

乾坤燭[®] PROSTICKS[®]

ProSticks International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)



Annual Report 2004

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

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

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

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

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Corporate Information

Board of Directors

Executive Directors

Mr. Li Ching Ping Vincent, *Chairman*
Mr. Fung Yan Shun

Non-Executive Directors

Mr. Chan Chee Ming Harris
Mr. Yip James

Independent Non-Executive Directors

Mr. Ng Ge Bun
Mr. Wan Yiu Kwan Stephen
Mr. Lee Kar Wai

Company secretary and qualified accountant

Ms. Tsang Wing Yee *CFA, CPA, FCCA*

Authorized representatives

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

Compliance officer

Mr. Li Ching Ping Vincent

Audit committee

Mr. Ng Ge Bun
Mr. Wan Yiu Kwan Stephen
Mr. Lee Kar Wai

Registered office

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

Head office and principal place of business

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

Principal bankers

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

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

Corporate Information

**Principal share registrar and transfer
office in the Cayman Islands**

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

**Branch share registrar and transfer
office in Hong Kong**

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

Auditors

Fan, Mitchell & Co.
Certified Public Accountants
3rd Floor, Chinachem Tower
34-37 Connaught Road Central
Hong Kong

Legal Advisers

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

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

Stock Code

8055

Company homepage/website

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

Chairman's Statement

The economy of Hong Kong, especially for the tourism and retail industries, has shown signs of recovery since early 2004. However, the recovery of IT industry was much slower than expected. Due to the unexpected delays of new contract signing, the Group experienced a very tough time during the second and third quarters in 2004. Fortunately, the business of the Group picked up very rapidly in the fourth quarter and I am very delighted to announce that the Group had great improvement in its performance for the year ended 31 December 2004.

For the year under review, the total revenue increased by 40% to approximately HK\$8.6 million from HK\$6.1 million in 2003. With the implementation of cost control measures, the administrative and other operating expenses of the Group decreased slightly by approximately 3%. As a result, the net loss for the year decreased by approximately 20% to approximately HK\$9.5 million (2003: HK\$11.8 million).

With the improving market conditions, the Group is presented with more business opportunities, especially for the business segment of operational software applications products. Business referrals and enquiries were received from both existing and new customers. The Group is negotiating with several customers for licensing of new systems or enhancements. It is expected that those contracts could be finalized in the near future.

After having established a steadfast hold in Hong Kong, the Group started to expand its business into overseas markets. Subsequent to the signing of the licensing contract with a reputable financial institution in Singapore in the fourth quarter of 2004, the Group entered into another licensing contract with a bank in Singapore in January 2005. Active pursuit will be taken by the Group to secure other overseas contracts under negotiation.

In the year ahead, the Group will put more emphasis on promoting its products and services. New business models such as Application Service Provider (ASP) may also be introduced so as to strengthen the Group's revenue base.

Given the constraint on capital resources of the Group, the board of directors is considering alternatives for equity fund raising so as to strengthen the capital and shareholder base of the Company.

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

Li Ching Ping Vincent

Chairman

Hong Kong, 23 March 2005

Management Discussion and Analysis

FINANCIAL REVIEW

Financial Results

For the year ended 31 December 2004, the Group recorded a total turnover of approximately HK\$8,556,000 (2003: HK\$6,111,000), which represents a growth of approximately 40% over the previous year. When compared with the results in 2003, the revenue from financial instruments analysis software products increased by more than 46% to approximately HK\$1,595,000 while the revenue from operational software applications products increased by approximately 39% to HK\$6,961,000. The proportion of revenue contributions from the two segments of financial instruments analysis software products and operational software applications products remained stable at around 18% and 82% respectively.

The total cost of sales for the segment of financial instruments analysis software products mainly comprises the fixed costs such as subscription costs of data and internet service. Therefore, the increase of 24% in number of subscribers for financial instruments analysis software products during the year of 2004 significantly improved the segment's gross profit margin. Overall speaking, the gross profit margin of the Group has been boosted for more than 64% from approximately 52% in 2003 to 61% in 2004.

In order to meet the tight schedule of certain engagements of operational software applications products, the Group increased its headcount for research and development substantially in the second and third quarters. As a result, the staff cost for the year of 2004 increased considerably by approximately 40%. There was also an increase of approximately 114% in finance costs as new convertible bonds were issued by the Company during the year.

Despite there were substantial increases in staff costs and finance costs, the administrative and other operating expenses of the Group decreased slightly by approximately 3% in 2004. With the implementation of cost control measures, the rental expenses and costs of printing and stationery reduced by approximately 39% and 47% respectively when compared with the figures of last year. The Group also reduced its spending on advertising and promotion expenses by approximately 29% in 2004.

The net loss for the year amounted to approximately HK\$9,461,000 (2003: HK\$11,816,000), representing a reduction of approximately 20% when compared with the results of 2003.

Liquidity and financial resources

The Group keeps most of its cash in Hong Kong dollar and places them as short-term deposits in banks for interests. As at 31 December 2004, the Group had current assets of approximately HK\$3,150,000, including cash and bank balances of approximately HK\$1,023,000.

As at 31 December 2004, the total borrowings of the Group amounted to HK\$8,000,000, which comprised three convertible bonds in the aggregate principal amounts of HK\$3,000,000, HK\$2,500,000 and HK\$2,500,000 respectively. Details of which are set out in note 18 to the financial statements.

Management Discussion and Analysis

The finance costs for the year of approximately HK\$242,000 represented mainly the interest expense of the convertible bonds. The gearing ratio, as expressed as the ratio of total borrowings to total assets, of the Group was approximately 203% as at 31 December 2004.

Capital Structure

On 17 February 2004, the issued share capital of the Company was increased to HK\$4,672,800 by the allotment of 480,000 ordinary shares of HK\$0.01 each to an employee for cash at HK\$0.021 per share upon exercise of the share options.

On 5 March 2004, the issued share capital of the Company was further increased to HK\$4,683,000 by the allotment of 1,020,000 ordinary shares of HK\$0.01 each to an employee for cash at HK\$0.021 per share upon exercise of the share options.

On 9 March 2004, pursuant to a subscription agreement which was approved by the shareholders on 3 March 2004, a total of 183,400,000 ordinary shares of HK\$0.01 each were issued for cash to an investor at HK\$0.03 each.

Subsequent to the above allotments of shares, the total issued share capital of the Company as at 31 December 2004 was HK\$6,517,000, comprised 651,700,000 ordinary shares of HK\$0.01 each.

Contingent liabilities and charges on the Group's assets

Save as disclosed in note 26 to the financial statements, there were no material contingent liabilities or charges on the Group's assets as at 31 December 2004.

Foreign exchange exposure

Most of the sales and expenditures of the Group are denominated in Hong Kong dollar and the United States dollar while some transactions are denominated in Renminbi, Canadian dollar and Great Britain pound. As Hong Kong dollar is closely linked with the United States dollar and the exchange rates for other currencies used by the Group are relatively stable, the management considers that the Group has no significant foreign exchange exposures. The Company had no currency borrowings and no hedging were implemented during the year.

