immediately before the date on which the options were exercised and at the date of exercise of the share options are HK$0.200 and HK$0.220 respectively.

(e) The outstanding share options as at 31 December 2006 had a weighted average remaining contractual life of 8.53 years.

(f) If options are forfeited before expiration or lapsed, the related share-based payment reserve will be transferred directly to accumulated losses.

27. DEFERRED TAXATION

a) The Group

The components of deferred tax (assets)/liabilities recognized in the consolidated balance sheet and the movements during the years are as follows:

Deferred tax arising from:	Accelerated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2005	89	(89)	—
(Credited)/charged to consolidated income statement	(38)	38	—
At 31 December 2005 and at 1 January 2006	51	(51)	—
(Credited)/charged to consolidated income statement	(39)	39	—
At 31 December 2006	12	(12)	—

As at the balance sheet date, the Group had unused tax losses of approximately HK$16,549,000 (2005: HK$52,731,000) available for offset against future profits. A deferred tax asset has been recognized in respect of approximately HK$66,000 (2005: HK$291,000) of such losses. No deferred tax assets have been recognized in respect of the remaining of approximately HK$16,483,000 (2005: HK$52,440,000) due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

As at 31 December 2005, a subsidiary in Canada, which was dissolved during the year, had deductible temporary differences of HK$69,000. Such deductible temporary differences were not recognised as deferred tax assets due to the unpredictability of future profit streams.

b) The Company

As at the balance sheet date, the Company had unused tax losses of approximately HK$13,968,000 (2005: HK$9,890,000) available for offset against future profits. No deferred tax assets have been recognized in respect of such losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

28. CASH USED IN OPERATIONS

	Notes	**2006 HK$'000**	2005 HK$'000
Loss before taxation		**(515)**	(4,056)
Depreciation		**81**	349
Interest income		**(64)**	(4)
Interest expenses	8, 21 & 23	**563**	716
Write-off of plant and equipment		**7**	29
Loss on disposal of plant and equipment		**—**	4
Gain on novation of loan		**(3,000)**	—
Gain on disposal of a subsidiary		**(1,154)**	—
Exchange reserve transferred to consolidated income statement upon dissolution of a foreign subsidiary		**679**	—
Share-based payment expenses	26	**129**	—
Changes in working capital:			
— Trade and other receivables		**558**	272
— Trade and other payables		**287**	1,345
Cash used in operations		**(2,429)**	(1,345)

29. DISPOSAL OF A SUBSIDIARY

The net assets of ProSticks.com Limited at the date of disposal and at 31 December 2005 were as follows:

	31 May 2006 HK$'000	31 December 2005 HK$'000
Plant and equipment	**324**	383
Trade and other receivables	**629**	690
Cash and cash equivalents	**410**	1,237
Other payables	**(517)**	(632)
Net assets	**846**	1,678
Net assets disposed of	**(846)**	
Total consideration, satisfied by cancellation of a convertible bond of the Company (note 23)	**2,000**	
Gain on disposal of a subsidiary	**1,154**	
Net cash outflow of cash and cash equivalents in connection with the disposal of the subsidiary		
Cash and bank balances disposed of	**(410)**	

30. COMMITMENTS UNDER OPERATING LEASES

The Group leased properties and equipment under operating leases without contingent rentals. The leases run for one to five years.

During the year, approximately HK$273,000 (2005: HK$692,000) was recognized as rental expenses and data and internet expenses in the consolidated income statement in respect of the operating leases.

The Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately HK$Nil and HK$831,000 as at 31 December 2006 and 31 December 2005 respectively, which were payable as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	—	217
In the second to fifth years inclusive	—	614
	—	831

31. RETIREMENT SCHEME

In compliance with the Mandatory Provident Fund (the "MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, the Group is participating in a defined contribution MPF scheme operated by an approved trustee in Hong Kong and is making contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages of the employees (monthly mandatory contribution is limited to 5% of HK$20,000 for each eligible employee as stipulated by the MPF legislation). Any contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions may be used by the Group to reduce the existing level of contributions. No such amounts were utilized by the Group during the year. The total pension cost charged to the consolidated income statement for the year ended 31 December 2006 amounted to HK$150,000 (2005: HK$259,000).

32. CONTINGENT LIABILITIES

	2006 **HK$'000**	2005 HK$'000
Contingent liabilities in respect of		
Unconsumed annual leave	—	119
Long service payment	—	31
	—	150

No provisions in respect of the possible future payments to employees for their long service payment and unconsumed annual leave accrued during the year were made as the relevant amounts are immaterial.

33. RELATED PARTY TRANSACTIONS

a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the years presented.

Name	**Nature of transaction**	**2006** **HK$'000**	2005 HK$'000
Mr. Li Ching Ping Vincent	Settlement of liabilities on behalf of the Company	—	114
	Novation of a term loan (note ii)	**3,000**	—

Notes:

(i) Mr. Li Ching Ping Vincent was a former director of the Company.

