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PACIFICNET INC
Form S-3/A
April 21, 2004

As filed with the Securities and Exchange Commission on April 21, 2004
Registration No. 333-113209

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON , DC 20549

AMENDMENT TO FORM S-3 ON FORM SB-2

REGISTRATION STATEMENT
UNDER THE
SECURITIES ACT OF 1933

PACIFICNET INC.

(Name of Small Business Issuer in its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

92-2118007

(I.R.S. Employer
Identification No.)

UNIT 2710, HONG KONG PLAZA
188 CONNAUGHT ROAD WEST
HONG KONG
011-852-2876-2900

(Address and Telephone Number of
Principal Executive Offices)

TONY TONG, CHAIRMAN AND CHIEF EXECUTIVE OFFICER
PACIFICNET INC.

UNIT 2710, HONG KONG PLAZA
188 CONNAUGHT ROAD WEST
HONG KONG
011-852-2876-2900

(Name, Address and Telephone Number
of Agent for Service)

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Approximate Date of Proposed Sale to the Public: As soon as possible after the registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. []

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED APRIL ____, 2004

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PROSPECTUS

PACIFICNET INC.

771,605 Shares of Common Stock

This prospectus relates to the resale of up to 771,605 shares of our common stock being offered by the selling stockholders. Of the shares covered by this prospectus, 617,285 shares have been issued to the selling stockholders and 154,320 shares are issuable upon the exercise of warrants by the selling stockholders. We will not receive any proceeds from the sale of the shares of common stock by the selling stockholders. Assuming that all of the warrants held by the selling stockholders are exercised, we will realize proceeds of approximately \$1,103,400.

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Our shares of common stock are traded on The Nasdaq Small Cap Market under the symbol "PACT." On April 16, 2004, the closing price of our common stock was \$4.35.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD A COMPLETE LOSS OF YOUR INVESTMENT. SEE "RISK FACTORS" BEGINNING ON PAGE 4 FOR A DISCUSSION OF RISKS APPLICABLE TO US AND AN INVESTMENT IN OUR COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is [____], 2004.

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SUMMARY

We were incorporated in Delaware in 1999. Through our subsidiaries, we invest in, operate and provide value-added telecom services (VAS) in greater China, which includes the People's Republic of China, or mainland China, Hong Kong, Macau and Taiwan. Our VAS include operating call centers, providing telemarketing services, customer relationship management (CRM) services, interactive voice response (IVR) systems, short messaging services (SMS), multimedia messaging services (MMS), voice over internet protocol (VoIP) services, mobile applications and calling cards. In addition, we sell and distribute telecom services. We intend to continue to grow our business by acquiring and managing growing technology and network communications businesses with established products and customers in Asia. Our goal is to take a leading role in providing information technology services and network communications, which are rapidly expanding business sectors in Asia. Our clients include leading telecom operators, banks, insurance, travel and marketing services companies and telecom consumers in greater China, such as China Telecom (NYSE: CHA), China Mobile (NYSE: CHL), China Unicom (NYSE: CHU), PCCW (NYSE: PCW), Hutchison Telecom, Sunday (Nasdaq: SDAY), Sony, Swire Travel and The Hong Kong Housing Authority.

SERVICES

We provide various services for our customers. Such services include:

CUSTOMER RELATIONSHIP MANAGEMENT. We provide both outsourcing and consulting experience in call center operations and management.

VOICE AND IP RELATED SERVICES. We provide system integration experience in voice and IP related products in the value-added industry and plan to expand to more data-oriented services for mobile users. For example, we provide telecommunications services that can be transmitted over the Internet, which help users avoid the toll charged by long distance carriers.

CONSULTING SERVICES. We provide a range of consulting services based on our client's needs. A primary focus of these services includes consulting with clients that are establishing online e-business environments. For clients who require our services in this area we assist in identifying specific content, user-friendly interface, overall web themes and designs, target user groups, web advertising and integrated online solutions.

TRAINING SERVICES. We offer comprehensive operational and managerial training programs for call center management professionals at all levels.

EXECUTIVE OFFICES

Our corporate headquarters and development center is located at Unit 2710, Hong Kong Plaza, 188 Connaught Road West, Hong Kong. The telephone number at our corporate headquarters in Hong Kong is 011-852-2876-2900. We also have a corporate office in the United States located at 860 Blue Gentian Road, Suite

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360, Eagan, MN 55121. The telephone number at our corporate office in the United States is 1-651-209-3100.

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FORWARD-LOOKING STATEMENTS

Statements in this prospectus that are not descriptions of historical facts are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Reference is made in particular to the description of our plans and objectives for future operations, assumptions underlying such plans and objectives and other forward-looking terminology such as "may," "expects," "believes," "anticipates," "intends," "projects," or similar terms, variations of such terms or the negative of such terms. Forward-looking statements are based on management's current expectations. Actual results could differ materially from those currently anticipated due to a number of factors, including those set forth under "Risk Factors."

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RISK FACTORS

Investing in our securities involves a great deal of risk. You should carefully consider the following factors as well as other information included or incorporated by reference in this prospectus before deciding to purchase our common stock.

THE FOLLOWING MATTERS, AMONG OTHERS, MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION, LIQUIDITY, RESULTS OF OPERATIONS OR PROSPECTS, FINANCIAL OR OTHERWISE. REFERENCE TO THIS CAUTIONARY STATEMENT IN THE CONTEXT OF A FORWARD-LOOKING STATEMENT OR STATEMENTS SHALL BE DEEMED TO BE A STATEMENT THAT ANY ONE OR MORE OF THE FOLLOWING FACTORS MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN SUCH FORWARD-LOOKING STATEMENT OR STATEMENTS.

RISKS RELATED TO OUR BUSINESS

WE HAVE A LIMITED OPERATING HISTORY. We were founded and commenced operations in July 1999. Our operating history may be insufficient for you to evaluate our business and future prospects.

WE HAVE A HISTORY OF LOSSES AND MAY NEVER BE PROFITABLE. As of December 31, 2003, we had incurred losses aggregating \$29,850,000. To date, our working capital has primarily been generated through financing activities consisting of the sale of shares of our common stock. If we are not successful in executing our business plan, we may never generate revenues or achieve profitability.

OUR GROWTH STRATEGY MAY NOT BE SUCCESSFUL. Our growth strategy is to attempt to acquire companies and identify and acquire assets and technologies from businesses in greater China that have services, products, technologies, industry specializations or geographic coverage that extend or complement our existing business. We may be unable to successfully identify, acquire on favorable terms or integrate such companies. Furthermore, any acquisitions we pursue may be subject to approval by the relevant Chinese government authorities, which approval we may not obtain. As part of our growth strategy we may also pursue opportunities to undertake strategic alliances in the form of joint ventures, which involve many of the same risks as acquisitions.

THE ACQUISITION OF NEW BUSINESSES IS COSTLY AND SUCH ACQUISITIONS MAY NOT

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ENHANCE OUR FINANCIAL CONDITION. The resources expended in identifying and consummating acquisition and joint ventures may be significant. We recently acquired controlling interests in Epro Telecom Holdings Limited (Epro), Beijing Linkhead Technologies Co., Ltd. (Linkhead) and Guangzhou YueShen TaiYang Technology Limited (YueShen). We expect these acquisitions to strengthen our position as a provider of outsourced call center, telemarketing, CRM and VAS. However, we may not achieve the anticipated benefits of these acquisitions.