Management Discussion and Analysis

OPERATIONAL REVIEW

Financial instruments analysis software products

Revenue of financial instruments analysis software products mainly derived from the subscription fees of services provided in the websites of the Group. Different prices are offered to clients according to the services subscribed.

Although this business segment of the Group still recorded a segment loss in 2004, there were significant improvements in both revenue and segment results. The total number of subscribers for the website increased by approximately 24% in 2004. The increase was mainly attributable to the newly launched services of “ProSticks 930” and “PRFX”.

ProSticks 930 is a daily commentary which covers the major currencies in the Forex market and Index market, Hong Kong equities and A-shares markets. It provides the subscribers daily recommendations for the foreign exchange market and access to the real-time streaming quotes and ProSticks charts with price depth and open interest.

PRFX was jointly developed by the Group and Dow Jones Newswires. It provides instantaneous streaming live foreign exchange quotes and market moving news in the same manner as those for large banks and dealing rooms to enable individual foreign exchange traders to operate at the same level as the professional traders of large corporations.

The business development of the financial instruments analysis software in the PRC remained stagnant in 2004. As the contribution from the representative office in Beijing was unsatisfactory, the office was closed down in November 2004. New strategies will be adopted for the business development of the PRC market. The Group is currently in negotiation with a major financial software distributor for the distribution of a newly developed service in China.

Operational software applications products

Revenue from operational software applications products was principally generated from system maintenance and system licensing or enhancement fees. There was a growth of approximately 39% in the segment revenue, which was mainly attributable to the licensing of new products and enhancement for both existing and new customers.

During the year, the newly developed wealth management platform that supports trading of multiple financial products, namely COPIA, was successfully launched and licensed to two banks in Hong Kong. The Group has also developed a new trading system for exotic options. This system was subsequently licensed to an overseas bank after the year-end. In addition, the Group is currently upgrading its Treasury Automated System, a risk management system for treasury operations of financial institutions, to enable it to cover the operations for debt securities market. It is expected that the development work will be completed in the third quarter of 2005.

Management Discussion and Analysis

After securing a substantial market share in operational software applications for the financial institutional markets in Hong Kong, the Group is striving to expand geographically. The Group successfully tapped into the Singaporean market by signing licensing agreements with two financial institutions there. The Group is also in negotiation with two financial institutions in Taiwan for licensing of trading systems of the Group.

PROSPECTS

With the recoveries of the global economy and financial market, the directors of the Company (“Directors”) are confident that there will be an increasing demand for both financial instruments analysis software products and operational software applications products. The Group will continue to upgrade its products and services to secure the spearhead position in the market. The Group will also diversify its product mix to seek for more stable revenue sources. At the same time, the Group will continue to implement cost control measures so as to further improve the performance of the Group.

In light of the strong platform built over the past several years and the significant improvement in the market conditions, the Directors believe that the Group will be able to move on a fast track to turn around in the near future.

Employee Information

As at 31 December 2004, the Group had a total of 31 employees (including Directors). Staff costs totaled approximately HK\$10,763,000 (2003: HK\$7,679,000), representing an increase of approximately 40% over the previous year. The increase in staff costs was mainly caused by the increase in number of staff for research and development in the second and third quarters of 2004.

The salaries and benefits of the Group’s employees were kept at a market level and employees were 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, medical insurance and share options. During the year, options to subscribe for 2,860,000 shares of the Company were granted to the employees of the Group.

Material acquisitions or disposals of subsidiaries

No significant investments and material acquisitions or disposals of subsidiaries or affiliated companies which had significant impact on the financial results of the Group were made during the year of 2004.

Future plans for material investments or capital assets

As at 31 December 2004, the Group did not have any plan for material investments or capital assets.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Ching Ping Vincent, aged 57, was appointed as an executive Director in November 2001. He is the Chairman of the Group and is responsible for the overall strategic planning and formulation of corporate policies of the Group. Mr. Li graduated from the University of Manitoba, Canada with a bachelor of science degree. He has extensive experience in the banking and finance fields.

Mr. Fung Yan Shun, aged 59, was appointed as an executive Director in July 2004. Mr. Fung is responsible for business development and management of daily operations of the Group. Mr. Fung holds a bachelor degree of science from University of Wisconsin in the United States. He has more than 20 years of management experience in the securities industry.

NON-EXECUTIVE DIRECTORS

Mr. Chan Chee Ming Harris, aged 49, was re-designated from executive Director to non-executive Director in July 2004. Mr. Chan graduated from Century University with a bachelor degree in business administration. He has over 20 years of market development experience in the PRC, Taiwan and Hong Kong.

Mr. Yip James, aged 51, was re-designated from executive Director to non-executive Director in July 2004. Mr. Yip holds a master degree in applied finance from Macquarie University in Australia. Mr. Yip has more than 20 years of banking and financial market experience in Asia Pacific region. He is the founder and chief operation officer of iMarkets Limited, a member of Cheung Kong (Holdings) Ltd. Mr. Yip was formerly the president of the Hong Kong Financial Markets Association.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Ge Bun, aged 47, was appointed as an independent non-executive Director in November 2001. Mr. Ng holds a degree of bachelor of science and of bachelor of laws. He obtained a postgraduate certificate in laws from the University of Hong Kong. He is a solicitor of the Supreme Court of Hong Kong and currently serves as Senior Partner of Messrs. Ng & Lam, Solicitors.

Mr. Wan Yiu Kwan Stephen, aged 48, was appointed as an independent non-executive Director in November 2001. Mr. Wan graduated from the University of Hong Kong with a bachelor degree in social science. He is an associate of The Chartered Secretaries and Administration, UK. He has over 9 years of experience in the banking and finance fields. He currently focuses on developing private businesses in the PRC relating to the health care industry.

Mr. Lee Kar Wai, aged 55, was appointed as an independent non-executive Director in September 2004. Mr. Lee holds a master degree of accounting science from University of Urbana, Illinois in the United States. He has more than 25 years of experience in auditing, accounting and financing. Mr. Lee is an independent non-executive director and audit committee member of FlexSystem Holdings Limited, and also a director of Kanghong Digital Image (HK) Limited.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Cheng Chi Kong, aged 32, is the Chief Technical Officer of the Group. He joined the Group in April 2000 and is primarily responsible for software development and system maintenance. Mr. Cheng graduated from the University of Hong Kong with a bachelor degree in engineering. He is a Certified Information System Auditor and has more than 10 years of experience in information technology.

Mr. Chan Cheong Pang, aged 32, is the Senior Business Manager of the Group. He joined the Group in April 2000 and is primarily responsible for system design, analysis, development and implementation of operational software applications products. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor degree in computer science. He is a Chartered Financial Analyst charterholder and a Certified Information System Auditor. He has more than 10 years of experience in information technology.

Mr. Lau Chi Ming, aged 32, is the Product Development Manager of the Group. He joined the Group in April 2002 and is responsible for the development and maintenance of financial instruments analysis software products. Mr. Lau graduated from the University of Hong Kong with a bachelor degree in computer science. He is a Chartered Financial Analyst charterholder and has more than 9 years of experience in information technology.