(ii) The amount represents the novation of an unsecured loan of HK$3,000,000 owed by the Company as set out in note 23(ii) to the financial statements.

(iii) The above transactions are non-recurring in nature and fall under the definition of "connected transaction" in Chapter 20 of GEM Listing Rules. However, these transactions were exempt from all the reporting, announcement and independent shareholders' approval requirements pursuant to the GEM Listing Rules.

33. RELATED PARTY TRANSACTIONS *(Continued)*

b) Key management personnel compensation

All key management personnel of the Group in 2006 and 2005 were Directors and details of their emoluments are disclosed in note 9 to the financial statements.

	2006 **HK$'000**	2005 HK$'000
Directors' fees, salaries and other short-term employee benefits	**2,829**	2,441
Post-employment benefits	**48**	24
Share-based payments	**66**	—
	2,943	2,465

Note: The above transactions are recurring in nature and fall under the definition of "continuing connected transaction" in Chapter 20 of the GEM Listing Rules. However, these transactions were exempt from all the reporting, announcement and independent shareholders' approval requirements pursuant to the GEM Listing Rules.

c) Balances with related parties

	2006 **HK$'000**	2005 HK$'000
Non-trade balances due to directors		
Mr. Li Ching Ping Vincent	**—**	153
Mr. Law Tin Fan Arthur	**269**	—
Mr. Chan Yat Leong	**269**	—
Ms. Tsang Wing Yee	**269**	—
Mr. Yuen Sun Chak	**269**	—
	1,076	153

34. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2006 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
HKAS 1, Amendment, Presentation of financial statements — Capital disclosures	1 January 2007
HKFRS 7, Financial instruments: Disclosures	1 January 2007
HK(IFRIC) — Int 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC) — Int 8, Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Int 9, Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) — Int 10, Interim financial reporting and impairment	1 November 2006
HK(IFRIC) — Int 11, HKFRS 2 — Group and Treasury Share Transactions	1 March 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

35. COMPARATIVE FIGURES

As a result of the disposal of ProSticks.com Limited and the dissolution of ProSticks Financial Solutions Limited, which was reported as a discontinued operation in the financial statements in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations", certain comparative figures have been reclassified to conform with the current period's presentation.

NOTICE IS HEREBY GIVEN that the 2006 Annual General Meeting of the Company will be held at 11th Floor, Hong Kong & Macau Building, 156-157 Connaught Road Central, Hong Kong on Tuesday, 24 April 2007 at 11:00 a.m. for the following purposes:

1. To consider and adopt the audited financial statements and the reports of the directors and auditor for the year ended 31 December 2006.

2. To re-elect the retiring directors and to authorize the board of directors to fix their remuneration.

3. To re-appoint auditors and to authorize the board of directors to fix their remuneration.

4. As special business, to consider and, if thought fit, pass the following resolutions with or without amendments as Ordinary Resolutions:

   A. "**THAT**:

      (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company ("Directors") during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants, or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

      (b) the approval in paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

      (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise), issued or dealt with by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) of this Resolution), (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to eligible persons of options to subscribe for, or rights to acquire, shares of the Company or, (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the capital of the Company in lieu of the whole or part of the cash payment for any dividend on shares of the Company pursuant to the Articles of Association of the Company from time to time, shall not in aggregate exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in a general meeting.

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

B. "**THAT**:

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

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

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws of the Cayman Islands to be held; and

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in a general meeting.

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

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

   "**THAT** the articles of association of the Company be and are hereby amended in the following manner:

   (a) By deleting the existing Article 86(5) in its entirety and replacing therefor the following new Article 86(5):

   "At any general meeting convened and held in accordance with these Articles, the Members may by ordinary resolution remove a Director at any time before the expiration of his period of office notwithstanding anything to the contrary in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement)."

   (b) By deleting the existing Article 87(1) in its entirety and replacing therefor the following new Article 87(1):

   "Notwithstanding any other provisions in the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three(3), the number nearest to but not less than one-third) shall retire from office by rotation and every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years."

6. To transact any other ordinary business.

Yours faithfully,
On behalf of the Board
ProSticks International Holdings Limited
Tsang Wing Yee
Chairman

Hong Kong, 27 March 2007

Principal Place of Business in Hong Kong
11th Floor
Hong Kong & Macau Building
156-157 Connaught Road Central
Hong Kong

Notice of Annual General Meeting

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

2. To be valid, a form of the proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of authority, must be delivered at the Company's branch registrar and transfer office in Hong Kong. Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than forty-eight hours before the appointed time for holding the meeting or any adjournment thereof.

3. Completion and return of the form of proxy will not preclude members from attending and voting at the annual general meeting or any adjournment thereof.