WE MAY FACE DIFFICULTIES AND BE UNSUCCESSFUL IN INTEGRATING NEW BUSINESSES. Any future acquisitions will be subject to a number of challenges in integrating new operations into our existing operations, including:

- o the diversion of management time and resources;
- o the difficulty of assimilating the operations and personnel of the acquired companies;
- o the potential disruption of our ongoing business;
- o the difficulty of incorporating acquired technology and rights into our products and services;
- o unanticipated expenses related to technology integration;
- o difficulties in maintaining uniform standards, controls, procedures and policies;

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- o the impairment of relationships with employees and customers as a result of any integration of new management personnel; and
- o potential unknown liabilities associated with acquired business.

OUR CUSTOMERS ARE CONCENTRATED IN A LIMITED NUMBER OF INDUSTRIES. Our clients are concentrated primarily in the telecommunications, telemarketing and technology industries, and to a lesser extent, the insurance and financial services industries, where the current trend is to outsource certain customer care services. Our ability to generate revenue depends on the demand for our services in these industries. An economic downturn, or a slowdown or reversal of the trend in any of these industries could have a material adverse effect on our business, results of operations or financial condition.

THE MARKET IN WHICH WE COMPETE IS HIGHLY COMPETITIVE AND FRAGMENTED. We expect competition to persist and intensify in the future. Our competitors are mainly leaders in the CRM services market, such as PCCW Teleservices (Hong Kong) Limited, China Motion Telecom International Limited and TeleTech (Hong Kong) Limited. Our competitors also include small firms offering specific applications, divisions of large entities and other large independent firms. A number of competitors have or may develop greater capabilities and resources than ours. We also face the risk that new competitors with greater resources than ours will enter our market. Furthermore, increasing competition in CRM and VAS services in greater China has led to a reduction in the telecommunication services fee. Such profit margin decreases could adversely affect the Company's profitability. Competitive pressures from current or future competitors could cause our services to lose market acceptance or require a significant reduction in the price of our services.

WE DO NOT HAVE AN INTERNAL MARKETING TEAM. To generate new customers, we rely on

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referrals from customers who were introduced to us by our executive management and business unit leaders. Our management team is primarily responsible for managing our day to day business operations and may be unable to devote significant time to marketing our business to potential new customers. Without a dedicated marketing team we may be unable to generate new customers.

KEY EMPLOYEES ARE ESSENTIAL TO BUILDING OUR CUSTOMER RELATIONSHIPS. We are highly dependent on key employees. Tony Tong, our Chairman and Chief Executive Officer and Victor Tong, our President, are essential to our ability to establish and maintain relationships with our customers. Competition in our industry for executive-level personnel is strong and we can make no assurance that we will be able to hire, motivate and retain highly effective executive employees.

OUR OPERATIONS COULD BE CURTAILED IF WE ARE UNABLE TO OBTAIN REQUIRED ADDITIONAL FINANCING. Since inception, our investments and operations have been financed through sales of our common stock. We currently have an available bank line of \$110,000 out of a total credit line of \$1,309,000. As of December 31, 2003, we had \$3,823,000 in cash and cash equivalents. Subsequent to December 31, 2003, we completed a private placement of our common stock in which we received approximately \$3,000,000 of gross proceeds. In the future, we may need to raise additional funds through public or private financing, which may include the sale of equity securities. The issuance of these equity securities could result in dilution to our stockholders. If we are unable to raise capital when needed, our business growth strategy may slow, which could severely limit our ability to generate revenue.

THE ESTABLISHMENT AND EXPANSION OF INTERNATIONAL OPERATIONS REQUIRES SIGNIFICANT MANAGEMENT ATTENTION. All of our current, as well as any anticipated future revenues, are or are expected to be derived from Asia. Our international operations are subject to risks, including the following, which, if not planned and managed properly, could materially adversely affect our business, financial condition and operating results:

- o language barriers and other difficulties in staffing and managing foreign operations;
- o legal uncertainties or unanticipated changes regarding regulatory requirements, liability, export and import restrictions, tariffs and other trade barriers;
- o longer customer payment cycles and greater difficulties in collecting accounts receivable;

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- o uncertainties of laws and enforcement relating to the protection of intellectual property;
- o seasonal reductions in business activity; and
- o potentially uncertain or adverse tax consequences.

FLUCTUATIONS IN THE VALUE OF THE HONG KONG DOLLAR OR RMB RELATIVE TO FOREIGN CURRENCIES COULD AFFECT OUR OPERATING RESULTS. We have historically conducted transactions with customers outside the United States in United States dollars. Payroll and other costs of foreign operations are payable in foreign currencies, primarily Hong Kong dollars and Chinese Renminbi. To the extent future revenue is denominated in foreign currencies, we would be subject to increased risks relating to foreign currency exchange rate fluctuations that could have a material adverse effect on our business, financial condition and operating

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results. To date, we have not engaged in any hedging transactions in connection with our international operations.

RISKS ASSOCIATED WITH DOING BUSINESS IN GREATER CHINA

THERE ARE SUBSTANTIAL RISKS ASSOCIATED WITH DOING BUSINESS IN GREATER CHINA, AS SET FORTH IN THE FOLLOWING RISK FACTORS.

OUR OPERATIONS AND ASSETS IN GREATER CHINA ARE SUBJECT TO SIGNIFICANT POLITICAL AND ECONOMIC UNCERTAINTIES. Changes in laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

WE ARE REQUIRED TO OBTAIN LICENSES TO EXPAND OUR BUSINESS INTO MAINLAND CHINA. Our activities must be reviewed and approved by various national and local agencies of the Chinese government before they will issue business licenses to us. There can be no assurance that the current Chinese government, or successors, will continue to approve and renew our licenses. If we are unable to obtain licenses or renewals we will not be able to continue our business operations in mainland China which would have a material adverse effect on our business, financial condition and results of operations.

WE MAY HAVE LIMITED LEGAL RECOURSE UNDER CHINESE LAW IF DISPUTES ARISE UNDER OUR CONTRACTS WITH THIRD PARTIES. The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If our new business ventures are unsuccessful, or other adverse circumstances arise from these transactions, we face the risk that the parties to these ventures may seek ways to terminate the transactions, or, may hinder or prevent us from accessing important information regarding the financial and business operations of these companies. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under Chinese law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

WE HAVE IMPLEMENTED SAFEGUARDS IN ORDER TO COMPLY WITH THE FOREIGN CORRUPT PRACTICES ACT. We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in mainland China. We have attempted to implement safeguards to

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prevent and discourage such practices by our employees and agents. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

RISKS RELATED TO OUR TECHNOLOGY AND EQUIPMENT

WE MAY SUFFER LOSSES IF OUR OPERATIONS ARE INTERRUPTED. Our operations depend on our ability to protect our call centers, data centers, computer and telecommunications equipment and software systems against damage from fire, power loss, telecommunications interruption or failure, hacker attacks, natural disaster and other similar events. In the event we experience a temporary or permanent interruption at one or more of our call centers, through casualty, operating malfunction or otherwise, our business could be materially adversely affected and we may be required to pay contractual damages to some clients or allow some clients to terminate or renegotiate their contracts with us. While we maintain certain property and business interruption insurance, such insurance may not adequately compensate us for all losses that we may incur.