Ms. Chan Oi Chi Joyce, aged 32, is the Product Development Manager of the Group. She joined the Group in April 2002 and is responsible for system design, analysis, development and implementation of operational software applications products. Ms. Chan graduated from the University of Hong Kong with a bachelor degree in computer science. Ms. Chan is a Chartered Financial Analyst charterholder and has more than 9 years of experience in information technology.

Ms. Tsang Wing Yee, aged 33, is the financial controller and company secretary of the Group. Ms. Tsang joined the Group in October 2004 and is responsible for the overall management of the financial function of the Group. 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 10 years of experience in the investment and finance fields.

Report of the Directors

The Directors present their Annual Report together with the Audited Financial Statements of the Company and the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and profit/(loss) from operating activities by principal activity and geographical area of operations for the year ended 31 December 2004 is set out in note 11 to the financial statements.

RESULTS AND DIVIDEND

The Group's loss for the year ended 31 December 2004 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 23 to 55.

The Directors do not recommend payment of any dividend in respect of the reporting year (2003: 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 notes below:

	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	8,556	6,111	4,110	3,625	821
Loss before tax	9,461	11,816	20,292	7,383	12,884
Net loss after tax	9,461	11,816	20,292	7,383	12,884
Total assets	3,935	3,855	13,518	31,738	7,212
Total liabilities	9,606	5,375	4,070	3,798	302

Notes:

1. The summary of the combined results for the period ended 31 December 2000 was extracted from the Company's prospectus dated 29 November 2001, when the listing of the shares of the Company was sought on the GEM of the Stock Exchange.
2. The results of the three years ended 31 December 2003 were extracted from the Company's 2003 and 2002 annual reports.

Report of the Directors

FIXED ASSETS

Movements of fixed assets are set out in note 12 to the financial statements.

SUBSIDIARIES

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

BORROWINGS

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

SHARE CAPITAL AND SHARE OPTIONS

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

CONVERTIBLE SECURITIES

Save as disclosed in notes 18 and 20 to the financial statements, the Company has not issued or granted any convertible securities, options, warrants or similar rights during the year.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company did not have any reserve available for distribution (2003: 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.

Report of the Directors

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		58%
Purchases		
– the largest supplier		28%
– five largest suppliers		85%

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

DIRECTORS

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

Executive Directors

Mr. Li Ching Ping Vincent	
Mr. Chan Chee Ming Harris	<i>(re-designated as non-executive Director on 19 July 2004)</i>
Mr. Yip James	<i>(re-designated as non-executive Director on 1 July 2004)</i>
Mr. Fung Yan Shun	<i>(appointed on 19 July 2004)</i>

Non-executive Directors

Mr. Chan Chee Ming Harris	<i>(appointed on 19 July 2004)</i>
Mr. Yip James	<i>(appointed on 1 July 2004)</i>

Independent non-executive directors

Mr. Ng Ge Bun	
Mr. Wan Yiu Kwan Stephen	
Mr. Lee Kar Wai	<i>(appointed on 30 September 2004)</i>

In accordance with Article 87 of the Company's Articles of Association, Mr. Yip James shall retire from office and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Fung Yan Shun and Mr. Lee Kar Wai will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Report of the Directors

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 of the independent non-executive Directors are independent to the Group.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 10.

DIRECTORS' SERVICE CONTRACTS

Mr. Fung Yan Shun, being an executive Director, has entered into a service contract with the Company for a term of two years, commencing from 19 July 2004, which shall continue thereafter unless and until terminated by either party giving to the other not less than three months' notice in writing.

Each of the non-executive Directors, has entered into a service contract with the Company for a term of one year, which will continue thereafter unless and until terminated by either party giving to the other not less than one month's notice in writing.

Mr. Lee Kar Wai, being an independent non-executive Director, has entered into a service contract with the Company for an initial period of two years, commencing from 30 September 2004, which shall continue thereafter unless and until terminated by not less than one month's notice in writing served by either party on the other.

Save as disclosed above, none of the Directors offering themselves 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 27 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.

Report of the Directors

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2004, 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

Name of directors	Number of shares held and nature of interests			Total percentage of shareholding
	Personal	Corporation	Total	
Mr. Li Ching Ping Vincent ("Mr. Li") (Note 1)	–	90,479,242	90,479,242	13.88
Mr. Yip James ("Mr. Yip")	15,000,000	–	15,000,000	2.30
Mr. Chan Chee Ming Harris ("Mr. Chan")	15,000,000	–	15,000,000	2.30

Notes:

1. These shares were held by Great Power Associates Limited, a company wholly owned by Mr. Li.
2. Nominee shares in subsidiaries were held by a director in trust for the Group.

Report of the Directors

Short position in shares of the Company

Name of director	Number of underlying shares	Nature of interest	Total percentage of shareholding
Mr. Li (<i>Note</i>)	23,000,000	Interest of a controlled corporation	3.53

Note:

Great Power Associates Limited, a company wholly owned by Mr. Li, has written a call option to an independent third party, pursuant to which the option holder has the right to purchase from Great Power Associates Limited up to 23,000,000 shares of the Company at an exercise price of HK\$0.03 per share during the period of 2 years commencing from 2 December 2003.

Share options

Name of Directors	Date of grant	Number of share options			Exercise period	Exercise price per share HK\$
		As at 1 January 2004	Granted/Exercised/ Cancelled/Lapsed during the year	As at 31 December 2004		
Mr. Li	20/11/2003	24,000,000	0	24,000,000	20/11/2003 – 19/11/2013	0.021
Mr. Yip	20/11/2003	34,000,000	0	34,000,000	20/11/2003 – 19/11/2013	0.021
Mr. Chan	02/12/2003	10,000,000	0	10,000,000	02/12/2003 – 01/12/2013	0.021

Save as disclosed above, as at 31 December 2004, none of the Directors or chief executive of the Company had any interest or short position in shares, debenture 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.

Report of the Directors

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, 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 positions in shares of the Company

Name of shareholders	Capacity	No. of issued ordinary shares held	Percentage of issued share capital
Investec Bank (UK) Limited	Beneficial owner	183,400,000	28.14
Great Power Associates Limited	Beneficial owner	90,479,242	13.88
Ms. Li Yuen Sze Mak ("Mrs. Li") (Note 1)	Family interest	90,479,242	13.88
Frankie Dominion International Limited	Beneficial owner	75,260,986	11.55
Mr. Lam Po Kwai "Mr. Lam" (Note 2)	Interest of a controlled corporation	75,260,986	11.55
Ms. Lee Yuen Bing (Mrs. Lam") (Note 2)	Family interest	75,260,986	11.55
4Bio Signs Corporation	Beneficial owner	33,000,000	5.06
Mr. Loh James "Mr. Loh" (Note 3)	Interest of a controlled corporation	33,000,000	5.06
Ms. Loh Cheung Yuk Pok Natalie ("Mrs. Loh") (Note 3)	Family interest	33,000,000	5.06

Notes:

- Great Power Associates Limited is wholly owned by Mr. Li. Accordingly, each of Mr. Li and Mrs. Li, the spouse of Mr. Li, was deemed to be interested in 90,479,242 shares of the Company.
- Frankie Dominion International Limited is beneficially owned as to 44.2% by Mr. Lam. Accordingly, each of Mr. Lam and Mrs. Lam, the spouse of Mr. Lam, was deemed to be interested in 75,260,986 shares of the Company.
- 4Bio Signs Corporation is wholly owned by Mr. Loh. Accordingly, each of Mr. Loh and Mrs. Loh, the spouse of Mr. Loh, was deemed to be interested in 33,000,000 shares of the Company.