WE MUST RESPOND QUICKLY AND EFFECTIVELY TO NEW TECHNOLOGICAL DEVELOPMENTS. Our business is highly dependent on our computer and telecommunications equipment and software systems. Our failure to maintain the superiority of our technological capabilities or to respond effectively to technological changes could adversely effect our business, results of operations or financial condition. Our future success also depends on our ability to enhance existing services and introduce new services or products to respond to changing technological developments. If we are unable to successfully develop and bring to market new services or products in a timely manner, our competitors' technologies or services may render our products or services noncompetitive or obsolete.

RISKS SPECIFIC TO THIS OFFERING

THE PRICE OF OUR STOCK HAS FLUCTUATED IN THE PAST AND MAY CONTINUE TO DO SO. Our stock price has fluctuated dramatically. There is a significant risk that the market price of the common stock will decrease in the future in response to any of the following factors, some of which are beyond our control:

- o variations in our quarterly operating results;
- o announcements that our revenue or income are below analysts' expectations;
- o general economic slowdowns;
- o changes in market valuations of similar companies;
- o sales of large blocks of our common stock;
- o announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- o fluctuations in stock market prices and volumes, which are particularly common among highly volatile securities of internationally-based companies.

The price in this offering will fluctuate based on the prevailing market price of our common stock on The Nasdaq Small Cap Market. Accordingly, the price you pay in this offering may be higher or lower than the prices paid by other people participating in this offering.

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YOU MAY SUFFER DILUTION UPON THE EXERCISE OF OUTSTANDING OPTIONS AND WARRANTS. As of December 31, 2003, we had stock options outstanding to purchase 925,600 shares of common stock and warrants to purchase 800,000 shares of common stock, some of which have exercise prices at or below the price of our shares of common stock on the public market. To the extent such options or warrants are exercised, there will be further dilution. In addition, in the event that any future financing should be in the form of securities convertible into, or exchangeable for, equity securities, investors may experience additional dilution upon the conversion or exchange of such securities.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares of common stock by the selling stockholders. Assuming that all of the warrants held by selling stockholders are exercised, we will realize proceeds of approximately \$1,103,400. We would use these funds for general corporate purposes.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on The Nasdaq SmallCap Market under the symbol "PACT". The following table sets forth the range of high and low bid prices reported by Nasdaq in each fiscal quarter from January 1, 2002 to December 31, 2003. We have adjusted the high and low bid prices reported by Nasdaq to give effect to the 5-for-1 reverse split on January 6, 2003. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	High	Low
	----	---
FISCAL 2002		
Quarter Ended March 31, 2002	\$1.50	\$0.85
Quarter Ended June 30, 2002	\$2.25	\$0.70
Quarter Ended September 30, 2002	\$1.05	\$0.40
Quarter Ended December 31, 2002	\$1.95	\$0.50
FISCAL 2003		
Quarter Ended March 31, 2003	\$3.65	\$0.30
Quarter Ended June 30, 2003	\$3.09	\$2.30
Quarter Ended September 30, 2003	\$10.29	\$2.18
Quarter Ended December 31, 2003	\$6.41	\$4.10
FISCAL 2004		
Quarter Ended March 31, 2004	\$7.00	\$4.98
April 1, 2004 through April 16, 2004*	\$5.65	\$4.33

* Reflects partial period

As of April 16, 2004, there were approximately 3,000 record holders of the common stock. We have not paid any cash dividends on our common stock, and we currently intend to retain any future earnings to fund the development and growth of our business.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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FORWARD-LOOKING STATEMENTS. This registration statement contains forward-looking statements within the meaning of the federal securities laws. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "we believe," "management believes" and similar language. The forward-looking statements are based on our current expectations and are subject to certain risks, uncertainties and assumptions, including those set forth in the discussion under "Description of Business," including the "Risk Factors" described in that section, and "Management's Discussion and Analysis or Plan of Operation." Our actual results may differ materially from results anticipated in these forward-looking statements.

CRITICAL ACCOUNTING POLICIES. Our discussion and analysis or plan of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies reflect the most significant estimates and assumptions used in the preparation of its consolidated financial statements.

RESEARCH AND DEVELOPMENT

We evaluate research and development costs to identify any research and development activities that could be objectively measured and recognized as an asset for accounting purposes at the time they are acquired or at the time they have developed future economic benefits. Some costs and expenses are recognized as costs and expenses incurred during the period, provided that (a) there are no discernible future benefits, (b) costs recorded as assets in prior periods no longer provide discernible benefits, and (c) allocating costs either on the basis of association with revenue or among several accounting periods is considered to serve no useful purposes.

VALUATION OF LONG-LIVED ASSETS INCLUDING GOODWILL AND PURCHASED INTANGIBLE ASSETS

We review property, plant and equipment, goodwill and purchased intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Our asset impairment review assesses the fair value of the assets based on the future cash flows the assets are expected to generate. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. This approach uses our estimates of future market growth, forecasted revenue and costs, expected periods the assets will be utilized and appropriate discount rates. Such evaluations of impairment of long-lived assets including goodwill arising on a business combination and purchased intangible assets are an integral part of, but not limited to, our strategic reviews of our business and operations performed in conjunction with restructuring actions. When an impairment is identified, the carrying amount of the asset is reduced to its estimated fair value. Deterioration of our business in a geographic region or within a business segment in the future could also lead to impairment adjustments as such issues are identified.

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ALLOWANCE FOR DOUBTFUL ACCOUNTS

We evaluate the collectibility of our trade receivables based on a combination of factors. We regularly analyze our significant customer accounts, and, when we become aware of a specific customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, we record a specific

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reserve for bad debt to reduce the related receivable to the amount we reasonably believe is collectible. We also record reserves for bad debt for all other customers based on a variety of factors including the length of time the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, our estimates of the recoverability of receivables could be further adjusted.

TAXES ON EARNINGS

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, the previously provided valuation allowance would be reversed.

RESULTS OF OPERATIONS

The following table sets forth selected statement of operations data, and their respective percentages of revenues for the periods indicated.

	SELECTED STATEMENT OF OPERATIONS DATA FOR THE YEAR ENDED DECEMBER 31, 2003 -----	PERCENTAGE OF REVENUES FOR THE YEAR ENDED DECEMBER 31, 2003 -----	SELECTED STATE OF OPERATIONS FOR THE YEAR E DECEMBER 31, 2 -----
Revenues	\$ 1,217,000	100.0%	\$ 2,319,
Cost of Revenues	(698,000)	(57.4)	(1,787,
GROSS MARGIN	519,000	42.6	532
Selling, general and administrative expense	(2,758,000)	(226.6)	(2,912,
Depreciation and amortization	(76,000)	(6.2)	(264,
Provision for written off fixed assets	(208,000)	(17.1)	
OPERATING LOSS	(2,523,000)	(207.3)	(2,644,
Interest income, net	27,000	2.2	33
Sundry income	54,000	4.4	
Provision for impairment of affiliated companies	-	-	(97,
Provision for income taxes	(32,000)	(2.6)	
Minority interest	596,000	49.0	(106,
Discontinued operations	-	-	(107,

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NET LOSS	(\$1,878,000)	(154)%	(\$2,921,
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YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

REVENUES, COST OF REVENUES AND GROSS MARGIN. The decrease in revenues and cost of revenues from 2002 to 2003 is the result of a reduction of operation in IT Systems Integration. The decrease in gross margin for 2003 as compared to 2002, resulted from a reduction of revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. The decrease in selling, general and administrative expenses is the result of reducing the size of our operations, which resulted in decreased premises costs and staff costs.

INTEREST INCOME. The decrease in interest income is due to a lower interest rate in 2003 compared to 2002.

WRITTEN-OFF TANGIBLE AND INTANGIBLE ASSETS. As of balance sheet date, we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have to make provision for the impairment loss. We wrote off tangible assets of \$208,000, and intangible assets of \$761,000, which mainly included research and development. Costs and expenses are recognized as incurred during the period, provided that there are no discernible future benefits.

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PROVISION FOR IMPAIRMENT LOSS OF AFFILIATED COMPANIES. Our provision for impairment loss of affiliated companies totaling \$97,000 in 2002 related to our investments in Xmedia (\$95,000) and in PacSo (\$2,000).

DISCONTINUED OPERATIONS. Discontinued operations represents the net loss resulting from downsizing of our operations in Laptizen during the fourth quarter of 2001. Revenues were \$15,000 and net loss was \$107,000 for 2002.

INCOME TAXES. Income tax was recognized for our only subsidiary that the generated operating profits in 2003. The lack of operating profits by all of our subsidiaries resulted in no income tax recognition in 2002.

MINORITY INTERESTS. Minority interests, representing the interests of minority holders in losses of our subsidiaries that are not wholly-owned, for 2003, included a \$25,000 interest in our subsidiary PacSo owned at the beginning of the 2003 fiscal year, and interests in our new subsidiaries Epro and Linkhead, acquired in 2003, of \$380,000 and \$191,000, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2003, we had cash and cash equivalents of \$3,823,000 and working capital of \$1,442,000 as compared to \$3,694,000 and \$3,081,000, respectively, at December 31, 2002.

Net cash used in operating activities was \$905,000 for the year ended December 31, 2003 as compared to net cash used in operating activities of \$2,172,000 for the year ended December 31, 2002. Net cash provided by operating activities in the year ended December 31, 2003 was primarily due to a net loss of \$1,878,000, increased by noncash items and changes in operating assets totaling \$595,000 and \$378,000, respectively. Net cash used in operating activities of \$2,172,000 for the year ended December 31, 2002 was primarily due to a net loss of \$2,921,000, increased by noncash items totaling \$1,036,000 and decreased by changes in operating assets totaling \$287,000.

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Net cash used in investing activities for the year ended December 31, 2003 was \$311,000 as compared to cash used in investing activities for the year ended December 31, 2002 of \$36,000. The cash used in investing activities in the year ended December 31, 2003 was primarily due to the acquisition of subsidiary companies of \$211,000. The cash used in investing activities in the year ended December 31, 2002 was primarily from purchases of property and equipment of \$14,000 and purchase of affiliate company interests of \$22,000.

Net cash provided by financing activities for the year ended December 31, 2003 was \$1,345,000 as compared to net cash provided by financing activities of \$4,560,000, for the year ended December 31, 2002. The cash provided by financing activities for the year ended December 31, 2003, resulted from advances under bank line credit of \$634,000, proceeds from new bank loans and financing leases totaling \$766,000 and proceeds from exercise of stock options and warrants of \$410,000, and reduced by repayments of bank loans of \$465,000. The net cash provided by financing activities of \$4,560,000 for the year ended December 31, 2002, resulted primarily from \$4,000,000 received in connection with the sale of 2,725,000 shares of common stock, and advances under bank line credit of \$565,000.

WORKING CAPITAL. Our working capital decreased by \$1,639,000 to \$1,442,000 at December 31, 2003, as compared to \$3,081,000 at December 31, 2002. When compared to balances at December 31, 2002, the decrease in working capital at December 31, 2003 reflects an increase in current liabilities of \$3,915,000, compared to an increase in current assets of \$2,276,000.

PROPERTY AND EQUIPMENT ADDITIONS. For the year ended December 31, 2003, additions to property and equipment aggregated \$29,000 for the expansion of the CRM and call center business in Hong Kong. We also wrote off computer equipment and furniture and fixtures of \$208,000 considered to have no future economic benefit.

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ISSUANCE OF COMMON STOCK. For the year ended December 31, 2003, we issued (i) 16,725 shares with cash consideration of \$27,000 to settle expenses, (ii) 200,000 shares as a result of providing compensation for the Chief Executive Officer according to his employment contract, and (iii) 240,000 shares as a result of the exercise of share options and warrants with cash consideration of \$410,000.

CASH NEEDS FOR THE FORESEEABLE FUTURE. As of December 31, 2003, we had approximately \$4 million of cash and cash equivalents. We believe we have sufficient cash to satisfy cash requirements for at least the next twelve months of operations, however, we expect that our cash needs for the foreseeable future will arise primarily from working capital requirements, technology development and capital expenditures. In the event that additional credit facilities are required, we believe that they can be negotiated at market rates currently in effect. We believe that these sources will be adequate to meet anticipated cash requirements for the next twelve months.

CURRENCY EXCHANGE FLUCTUATIONS. All of our revenues are denominated either in United States dollars or Hong Kong dollars, while our expenses are denominated primarily in Hong Kong dollars and Renminbi ("RMB"), the currency of the People's Republic of China. There can be no assurance that RMB-to-United States dollar or Hong Kong dollar-to-United States dollar exchange rates will remain stable. Although a devaluation of the Hong Kong dollar or RMB relative to the United States dollar would likely reduce our expenses (as expressed in United States dollars), any material increase in the value of the Hong Kong dollar or RMB relative to the United States dollar would increase our expenses, and could

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have a material adverse effect on our business, financial condition and results of operations. We have never engaged in currency hedging operations and have no present intention to do so.

SEASONALITY AND QUARTERLY FLUCTUATIONS. We have not experienced fluctuations in quarterly revenues from our e-commerce solutions business since inception. We believe that our business is not subject to seasonal and quarterly fluctuations.

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DESCRIPTION OF BUSINESS

OVERVIEW

We were incorporated in the state of Delaware in 1999. Through our subsidiaries, we invest in, operate and provide value-added telecom services (VAS) in greater China, which includes the People's Republic of China or mainland China, Hong Kong, Macau and Taiwan. Our VAS include operating call centers, providing telemarketing services, customer relationship management (CRM) services, interactive voice response (IVR) systems, short messaging services (SMS), multimedia messaging services (MMS), voice over internet protocol (VoIP) services, mobile applications and calling cards. In addition, we sell and distribute telecom services. We intend to continue to grow by acquiring and managing growing technology and network communications businesses with established products and customers in Asia.

Our goal is to take a leading role in providing information technology services and network communications, which are rapidly expanding business sectors in Asia. Our business can be classified into the following operating units:

- o PacificNet Solutions Ltd. (PacSo), is a subsidiary that specializes in systems integration, software application, and e-business solution services in greater China. The scope of PacSo's products and services includes smart card solutions, web based user applications, including Kiosk and IVR, and web based connections to remote or fixed database servers, which are also referred to as back-end enterprise planning systems.
- o PacificNet Communications Ltd. (PacComm), a subsidiary, is a leading provider of VAS, including call centers, CRM, telemarketing, data-mining services, mobile data services, such as SMS, MMS, unified messaging services (UMS), location-based service (LBS), wireless application protocol (WAP), binary runtime environment for wireless (BREW) based CDMA applications, mobile commerce, roaming, paging, wireless internet, virtual private network (VPN) and VoIP services in greater China. In December 2003, PacComm acquired a 50% controlling interest in Epro Telecom Holdings Limited (Epro), one of the largest providers of VAS, IVR, mobile chatting, and voice-portal services in greater China with over 500 employees, and 1,000 call center seats, processing over 100,000 calls daily.
- o PacificNet Limited (PNL), a subsidiary, is a distributor and reseller of telecommunication, networking and computer equipment complementing our telecommunication services. PNL sells PABX telephone systems, basic switches and router equipment to commercial customers, and mobile phone accessories targeted for retail customers.