Report of the Directors

Long positions in underlying shares of the Company

Name of shareholders	Capacity	No. of issued ordinary shares held	Percentage of issued share capital
Rapid Falcon Limited (Note 1)	Beneficial owner	64,935,065	9.96
King Fook Finance Company Limited (Note 2)	Interest of a controlled corporation	64,935,065	9.96
Mr. Chow Lork Sang (Note 2)	Interest of a controlled corporation	64,935,065	9.96
JL Strategic Fund (Note 3)	Beneficial owner	50,000,000	7.67
Swordfish Holdings Limited (Note 4)	Beneficial owner	50,000,000	7.67
JL Capital Pte. Ltd (Note 5)	Investment manager	100,000,000	15.34
Mr. Loh (Note 6)	Interest of a controlled corporation	100,000,000	15.34
Mrs. Loh (Note 6)	Interest of a controlled corporation	100,000,000	15.34

Notes:

1. The Company issued a convertible bond of HK\$3 million to Rapid Falcon Limited in April 2003. Upon full conversion of the convertible bond, Rapid Falcon Limited will be entitled to 64,935,065 underlying shares of the Company.
2. Rapid Falcon Limited is beneficially owned as to 61% by Mr. Chow Lork Sang and 39% by King Fook Finance Company Limited, a private corporation incorporated in Hong Kong. Accordingly, each of Mr. Chow Lork Sang and King Fook Finance Company Limited was deemed to be interested in the 64,935,065 underlying shares of the Company.
3. The Company issued a convertible bond of HK\$2.5 million to JL Strategic Fund in September 2004. Upon full conversion of the convertible bond, JL Strategic Fund will be entitled to 50,000,000 shares of the Company.
4. The Company issued a convertible bond of HK\$2.5 million to Swordfish Holdings Limited in September 2004. Upon full conversion of the convertible bond, Swordfish Holdings Limited will be entitled to 50,000,000 shares of the Company.

Report of the Directors

5. JL Capital Pte. Ltd is the investment manager of JL Strategic Fund and Swordfish Holdings Limited and was thus deemed to be interested in 100,000,000 underlying shares of the Company.
6. Mr. Loh holds 99% interest in JL Capital Pte. Ltd.. Therefore, each of Mr. Loh and Mrs. Loh, the spouse of Mr. Loh, was deemed to be interested in 100,000,000 underlying shares of the Company.

Short positions in shares of the Company

Name	Capacity	Number of underlying shares	Percentage of issued share capital
Great Power Associates Limited (<i>Note 1</i>)	Beneficial owner	23,000,000	3.53
Mrs. Li (<i>Note 2</i>)	Family interest	23,000,000	3.53

Notes:

1. Great Power Associates Limited, a company wholly owned by Mr. Li, has written a call option to an independent third party, pursuant to which the option holder has the right to purchase from Great Power Associates Limited up to 23,000,000 shares of the Company at an exercise price of HK\$0.03 per share during the period of 2 years commencing from 2 December 2003.
2. Great Power Associates Limited is wholly owned by Mr. Li. Accordingly, each of Mr. Li and Mrs. Li, the spouse of Mr. Li, was deemed to be interested in the short positions of 23,000,000 shares of the Company.

Save as disclosed above, as at 31 December 2004, the Directors were not aware of any other persons (other than the Directors or chief executive of the Company) who had an interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors nor any substantial shareholder of the Company and their respective associates had any interest in any business that directly or indirectly competed with the business of the Group.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with Board Practices and Procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules during the year.

Report of the Directors

AUDIT COMMITTEE

The Company has established an audit committee since 26 November 2001 with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. The committee comprises the three independent non-executive Directors, namely Mr. Ng Ge Bun and Mr. Wan Yiu Kwan Stephen and Mr. Lee Kar Wai. The committee had met four times in 2004. The Group's consolidated financial statements for the year ended 31 December 2004 have been reviewed by the committee, who was of the opinion that such statements have complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

AUDITORS

The financial statements have been audited by Messrs. Fan Mitchell & Co. which replaced Messrs. Moores Rowland Mazars as auditors of the Company on 3 January 2005. Save as disclosed herein, there were no changes in auditors of the Company in any of the preceding 3 years.

A resolution to reappoint Messrs. Fan Mitchell & Co. as auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

Li Ching Ping Vincent

Chairman

Hong Kong, 23 March 2005

Auditors' Report

FAN, MITCHELL & CO . **Certified Public Accountants**

TO THE SHAREHOLDERS OF
PROSTICKS INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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

Auditors' Report

Fundamental uncertainty

At the balance sheet date, both the Company and the Group had significant capital deficiencies. In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which 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 plans. 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

FAN, MITCHELL & CO.

Certified Public Accountants

Hong Kong, 23 March 2005

Consolidated Income Statement

Year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	4	8,556	6,111
Cost of sales		(3,321)	(2,921)
Gross profit		5,235	3,190
Other revenue	4	284	292
Advertising and promotion expenses		(207)	(292)
Administrative expenses		(14,232)	(11,595)
Other operating expenses		(299)	(3,298)
Loss from operations		(9,219)	(11,703)
Finance costs	5a	(242)	(113)
Loss from ordinary activities before taxation	5	(9,461)	(11,816)
Taxation	8	–	–
Net loss attributable to shareholders	9	(9,461)	(11,816)
Loss per share			
Basic	10	1.53 cents	2.73 cents

The annexed notes on pages 28 to 55 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Plant and equipment	12	785	979
Intangible assets	13	–	–
		785	979
Current assets			
Inventories	15	–	32
Trade and other receivables	16	2,127	1,495
Cash and bank balances		1,023	1,349
		3,150	2,876
Current liabilities			
Trade and other payables	17	(1,606)	(2,375)
Interest-bearing borrowing	18	(3,000)	–
		(4,606)	(2,375)
Net current (liabilities)/assets		(1,456)	501
Total assets less current liabilities		(671)	1,480
Non-current liabilities			
Interest-bearing borrowings	18	(5,000)	(3,000)
NET LIABILITIES		(5,671)	(1,520)
CAPITAL AND RESERVES			
Share capital	19	6,517	4,668
Reserves	21	(12,188)	(6,188)
		(5,671)	(1,520)

The annexed notes on pages 28 to 55 form an integral part of these financial statements.

Approved and authorized for issue by the Board of Directors on 23 March 2005.