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- PacificNet Tech (SZ) Limited (SZ) is a subsidiary located in Shenzhen, China. SZ was established to expand our research, development, marketing and distribution opportunities in mainland China.
- PacificNet Strategic Investment Holdings Limited (PSI), is a subsidiary that in December 2003, acquired 51% of the shares of a private mainland China company, Beijing Linkhead Technologies Co., Limited (Linkhead). Linkhead is a leading provider in Greater China of VAS, IVR, mobile chatting, or text messaging, and voice-portal services, which provide telephone users with a natural language interface to access and retrieve web content and to access virtual personal assistants and Web-based unified messaging applications.
- In April 2004, PSI acquired a 51% controlling interest in Guangzhou Yueshen TaiYang Technology Limited (Yueshen). Yueshen is a distributor of telecom services in mainland China.
- Also in April 2004, PSI acquired a 30% interest in Cheer Era Limited (Cheer Era). Cheer Era is in the business of designing, developing and manufacturing multimedia entertainment and communication kiosk products.
- Epro is engaged in the business of providing VAS, such as call center and CRM services, mobile marketing and promotion services, call center training, management and consulting services, call center software, IVR systems, mobile payment and mobile point of sale (POS) solutions, internet e-commerce and mobile commerce, mobile applications based on SMS, MMS, outsourced telemarketing and customer support services, and other mobile VAS for Hong Kong and mainland China's telecom

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operators, banks, insurance, and other financial services companies in mainland China. Epro's clients include major telecom operators, banks, insurance and financial services companies in greater China, such as China Telecom (NYSE: CHA), China Unicom (NYSE: CHU), PCCW (NYSE: PCW), CSL, SmarTone Telecom, Sunday Communications (Nasdaq: SDAY), Hutchison Whampoa Limited (HKSE:0013.HK), Swire Travel, Coca-Cola, Samsung, Dun & Bradstreet, DBS, Dao Heng Insurance, Shenzhen Development Bank, Hong Kong Government Housing Authority and Hongkong Post.

- Linkhead is engaged in the business of providing VAS, IVR system development and integration, voice internet portals, computer telephony integration (CTI), VoIP, internet and mobile application development, CRM services for China's telecom operators, telecom related management and consulting services, mobile consumer analytics, mobile data-mining, internet e-commerce and mobile commerce, mobile applications based on WAP, K-Java, BREW, EMS, SMS, MMS, outsourced software development, and other mobile VAS in greater China. Linkhead's major clients and profit-sharing partners include some of the leading telecom operators such as China Telecom (NYSE: CHA), China Mobile (NYSE: CHL), China Unicom (NYSE: CHU), UTStarcom (Nasdaq: UTSI). Linkhead is also a channel partner, or a

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master reseller, of NMS Communications (Nasdaq: NMSS), a leading provider of communications technologies and solutions.

- o Yueshen is a distributor of telecom services, including calling cards, mobile SIM cards, prepaid stored-value cards, VoIP and IDD calling cards, bundled insurance cards and customer loyalty membership cards in mainland China.
- o Cheer Era is engaged in the business of designing, developing and manufacturing multimedia entertainment and communication kiosk products, including photo and video entertainment kiosks, digital camera photo development stations, MMS, ring-tone and mobile content download, payment and delivery stations for mobile phones, and other coin-operated kiosks and kiosk consumables.

PRINCIPAL CUSTOMERS

Our customers are located in Hong Kong, mainland China and other regions of Asia. A brief description of our customers is as follows

CHINA TELECOM - China Telecom Corporation Limited provides wireline telephone, data, Internet and leased line services in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province of the People's Republic of China. China Telecom offers a range of telecommunications services to residential and business customers, including local, domestic long distance and international long distance telephone services, Internet and managed data, leased line and other related services. We provide CRM and voice and IP related services to China Telecom.

CHINA MOBILE - China Mobile (Hong Kong) Limited provides a full range of mobile telecommunications services in 21 service regions in mainland China, consisting of 16 provinces (Guangdong, Zhejiang, Jiangsu, Fujian, Henan, Hainan, Hebei, Liaoning, Shandong, Anhui, Jiangxi, Sichuan, Hubei, Hunan, Shaanxi and Shanxi), four municipalities (Beijing, Shanghai, Tianjin and Chongqing) and one autonomous region (Guangxi Zhuang Autonomous Region). China Mobile offers mobile telecommunications services principally using the global system for mobile communications (GSM) standard. Its GSM networks reach all cities and counties and major roads and highways within its service regions. We provide CRM and voice and IP related services to China Mobile.

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CHINA UNICOM - China Unicom Limited is an integrated telecommunications operator in mainland China and Hong Kong, offering a wide range of telecommunications services, including cellular, international and domestic long-distance, data, Internet and paging services. The controlling shareholder, Unicom Group, possesses the exclusive license to offer code division multiple access (CDMA) cellular services in mainland China and Hong Kong. It has constructed CDMA networks nationwide. It completed construction of the initial phase of its CDMA network at the end of 2001. China Unicom has leased capacity on Unicom's Group network and operates the CDMA network in the cellular service areas. We provide CRM and voice and IP related services to China Unicom.

PCCW - PCCW Limited is a telecommunications service provider in Hong Kong. PCCW is comprised of segments such as Telecommunications Services (TSS). In the TSS segment, PCCW provides fixed-line telecommunications services which include Internet access and multimedia content, and Business eSolutions through which PCCW offers systems integration, applications development, network integration and application-management services, information technology (IT) solutions, business broadband Internet access, hosting and facilities management services

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and Internet data centers within Hong Kong and greater China. We provide CRM services to PCCW.

HUTCHISON TELECOM - Hutchison Telecom, a subsidiary of Hutchison Whampoa Ltd (HWL, www.hutchison-whampoa.com) (HKSE:0013.HK), is one of the world's leading owners and operators of telecommunications, offering a wide range of communication services in Hong Kong and around the globe including mobile telephony (voice and multimedia), paging, trunked radio, fixed-line services, Internet services, fiber optic broadband networks and radio broadcasting. Hutchinson's Hong Kong mobile operations currently has a subscriber base of about 1.8 million, representing the largest share of the local mobile market. Hutchison 3G HK Limited (www.three.com.hk), a joint venture with NTT DoCoMo and NEC, was the first operator in Hong Kong to roll out 3G video mobile services in January 2004. We provide CRM services to Hutchison.

SUNDAY - SUNDAY Communications Limited is a developer and provider of wireless communications and data services, including the sales of mobile phones and wireless data services in Hong Kong. It offers its services under the brand name SUNDAY. SUNDAY offers its mobile subscribers basic airtime services, and value-added services, such as SMS, wireless data services, roaming services and international long distance calling services, and sells accessories. In 2000, SUNDAY started launching various wireless data services through which its subscribers can utilize ring tone or logo downloads, quiz games, message dedication or participate in mobile community chat by the use of short messaging services or media messaging services. SUNDAY was granted a mobile carrier license in Hong Kong in October 2001 to construct and operate a 3G (third-generation) wireless network. We provide CRM services to SUNDAY.