Li Ching Ping Vincent
Director

Fung Yan Shun
Director

Balance Sheet

At 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Interests in subsidiaries	14	4,991	2,607
Current assets			
Trade and other receivables	16	220	27
Cash and bank balances		74	163
		294	190
Current liabilities			
Trade and other payables	17	(654)	(977)
Interest-bearing borrowing	18	(3,000)	–
		(3,654)	(977)
Net current liabilities			
		(3,360)	(787)
Total assets less current liabilities			
		1,631	1,820
Non-current liabilities			
Interest-bearing borrowings	18	(5,000)	(3,000)
NET LIABILITIES			
		(3,369)	(1,180)
CAPITAL AND RESERVES			
Share capital	19	6,517	4,668
Reserves	21	(9,886)	(5,848)
		(3,369)	(1,180)

The annexed notes on pages 28 to 55 form an integral part of these financial statements.

Approved and authorized for issue by the Board of Directors on 23 March 2005.

Li Ching Ping Vincent
Director

Fung Yan Shun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Shareholders' funds at 1 January		(1,520)	9,448
Issue of shares	19 & 21	5,534	983
Exchange difference		(224)	(135)
Loss for the year		(9,461)	(11,816)
Shareholders' funds at 31 December		(5,671)	(1,520)

The annexed notes on pages 28 to 55 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Operating activities			
Cash used in operations	23	(9,917)	(9,702)
Interest paid		(242)	(113)
Net cash used in operating activities		(10,159)	(9,815)
Investing activities			
Interest received		5	16
Purchase of plant and equipment		(482)	(357)
Net cash used in investing activities		(477)	(341)
Financing activities			
Issue of convertible bonds	18	5,000	3,000
Issue of shares	19 & 21	5,534	983
Net cash from financing activities		10,534	3,983
Net decrease in cash and cash equivalents		(102)	(6,173)
Cash and cash equivalents at beginning of year		1,349	7,495
Effect of exchange rate changes		(224)	27
Cash and cash equivalents at end of year		1,023	1,349
Analysis of balances of cash and cash equivalents			
Cash and bank balances		1,023	1,349

The annexed notes on pages 28 to 55 form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31 December 2004

1. GENERAL

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

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Going concern

The Group sustained a consolidated net loss attributable to shareholders of approximately HK\$9,461,000 for the year ended 31 December 2004 (2003: HK\$11,816,000). In view of the substantial losses in consecutive years, the Directors have carefully reviewed the Group's cash position as at the balance sheet date and the cash flow forecast for the next twelve months. In reviewing the Group's cash flows, the Directors have taken into account the following factors:

- possible increase in the capital of the Group through various fund-raising exercises, including but not limited to, private placements of the Company's shares;
- cash generated or to be generated from increased demand of the Group's system services and new products to be launched;
- commitment on continuous development and improvement of the Group's products; and
- the flexibility of the Group's cost structure.

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

Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below:

a) **Basis of preparation**

The financial statements are prepared under the historical cost convention.

b) **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December. 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.

c) **Revenue recognition**

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

System services and maintenance income is 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.

d) **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.

Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

d) **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 less accumulated impairment losses of plant and equipment, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

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

e) **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 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 3 years or over the useful lives of such applications, whichever are shorter.

f) **Subsidiaries**

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

Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

g) **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 had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

h) **Inventories**

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

When inventories are sold, the carrying amounts of these inventories are recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

i) **Foreign currencies**

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

On consolidation, the results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

j) **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.

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.

Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

k) **Leased assets**

Leases that transfer substantially all the rewards and risks 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 fixed assets 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 rewards and risks 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.

l) **Cash equivalents**

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 banks repayable within three months from the date of the advance.

m) **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.

n) **Related parties**

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

Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

o) Employee benefits

- (i) 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 independently administered fund.
- (ii) Employee entitlements to annual leave and long service payments are recognized when they accrue to employees. A provision is 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.
- (iii) Employee entitlements to sick leave and maternity or paternity leave are not recognized until the time of leave.

p) 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 inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Post balance sheet events

Post balance sheet events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

4. TURNOVER AND OTHER REVENUE

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

Turnover and other revenue recognized by category are as follows:-

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Membership subscription fees	1,595	1,089
System services and maintenance income	6,961	5,022
	8,556	6,111
Other revenue		
Interest income	5	16
Exchange gain	217	213
Others	62	63
	284	292
Total	8,840	6,403

Notes to the Financial Statements

Year ended 31 December 2004

5. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2004 HK\$'000	2003 HK\$'000
(a) Finance costs		
Interest on convertible bonds	225	113
Interest on other loans wholly repayable within five years	17	–
	242	113
(b) Other items		
Staff costs (including directors' emoluments (<i>note 6</i>))		
– Basic salaries and allowances	10,191	7,287
– Miscellaneous	269	227
– Contributions to defined contribution plans	303	165
	10,763	7,679
Auditors' remuneration	190	180
Depreciation	516	493
Operating leases for premises	462	791
Operating leases for plant and equipment	570	555
	1,032	1,346
Research and development expenditure (included in administrative expenses)	5,679	3,597
Write-off of plant and equipment	149	384
Write-off of inventories	32	–
Impairment losses recognized (included in other operating expenses):		
– Financial software application	–	1,800
– Development costs	–	851
– Plant and equipment	–	262
Provision for doubtful debt	80	–
Bad debt written off	59	–
Loss on disposal of plant and equipment	11	–
and crediting:		
Bank interest income	(5)	(16)
Exchange gain	(217)	(213)
Others	(62)	(63)

Notes to the Financial Statements

Year ended 31 December 2004

6. DIRECTORS' EMOLUMENTS

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

	2004 HK\$'000	2003 HK\$'000
Executive Directors		
Mr. Li Ching Ping Vincent		
Basic salaries, housing allowance, other allowances and benefits in kind	1,440	1,044
Pension scheme contributions	12	12
	1,452	1,056

Mr. Fung Yan Shun		
Basic salaries, housing allowance, other allowances and benefits in kind	271	-
Pension scheme contributions	5	-
	276	-

Non-executive Directors		
Mr. Chan Chee Ming Harris		
Basic salaries, housing allowance, other allowances and benefits in kind	350	546
Pension scheme contributions	5	12
	355	558

Mr. Yip James		
Basic salaries, housing allowance, other allowances and benefits in kind	504	488
Pension scheme contributions	6	12
	510	500

Notes to the Financial Statements

Year ended 31 December 2004

6. DIRECTORS' EMOLUMENTS (Continued)

	2004 HK\$'000	2003 HK\$'000
Independent Non-executive Directors		
Mr. Ng Ge Bun		
Basic salaries, housing allowance, other allowances and benefits in kind	110	110
Pension scheme contributions	–	–
	110	110

Mr. Wan Yiu Kwan Stephen		
Basic salaries, housing allowance, other allowances and benefits in kind	110	110
Pension scheme contributions	–	–
	110	110

Mr. Lee Kar Wai		
Basic salaries, housing allowance, other allowances and benefits in kind	28	–
Pension scheme contributions	–	–
	28	–

	2,841	2,334

Emoluments of Mr. Chan Chee Ming Harris and Mr. Yip James represent their respective remunerations received in the capacity of executive Director before their re-designation as non-executive Directors on 19 July 2004 and 1 July 2004 respectively.

No share options were granted to the Directors during the year ended 31 December 2004. Details of the movements of share options of the Directors are set out in note 20.

There were no arrangements under which a Director waived or agreed to waive any emoluments during the year.

During the years ended 31 December 2004 and 2003, 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.

Notes to the Financial Statements

Year ended 31 December 2004

7. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include two (2003: three) Directors, details of whose emoluments are set out in note 6 above. The details of the emoluments paid to the remaining highest paid employees are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing allowance, other allowances and benefits in kind	1,267	735
Pension scheme contributions	36	24
	1,303	759

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	3	2

8. TAXATION

No Hong Kong or overseas income tax have been provided for in the financial year as neither the Group nor any of its subsidiaries derived any profit that is subject to Hong Kong or overseas income tax (2003: HK\$Nil).

Reconciliation of tax expense

	2004 HK\$'000	2003 HK\$'000
Loss from ordinary activities before taxation	(9,461)	(11,816)
Income tax at rates applicable to profits in the tax jurisdiction	(1,890)	(2,338)
Tax effect of non-deductible expenses	975	1,158
Tax effect of non-taxable income	(168)	–
Tax effect of unrecognized tax losses	1,070	650
Tax effect of unrecognized temporary differences	13	530
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.

Notes to the Financial Statements

Year ended 31 December 2004

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders includes a loss of approximately HK\$7,723,000 (2003: HK\$13,375,000) which has been dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of approximately HK\$9,461,000 (2003: HK\$11,816,000) and the weighted average of 617,385,683 ordinary shares (2003: 432,821,918) in issue during the year.

No amounts are presented for the diluted loss per share because the Pre-IPO Share Options, Share Options and convertible bonds outstanding during the years ended 31 December 2004 and 2003 had an anti-dilutive effect on the basic loss per share for both years presented.

Notes to the Financial Statements

Year ended 31 December 2004

11. SEGMENT REPORTING

(a) Primary reporting format – business segments

The Group comprises two main business segments:

Financial instruments analysis software products

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

Operational software applications products

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

	Financial instruments analysis software products		Operational software applications products		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue						
Segment revenue	1,595	1,089	6,961	5,022	8,556	6,111
Result						
Segment result	(2,444)	(5,942)	1,309	2,225	(1,135)	(3,717)
Unallocated operating income and expenses					(8,084)	(7,986)
Loss from operations					(9,219)	(11,703)
Finance costs					(242)	(113)
Loss from ordinary activities before taxation					(9,461)	(11,816)
Taxation					-	-
Net loss attributable to shareholders					(9,461)	(11,816)
Assets and liabilities						
Segment assets	397	281	2,107	1,606	2,504	1,887
Unallocated assets					1,431	1,968
Total assets					3,935	3,855
Segment liabilities	196	553	458	672	654	1,225
Unallocated liabilities					8,952	4,150
Total liabilities					9,606	5,375
Other information						
Capital expenditure incurred during the year	42	78	252	126		
Depreciation for the year	313	76	47	288		
Bad debt written off	-	-	59	-		
Loss on disposal of plant and equipment	8	-	-	-		
Provision for doubtful debt	-	-	80	-		
Write-off of plant and equipment	93	-	-	-		
Impairment losses recognized	-	2,913	-	-		

Notes to the Financial Statements

Year ended 31 December 2004

11. SEGMENT REPORTING (Continued)

(b) Secondary reporting format – geographical segments

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

12. PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group				
Cost				
At beginning of year	132	2,131	259	2,522
Exchange adjustments	–	10	–	10
Additions	96	331	55	482
Disposal	–	(14)	(12)	(26)
Write-off	–	(213)	(112)	(325)
At balance sheet date	228	2,245	190	2,663
Accumulated depreciation and accumulated impairment losses				
At beginning of year	10	1,404	129	1,543
Exchange adjustments	–	10	–	10
Charge for the year	101	360	55	516
Eliminated on disposal	–	(6)	(9)	(15)
Eliminated on write-off	–	(120)	(56)	(176)
At balance sheet date	111	1,648	119	1,878
Net book value				
At balance sheet date	117	597	71	785
At beginning of year	122	727	130	979

Notes to the Financial Statements

Year ended 31 December 2004

13. INTANGIBLE ASSETS

	Financial software application <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group			
Cost			
At beginning of the year and at balance sheet date	1,800	851	2,651
Accumulated amortization and impairment losses			
At beginning of the year and at balance sheet date	1,800	851	2,651
Net book value			
At beginning of the year and at balance sheet date	–	–	–

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.

14. INTERESTS IN SUBSIDIARIES

	The Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	12	12
Due from subsidiaries	36,618	31,024
Due to subsidiaries	(1,977)	(3,543)
	34,653	27,493
Provision for doubtful debts	(29,662)	(24,886)
	4,991	2,607

Notes to the Financial Statements

Year ended 31 December 2004

14. INTERESTS IN SUBSIDIARIES (Continued)

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

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

Name of subsidiary	Place of incorporation and operations	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by the subsidiary	
ProSticks (B.V.I.) Limited *	British Virgin Islands	US\$1,235,700 Ordinary	100%	100%	–	Investment holding
ProSticks.com Limited	Hong Kong	HK\$22,000,000 Ordinary	100%	–	100%	Development and provision of financial instruments analysis software products and operational software applications products
ProSticks Technology Limited	Hong Kong	HK\$2 Ordinary	100%	–	100%	PRC market development and development of financial instruments analysis software products
ProSticks Publication Limited *	Hong Kong	HK\$2 Ordinary	100%	–	100%	Dormant
ProSticks Multi-text Limited	Hong Kong	HK\$5,000,000 Ordinary	100%	–	100%	Dormant
iEngines Limited	Hong Kong	HK\$5,000,000 (2003: HK\$120,000) Ordinary	100%	–	100%	Development and provision of operational software applications products
ProSticks Financial Solutions Limited *	Canada	CAD1 Ordinary	100%	–	100%	Development and provision of financial instruments analysis software products
Daily Vantage Investment Limited *	Hong Kong	HK\$2 Ordinary	100%	–	100%	Dormant
Global Media Services Limited *	British Virgin Islands	US\$1 Ordinary	100%	–	100%	Dormant

* Not audited by Fan, Mitchell & Co.

Notes to the Financial Statements

Year ended 31 December 2004

15. INVENTORIES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Merchandise held for sales	–	32

Finished goods of cost of approximately HK\$32,000 (2003: HK\$Nil) were written off during the year.

16. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivable (Note)	1,504	1,063	–	–
Other receivables				
Deposits, prepayments and other debtors	623	432	220	27
	2,127	1,495	220	27

Note: The aging analysis of trade receivable (net of specific provision for doubtful debt) is as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Within 30 days	334	1,017
Between 31 days and 60 days	1,120	7
Between 61 days and 180 days	50	39
	1,504	1,063

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

Notes to the Financial Statements

Year ended 31 December 2004

17. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables				
Receipts in advance				
– membership subscription fees	190	215	–	–
– system services and maintenance income	216	255	–	–
– others	–	2	–	–
Accrued charges and other creditors	1,200	1,903	654	977
	1,606	2,375	654	977

18. INTEREST-BEARING BORROWINGS

	The Group and The Company	
	2004	2003
	HK\$'000	HK\$'000
Convertible bond repayable within one year (<i>Note 1</i>)	3,000	–
Convertible bonds repayable after one year but not exceeding 2 years (<i>Note 2</i>)	5,000	3,000
	8,000	3,000

Note 1: On 1 April 2003, the Company issued a convertible bond in the aggregate principal amount of HK\$3,000,000, which bears interest at the rate of 5% per annum. The whole principal amount of the bond together with any outstanding interest is repayable on 1 April 2005. The bondholder has 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\$0.05 per share (subject to adjustments). The conversion price was subsequently adjusted to HK\$0.0462 per share with effect from 9 March 2004. A total of 64,935,065 new shares will be issued upon full conversion of the bond. No parts of the principal of the bond were converted or redeemed during the year.

The Company entered into a loan agreement on 22 March 2005 with the holder of the abovementioned convertible bond. Pursuant to the loan agreement, the bondholder has agreed to lend a loan of HK\$3,000,000 to the Company for the settlement of the convertible bond. The loan bears interest at a fixed rate of 6% per annum and is repayable on the date falling 24 months from the date of drawdown of the loan.

Notes to the Financial Statements

Year ended 31 December 2004

18. INTEREST-BEARING BORROWINGS *(Continued)*

Note 2: Two other convertible bonds in the aggregate principal amount of HK\$5,000,000 were issued by the Company on 1 September 2004. The bonds bear 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 is repayable on 1 September 2006. The bondholders have 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\$0.05 per share (subject to adjustment). A total of 100,000,000 new shares will be issued upon full conversion of the bonds. No parts of the principal of the bonds were converted or redeemed during the year.

19. SHARE CAPITAL

	2004		2003	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorized:				
Ordinary shares of HK\$0.01 each	8,000,000,000	80,000	8,000,000,000	80,000
Issued and fully paid:				
At beginning of year	466,800,000	4,668	420,000,000	4,200
New shares issued	184,900,000	1,849	46,800,000	468
At balance sheet date	651,700,000	6,517	466,800,000	4,668

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

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

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

Notes to the Financial Statements

Year ended 31 December 2004

20. SHARE OPTION SCHEMES

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.

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 4,000,000 shares was outstanding as at 31 December 2004. No options granted under the Pre-IPO Share Option Scheme were exercised, cancelled or lapsed during the year.

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 and it will expire on 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 sheet issued by the Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of offer of the options 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 65,170,000 shares, representing 10 per cent of the shares in issue as at 7 May 2004 and 23 March 2005, the date of the annual general meeting of the Company in which shareholders' approval for refreshing the scheme mandate limit was obtained and the date of the annual report respectively. 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.

Notes to the Financial Statements

Year ended 31 December 2004

20. SHARE OPTION SCHEMES *(Continued)*

Share Option Scheme *(Continued)*

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 the period to be notified by the Board of Directors to each grantee provided that the exercise period shall not be more than 10 years from the date of grant of the options. There is no lock-up period for exercise of the options.

Options to subscribe for a total of 4,060,000 shares of the Company were granted during the year. HK\$5 was received by the Company for such grants of options.

The Directors are of the view that the value of the theoretical value of the options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the Directors believe that any calculation of the value of the options will not be meaningful and may be misleading to the shareholders in the circumstances.

Notes to the Financial Statements

Year ended 31 December 2004

20. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (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	Exercise Price per Share	Options outstanding as at 1-1-04	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options outstanding as at 31-12-04
Directors:								
Chan Chee Ming Harris	02-Dec-03	02/12/2003-01/12/2013	0.021	10,000,000	-	-	-	10,000,000
Li Ching Ping Vincent	20-Nov-03	20/11/2003-19/11/2013	0.021	24,000,000	-	-	-	24,000,000
Yip James	20-Nov-03	20/11/2003-19/11/2013	0.021	34,000,000	-	-	-	34,000,000
Participants with options granted in excess of the individual limit:								
Li Yue Toa Gilbert	14-Jul-03	14/07/2003-04/07/2013	0.021	16,000,000	-	-	-	16,000,000
Chan Cheong Pang	01-Dec-03	01/12/2003-30/11/2013	0.021	5,000,000	-	-	-	5,000,000
Chan Oi Chi Joyce	02-Dec-03	02/12/2003-01/12/2013	0.021	5,000,000	-	-	-	5,000,000
Cheng Chi Kong	09-Dec-03	09/12/2003-08/12/2013	0.021	3,600,000	-	-	-	3,600,000
Lau Chi Ming	11-Dec-03	11/12/2003-10/12/2013	0.021	5,000,000	-	-	-	5,000,000
Lai Man Kwan Jim	21-Nov-03	21/11/2003-20/11/2013	0.021	4,000,000	-	-	-	4,000,000
	03-Feb-04	03/02/2004-29/01/2014	0.050	-	660,000	-	-	660,000
Ho Wai Man Heidi	31-Jul-03	31/07/2003-04/07/2013	0.021	3,000,000	-	-	-	3,000,000
	20-Nov-03	20/11/2003-19/11/2013	0.021	2,400,000	-	-	-	2,400,000
Employees:								
In aggregate	12-Jul-03	12/07/2003-04/07/2013	0.021	1,800,000	-	-	-	1,800,000
	14-Jul-03	14/07/2003-04/07/2013	0.021	800,000	-	-	-	800,000
	21-Jul-03	21/07/2003-04/07/2013	0.021	2,000,000	-	-	-	2,000,000
	23-Jul-03	23/07/2003-04/07/2013	0.021	1,000,000	-	-	(1,000,000)	-
	29-Jul-03	29/07/2003-04/07/2013	0.021	2,500,000	-	(1,500,000) ^{Note 3}	(1,000,000)	-
	30-Jul-03	30/07/2003-04/07/2013	0.021	2,000,000	-	-	-	2,000,000
	01-Aug-03	01/08/2003-04/07/2013	0.021	600,000	-	-	-	600,000
	03-Feb-04	03/02/2004-29/01/2014	0.050	-	2,200,000 ^{Note 1}	-	-	2,200,000
Others:								
	16-Jul-03	16/07/2003-04/07/2013	0.021	4,200,000	-	-	-	4,200,000
In aggregate	13-Feb-04	13/02/2004-29/01/2006	0.050	-	1,200,000 ^{Note 2}	-	-	1,200,000
				126,900,000	4,060,000	(1,500,000)	(2,000,000)	127,460,000

Notes:

- As at the day immediately before the options were granted on 3 February 2004, the closing price of the shares of the Company was HK\$0.053.
- As at the day immediately before the options were granted on 13 February 2004, the closing price of the share of the Company was HK\$0.077.
- As at the day immediately before the options were exercised on 1 March 2004, the closing price of the share of the Company was HK\$0.067.