SONY (SO-NET) - So-net, Hong Kong, is a wholly-owned subsidiary of Sony Corporation of Hong Kong Limited. So-net was granted a sub-license from Sony Communication Network Corporation (SCN) to create a broadband service under the So-net brand. Since its establishment in 1996, So-net has become the third largest Internet Service Provider in Japan with a subscriber base of 1.7 million. We provide CRM and consulting services to So-net.

SWIRE TRAVEL - Swire Travel is a travel management company with over half a century of experience servicing Hong Kong's most elite companies. Swire Travel's main expertise is the management of corporate travel in which a wide range of services is available to meet the needs of its business clients. We provide CRM and consulting services to Swire.

THE HONG KONG HOUSING AUTHORITY (HA) - The Hong Kong Housing Authority is a department of the Hong Kong Special Administrative Region of the People's Republic of China (HKSAR). HA determines and implements public housing programs within the government's overall housing policy framework. Apart from planning and building public housing, HA manages public rental housing estates, interim housing estates, transit centers, flattened factories and ancillary commercial and non-domestic facilities such as shopping centers, market stalls and carparks. In addition, it acts as the government's agent for clearing land, preventing squatting and implementing improvements in squatter areas. HA also assists low-income families to become homeowners. We provide CRM services to HA.

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SERVICES

We provide various services to our customers including:

CUSTOMER RELATIONSHIP MANAGEMENT. We provide outsourcing and consulting experience in call center operations and management.

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VOICE AND IP RELATED SERVICES. We provide system integration experience in voice and IP related products in the value-added industry and plan to expand to more data-oriented services for mobile users. For example, we provide telecommunication services that can be transmitted over the Internet, which help users avoid the toll charged from long distance carriers.

CONSULTING SERVICES. We provide a range of consulting services based on our client's needs. A primary focus of these services include consulting with clients establishing online e-business environments. For clients who require our services in this area we assist in identifying specific content, user-friendly interface, overall web themes and designs, target user groups, web advertising and integrated online solutions.

TRAINING SERVICES. We offer comprehensive operational and managerial training programs for call center management professionals at all levels.

Our subsidiary, Epro, is a leading provider of outsourced call center, telemarketing, CRM, SMS, and other VAS and IVR services with over 13 years of field experience in greater China. Epro's business consists of the following three major categories:

OUTSOURCED CALL CENTER SERVICES. Epro's ISO 9001 certified outsourcing contact center hosts over 1,000 workstations and 500 agents, and provides multi-lingual inbound and outbound services. Epro permits its clients to recruit and hire their own personnel to work in its call center. Epro provides them with managerial services, call center seats and equipment.

TRAINING AND CONSULTING SERVICES. The Epro Call Center Training Institute (ECCTI) is a leading provider of Contact Center Management Consulting and Training services, which helps clients maximize the return on investment of their CRM operations.

CALL CENTER MANAGEMENT SOFTWARE PRODUCTS AND SOLUTIONS. Epro's software products include: WISE-xb Call Center agent performance management and reporting software, and Automatic Call Distribution (ACD) System, Unified Messaging System (UMS), SMS, and VAS.

SALES AND MARKETING

We do not engage in any significant marketing activities and rely on our reputation for quality and efficiency among our customers and leveraging our strategic investors to obtain new business.

COMPETITION

We expect competition to persist and intensify in the future. Our competitors include small firms offering specific applications, divisions of large entities, large independent firms. A number of competitors have or may develop greater capabilities and resources than ours. We also face the risk that new competitors with greater resources than ours will enter our market. Our competitors are mainly leaders in the CRM and VAS services market. Competitive pressures from current or future competitors could cause our services to lose market acceptance or require a significant reduction in the price of our services.

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RESEARCH AND DEVELOPMENT

We place great emphasis on the continued enhancement of our existing products and solutions, including designing, development and supporting a portfolio of converged voice and data enhanced services, products and solutions to help wireless, wire-line and Internet service providers offer unprecedented access to communications, information and commerce. We have ongoing research and development activities with respect to the following products and solutions:

- o color ringback tone systems;
- o value-added services for mobile users;

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- o multi-media information on demand systems, which integrates the dynamics of the Internet with voice based communication applications, including text-to-speech and voice recognition capabilities;
- o web-based multimedia call center/ customer relationship management for service providers and corporations;
- o voice mail systems; and
- o Wise-xb, which is a Call Center agent performance management and reporting software. It provides intelligent routing, comprehensive ACD/ PBX capabilities, Email, IVR, Voice Mail, Messaging, Conference, Recording, Coaching/ Supervising, Reporting and Interface.

EMPLOYEES

As of December 31, 2003, we, together with our subsidiaries, had 650 employees and contractors. We have not experienced any labor stoppages. None of our employees are covered by collective bargaining agreements.

EXECUTIVE OFFICES

Our executive offices are located at Unit 2710, Hong Kong Plaza, 188 Connaught Road West, Hong Kong. Our telephone number is 011-852-2876-2900.

DESCRIPTION OF PROPERTY

A description of our property is as follows:

HONG KONG - We maintain our corporate headquarters and development center in Hong Kong located at Unit 2710, Hong Kong Plaza, 188 Connaught Road West, Hong Kong, where we lease approximately 1,000 square feet for a monthly rental fee of \$650. Substantially all of our operations are run from this facility. We lease this space from a shareholder.

Our Call Center is located at Units 601-603 New Bright Building, 11 Sheung Yuet Road, Kowloon Bay, Kowloon where we lease approximately 17,739 square feet for a monthly fee of \$16,365 and our branch office is located at Units 2-3, 17th Floor, Nan Fung Commercial Centre, 19 Lam Lok Street, Kowloon Bay, Hong Kong where we lease approximately 2,359 square feet for a monthly rental fee of \$1,815.

UNITED STATES - Our current U.S. corporate office is located at 860 Blue Gantian Road, Suite 360, Eagan, Minnesota 55121, where we sublease space for a monthly

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rental fee of \$1,000.

CHINA -Our current Chinese corporate office is located at Room 1708, Tower B, Stars Plaza, Hongli Road, FuTian District, Shenzhen, China where we lease approximately 1,000 square feet for a monthly rental fee of \$449. We lease space from a shareholder. Our offices are located in Beijing, Shanghai and Shenzhen. Details are as follows:-

Locations

1601, 26 Building, 3 Block, Anzhenxili, ChaoYang District, Beijing
1407, 2# Building, Hengji Plaza, 547 Tianmuxilu, Shanghai
901, Tower A, Tian An High-Tech Plaza, Tian An Cyber Park, Fu Tian District, Shenzhen

We believe that our offices are adequate for our current operations.

LEGAL PROCEEDINGS

We are not aware of any pending or threatened legal proceedings that involve us.

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RECENT DEVELOPMENTS

In December 2003, we acquired a 50% ownership interest in Epro for \$500,000 in cash and 600,000 shares of our common stock. 500,000 of the shares are being held by an Escrow Agent and will be released in specified amounts based on Epro's achievement of certain earnings criteria. Additionally, we have agreed to issue a maximum of 300,000 bonus shares of common stock per year for achieving net income in excess of \$1,000,000 in 2004 and 2005. Epro will be required to return a portion of the shares equivalent to the dollar amount of the shortfall of net income in years 2004 and 2005.

In December 2003, we acquired a 51% ownership interest in Linkhead for \$222,500 in cash and 950,000 in shares of our common stock. 600,000 of the shares are being held by an Escrow Agent and will be released in specified amounts based on Linkhead's achievement of certain earnings criteria. Additionally, we have agreed to issue a maximum of 600,000 bonus shares of common stock for achieving net income in excess of \$1,500,000.

On April 12, 2004, we acquired a 51% controlling interest in Yueshen for \$579,948 in cash, 106,240 shares of our common stock and a warrant to purchase up to 50,000 shares of common stock. All of the shares of common stock are held by an Escrow Agent and will be released in specified amounts based on Yueshen's achievement of certain earnings criteria. In the event of a shortfall in net income in years 2004 and 2005, a portion of the shares equivalent to the dollar amount of such shortfall divided by \$5.80 shall be returned to us.

On April 7, 2004, we acquired a 30% interest in Cheer Era for \$385,604 in cash, 149,459 shares of common stock and a warrant to purchase up to 80,000 shares of our common stock. All of the shares of common stock are held by an Escrow Agent and will be released in specified amounts based on Cheer Era's achievement of certain earnings criteria. In the event of a shortfall in net income in years 2004 and 2005, a portion of the shares equivalent to the dollar

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amount of the shortfall divided by \$6.00 shall be returned to us.

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DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Set forth below are the names of the directors, executive officers and key employees of the Company as of April 16, 2004:

Name	Age	Title
Tony Tong	36	Chairman, Chief Executive Officer, and Director
Victor Tong	33	President, Secretary, and Director
ShaoJian (Sean) Wang	39	Chief Financial Officer, Vice President, and Director
Richard C.H. Lo	36	Director
David Fisher	54	Director
Peter Wang	49	Director
Michael Ha	33	Director

Our executive officers are appointed at the discretion of our board of directors with no fixed term. There are no family relationships between or among any of our executive officers or our directors other than the relationship between Mr. Tony Tong and Mr. Victor Tong.

The following is a brief description of each director's and executive officer's business experience:

Mr. Tony Tong, age 36, is our Chairman, CEO, founder and a Director. Mr. Tong has served on our board of directors since 1999. From 1995 to 1997, Mr. Tong served as the Chief Information Officer of DDS Inc., a leading SAP-ERP consulting company in the USA, which was later acquired by CIBER, Inc. From 1993 to 1994, Mr. Tong worked for Information Advantage, Inc. (IACO), a leading business intelligence, Data-Mining and CRM technology provider serving Fortune 500 clients. IACO consummated an IPO on Nasdaq in 1997 and was later acquired by Sterling Software and Computer Associates. From 1992 to 1993, Mr. Tong worked as a Business Process Re-engineering Consultant at Andersen Consulting (now Accenture). From 1990 to 1991, Mr. Tong worked for ADC Telecommunications, a global supplier of telecom equipment. Mr. Tong's R&D achievements include being the inventor and patent holder of US Patent Number 6,012,066 (granted by US Patent and Trademark Office) titled "Computerized Work Flow System, an Internet-based workflow management system for automated web creation and process management." Mr. Tong also serves on the board of advisors of Fortune Telecom (listed on Hong Kong Stock Exchange), a leading distributor of mobile phones, PDAs, telecom services, and accessories in China and Hong Kong. Mr. Tong is a frequent speaker on technology investment in China, and was invited to present at the Fourth APEC International Finance & Technology Summit in 2001. Mr. Tong graduated with a Bachelor of Mechanical/Industrial Engineering Degree from the University of Minnesota. Mr. Tong served on the Computer Engineering Department Advisory Board and was an Adjunct Professor at the University of Minnesota, USA. Mr. Tong is the brother of Victor Tong.

Mr. Victor Tong, age 33, is our President, Secretary, and a Director. Mr. Victor Tong has served on our board of directors since 2002. Mr. Victor Tong was formerly the President of KeyTech, a leading information technology consulting company based in Minneapolis, Minnesota. In 1994, Victor and Tony Tong co-founded Talent Information Management ("TIM"), an IT services and

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consulting company in Minnesota, our parent company. Mr. Victor Tong gained his consulting, systems integration, and technical expertise through his experience at Andersen Consulting (now Accenture), American Express, 3M, and the Superconductivity Center at the University of Minnesota. In 1999, he was recognized in "CityBusiness 40 Under 40" as one of the 40 people under the age of 40 who is the next generation of Twin Cities' business and community leaders. Mr. Tong is also the vice president and co-founder of the Chinese American Business Association of Minnesota, a non-profit membership organization serving the Chinese business community in the improvement of the economic and social status of its members and other Chinese American entrepreneurs in Minnesota. Mr. Tong graduated with honors and received the Bachelor of Science in Physics from the University of Minnesota, USA. Mr. Tong is the brother of Tony Tong.

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Mr. ShaoJian (Sean) Wang, age 39, is the Chief Financial Officer, Vice President of International Business and is one of our Directors. Mr. Wang has served on our board of directors since 2002. Mr. Wang is also a Director of Thian Bing Investments Pte Ltd - a Singapore based investment holding company, a Director on the board of Alliance PKU Co. Ltd - a company owned and controlled by Guanghua School of Management, Peking University, a Director of the board of Portcullis International Group - a Singapore based investment consulting company, and a Director and Partner of the Overseas Chinese Scholar Fund, a leading venture capital firm headquartered in Zhongguancun Beijing and Guangzhou, China. Mr. Wang started his professional career as a Market/Financial analyst with Ecolab Inc. in 1987, where he moved quickly to become Territory Manager and Marketing Manager. In 1990, Mr. Wang was posted to Ecolab's Asia Pacific regional headquarters as its Business Development Manager. In 1992, Mr. Wang was appointed as Country Manager of Ecolab for Indonesia. Mr. Wang is an investor and Director in Alliance PKU Co. Ltd., which owns two premier companies in China. Alliance PKU Consulting is a leading management consulting firm in China, and Beidabiz & E-learning Co. (a venture of Peking University) is a well-known online education provider. Mr. Wang also advises some local governments in China. The Municipal government of Yantai appointed him as the city's representative for investment. He worked with the Wei Fang government on setting up the Agricultural Development Park. Mr. Wang attended Peking University and received his MBA degree at the Carlson School of Management, University of Minnesota, and a B.S. in Economics at Hemline University.

Mr. Richard Chi Ho Lo, age 36, is a Director. Mr. Lo has served on our board of directors since 2002. Mr. Lo is the Chief Executive Officer of Fulldiamond Limited, an investment and consulting firm in financial, real estate and venture advisory work. He is currently director of several start-up companies in Hong Kong and the United States. Mr. Lo is the former Managing Director of Associated Capital Limited and former Executive Director of two publicly listed companies in Hong Kong. Mr. Lo holds a B.A. degree from the University of California, Los Angeles (UCLA) and obtained his MBA in Finance and Investment from the University of Hull in England.