Notes to the Financial Statements

Year ended 31 December 2004

21. RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group					
At 1 January 2003	22,598	24,415	–	(41,765)	5,248
Issue of shares	515	–	–	–	515
Net loss for the year	–	–	–	(11,816)	(11,816)
Exchange differences on translation of financial statements of an overseas entity	–	–	(135)	–	(135)
At 31 December 2003 and at 1 January 2004	23,113	24,415	(135)	(53,581)	(6,188)
Issue of shares	3,685	–	–	–	3,685
Net loss for the year	–	–	–	(9,461)	(9,461)
Exchange differences on translation of financial statements of an overseas entity	–	–	(224)	–	(224)
At 31 December 2004	26,798	24,415	(359)	(63,042)	(12,188)

Notes to the Financial Statements

Year ended 31 December 2004

21. RESERVES (Continued)

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Company			
At 1 January 2003	22,598	(15,586)	7,012
Issue of shares	515	–	515
Net loss for the year	–	(13,375)	(13,375)
At 31 December 2003 and at 1 January 2004	23,113	(28,961)	(5,848)
Issue of shares	3,685	–	3,685
Net loss for the year	–	(7,723)	(7,723)
At 31 December 2004	26,798	(36,684)	(9,886)

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. At 31 December 2004, in the opinion of the Directors, the Company did not have any reserve available for distribution to shareholders (2003: HK\$Nil).

Notes to the Financial Statements

Year ended 31 December 2004

22. DEFERRED TAXATION

a) The Group

The components of deferred tax (assets)/liabilities recognized in the Consolidated Balance Sheet and the movements during the year are as follows:

Deferred tax arising from:	Accelerated tax depreciation <i>HK\$'000</i>	Other timing differences <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	153	136	(289)	–
Charged/(credited) to consolidated income statement	(40)	(136)	176	–
At 31 December 2003 and at 1 January 2004	113	–	(113)	–
Charged/(credited) to consolidated income statement	(24)	–	24	–
At 31 December 2004	89	–	(89)	–

At 31 December 2004, the Group had unused tax losses of approximately HK\$46,867,000 (2003: HK\$39,578,000) available for offset against future profits. A deferred tax asset has been recognized in respect of approximately HK\$509,000 (2003: HK\$645,000) of such losses. No deferred tax assets have been recognized in respect of the remaining of approximately HK\$46,358,000 (2003: HK\$38,933,000) due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

In addition, the subsidiary in Canada had deductible temporary differences of approximately HK\$58,000 as at 31 December 2004 (2003: HK\$55,000). Deferred tax assets have not been recognized in respect of such deductible temporary differences (2003: HK\$Nil) due to the unpredictability of future profit streams.

(b) The Company

At the balance sheet date, the Company had unused tax losses of approximately HK\$3,122,000 (2003: HK\$Nil) 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.

Notes to the Financial Statements

Year ended 31 December 2004

23. CASH USED IN OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss from ordinary activities before taxation	(9,461)	(11,816)
Depreciation	516	493
Interest income	(5)	(16)
Interest expenses	242	113
Impairment loss on financial software application	–	1,800
Impairment loss on development costs	–	851
Impairment loss on plant and equipment	–	262
Write-off of plant and equipment	149	384
Loss on disposal of plant and equipment	11	–
Changes in working capital:		
– Inventories	32	6
– Trade and other receivables	(632)	93
– Trade and other payables	(769)	(1,695)
Effect of exchange rate changes	–	(177)
Cash used in operations	(9,917)	(9,702)

24. COMMITMENTS UNDER OPERATING LEASES

The Group leases properties and equipment under operating leases without contingent rentals. The leases run for two to three years.

During the year, approximately HK\$1,032,000 (2003: HK\$1,346,000) has been recognized as rental expenses and data and internet expenses in the consolidated income statement in respect of the operating leases.

At the balance sheet date, the Group had total future minimum lease payments of approximately HK\$582,000 (2003: HK\$1,414,000) under non-cancellable operating leases, which are payable as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	547	948
In the second to fifth years inclusive	35	466
	582	1,414

Notes to the Financial Statements

Year ended 31 December 2004

25. RETIREMENT BENEFITS 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. Total contributions paid by the Group to the MPF for the year ended 31 December 2004 amounted to HK\$303,000 (2003: HK\$165,000).

26. CONTINGENT LIABILITIES

As at 31 December 2004, the Group had a contingent liability of maximum possible amount of approximately HK\$64,000 (2003: HK\$Nil) in respect of the possible future payments to employees for their unconsumed annual leave accrued during the year. No provisions were made for such possible payments as the Directors believe that the employees would utilize the unconsumed leave in the following year and the probability of material future cash outflow is remote.

27. RELATED PARTY TRANSACTIONS

Consultancy service income of approximately HK\$79,000 (2003: HK\$Nil) was received by the Group from iMarkets Limited ("iMarkets") during the year. Mr. Yip James is the common director of the Company and iMarkets. The consultancy service income received was calculated based on the actual work time of the staff spent on providing the consultancy service to iMarkets. In the opinion of the Directors, the transaction is on normal commercial terms and is fair and reasonable.

On 8 September 2003, iEngines Limited ("iEngines"), a subsidiary of the Company, signed an agreement (the "Agreement") with iMarkets, pursuant to which, iMarkets has agreed to accept the appointment as the sole and exclusive marketing agent for the products of iEngines for the consideration of a service fee of 60% of the net profit (as defined in the Agreement) of iEngines generated from the business introduced by iMarkets for an initial term of two years. No service fees were paid or payable by iEngines to iMarkets during the years ended 31 December 2004 and 2003 as iEngines had no net profits during the said period.

28. COMPARATIVE FIGURES

To conform to the current year's presentation, comparative figure of "other income" of approximately HK\$36,000 was reclassified as "other revenue". Such reclassification has no net effect on the results for the current year or prior accounting periods.

29. POST BALANCE SHEET EVENTS

Save as disclosed in note 18 to the financial statements, the Group did not have any other significant events taken place subsequent to the balance sheet date.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2004 Annual General Meeting of the Company will be held at 15th Floor, Asia Financial Centre, 120 Des Voeux Road Central, Hong Kong on Tuesday, 26 April 2005 at 11:00 a.m. for the following purposes:

1. To consider and adopt the audited financial statements and the reports of the directors and auditors for the year ended 31 December 2004.
2. To re-elect retiring directors and to authorize the board of directors to fix the directors' remuneration.
3. To re-appoint auditors and to authorize the board of directors to fix their remuneration.
4. As a 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

Notice of Annual General Meeting

(d) for the purpose of this Resolution:–

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

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

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

B. “THAT:

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

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(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 law of the Cayman Islands to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in a general meeting.

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

5. To transact any other ordinary business.

By Order of the Board
Li Ching Ping Vincent
Chairman

Hong Kong, 23 March 2005

Principal Place of Business in Hong Kong:

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

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 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 Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than forty-eight hours before the appointed time for holding the meeting.
3. Completion and return of the form of proxy will not preclude members from attending and voting at the annual general meeting.