Mr. David F. Fisher, age 54, is a Director. Mr. Fisher has served on our board of directors since 2002. From 1999 to 2003, Mr. Fisher served as Commissioner of Administration and Office of Technology for the State of Minnesota, and chief technical advisor to Governor Jesse Ventura. Mr. Fisher also served on the Minnesota Secretary of State Executive Council, as a member of the Minnesota Governor's Cabinet, and was responsible for the general management and operations of the Minnesota state government, overseeing 1,000 full time employees with an annual budget of \$250 million. He is responsible for establishing and executing statewide policy and operations for government telecommunications and information technology. From 1994 to 1999, Mr. Fisher served as Vice President, General Counsel and Corporate Secretary of ADC Telecommunications, Inc., a multinational telecommunications equipment

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manufacturer and distributor. While at ADCT, Mr. Fisher managed a legal, contract and regulatory staff of twenty-seven and managed more than two dozen complex acquisition transactions, which included negotiating business joint ventures, alliances and contract relationships. From 1980 to 1994, Mr. Fisher served as Vice President, International and Associate General Counsel for the Pillsbury Company, a multinational consumer foods producer and distributor based in Minneapolis, Minnesota, USA. Prior to that, Mr. Fisher was a trial attorney with Henson & Efron, P.A., and engaged in general legal practice, which included corporate commercial transactions, acquisitions and divestitures, litigation, securities and employment law, contract drafting and negotiation, and antitrust compliance. Mr. Fisher has served on the board of directors of Minnesota Technology, Inc., and on the International and Public Policy Committees of the Telecommunications Industry Association. Mr. Fisher is an adjunct professor of law at the Hamline University School of Law. Mr. Fisher received his Juris Doctor, Magna Cum Laude, Valedictorian, at the Washburn University School of Law, and Bachelor of Arts at the University of Minnesota. Mr. Fisher was a Bush Foundation Fellow and studied public policy at Kennedy School of Government, Harvard University.

Mr. Peter Wang, age 49, is a Director. Mr. Wang has served on our board of directors since 2003. Mr. Wang serves as Chief Executive Officer of China Quatum Communications Ltd., a privately-held company. Mr. Wang was a founder of Unitech Telecom (now named UTStarcom, NASDAQ: UTSI). Under his management, UTStarcom created the first digital loop carrier system and installed the first PHS (Personal Handyphone System) system in China. As an entrepreneur, he has

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successfully co-founded and built other ventures in the US, including World Communication Group and World PCS, Inc. Before forming his own companies, he worked at AT&T Bell Labs and Racal-Milgo Information System. With AT&T Bell Labs, he worked on Network Evolution Planning and representing AT&T Network System Division served on Network Management Protocol Forum. With Racal-Milgo, he worked on network management system architecture as a senior engineer. As part of the technologically trained community in China, he was elected Deputy Chairman of the Association of Privately Owned High-tech Enterprises in China. He has been elected president of the first Chinese PACS User and Providers Forum that promotes the international PCS standard worldwide. He also served on the boards of directors of many U.S. and Chinese companies, specifically Joray Enterprises Inc., Phoenix Tech Ltd. and World Communication Group. Mr. Wang has a BS in Computer Science and a MS in Electrical Engineering from University of Illinois, as well as an MBA in Marketing from Southeast-Nova University.

Mr. Michael Chun Ha, aged 33, is a Director. Mr. Ha has served on our board of directors since 2003. Mr. Ha graduated from the Faculty of Law, University of Hong Kong in 1994 with a bachelor degree in law and was admitted as a solicitor of the High Court of the Hong Kong Special Administrative Region in 1997 and a solicitor of the Supreme Court of England and Wales in 1998. From 1995 to 2002, Mr. Ha worked as a lawyer in a number of prestigious international and Hong Kong law firms, specializing in the areas of corporate finance, securities offerings, takeovers, cross-border mergers and acquisitions, venture capital, corporate restructuring, regulatory and compliance issues, project finance, and general commercial transactions and services in Hong Kong and the People's Republic of Hong Kong. In 2002, Mr. Ha commenced his own practice in the trade name of "Ha and Ho Solicitors". Mr. Ha specializes in the areas of general commercial transactions, corporate finance and civil and criminal litigation. Mr. Ha has been the company secretary of Shanxi Central Pharmaceutical International Company Limited, a Hong Kong main board listed company, and since 2003 Mr. Ha has been a director of a private investment company, Metro Concord Investment Limited.

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AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The board of directors has established a separately designated stand alone audit committee established in accordance with Section 3(a)(58)A of the Exchange Act, which is currently comprised of Messrs. Richard Chi Ho Lo, David F. Fisher and Michael Chun Ha. They are all considered "independent" under the Nasdaq listing standards currently in effect. The audit committee recommends to the board of directors the annual engagement of a firm of independent accountants and reviews with the independent accountants the scope and results of audits, our internal accounting controls and audit practices and professional services rendered to us by our independent accountants.

The board of directors has determined that all members of the audit committee are financial experts and independent members of the board of directors.

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EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth all cash compensation paid or to be paid by us, as well as certain other compensation paid or accrued, during each of our last three fiscal years to each named executive officer.

Name/Principal Position -----	Fiscal Year ----	Annual Compensation			Long Term Compensation	
		Salary (\$) -----	Bonus (\$) -----	Other (\$) -----	Restricted Stock Award (\$) -----	Sto Opti -----
Tony Tong, CEO	2003	\$100,000	-	-	-	120
	2002	\$110,000	-	-	\$57,900	206
	2001	\$106,226	-	\$15,384		50

(1) Represents amounts received for life and health insurance coverage.

OPTION GRANTS DURING 2003 FISCAL YEAR (INDIVIDUAL GRANTS)

NAME ----	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED -----	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR ----	EXERCISE OR BASE PRICE -----	EX --
Tony Tong, CEO	70,000	64%	\$2.20	Jun
	50,000	36%	\$4.25	Nov

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AGGREGATED OPTION EXERCISES DURING 2003 FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NO. OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END 12/31/03 (#)		VALUE (\$ IN-THE MONE YEAR
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE
Tony Tong, CEO	200,000	\$494,000	6,000	120,000	\$10,950

COMPENSATION OF DIRECTORS

Each director is paid a sign-on bonus of 10,000 shares of our common stock. Each director is also paid an annual retainer fee of US\$10,000 in the form of shares of our common stock or stock options for shares of our common stock. Such retainer fee is paid in semi-annual installments. The number of shares of common stock issued is based on the average closing market price over the ten trading days prior to the end of the six month period that the retainer fee is due.

Directors are also entitled to US\$500 for each board meeting that such director attends in person, by conference call, or by committee action and US\$200 for each committee meeting, payable by cash, shares of our common stock or stock options for shares of our common stock, at our option. All of our directors are reimbursed for out-of-pocket expenses relating to attendance at meetings

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EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT, AND CHANGE-IN-CONTROL

On December 30, 2002, we entered into an Executive Employment Contract with Tony Tong. Mr. Tong currently serves as our Chief Executive Officer. The employment agreement provides for Mr. Tong to earn an annual base salary of \$100,000 in cash, plus \$60,000 in stock compensation annually until April 1, 2005. Mr. Tong is also eligible for an annual bonus for each fiscal year during the term of his contract based on performance standards as the Board or compensation committee designates. Mr. Tong is entitled to receive a monthly housing allowance of \$2,500, monthly automobile allowance of \$500, tax preparation expenses of \$2,000 per year, and cash bonus based on our net profit.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On March 28 2002, we completed a \$3,480,000 private placement by issuing 2,400,000 shares of restricted common stock at a price of \$1.45 per share to Sino Mart Management Limited ("Sino Mart"), whose executive director is the father of our chairman and CEO. In addition, we issued Sino Mart a warrant to purchase up to an additional 600,000 shares of restricted common stock at \$1.45 per share. The fully exercisable warrant expires on April 5, 2005. The \$3,480,000 private placement transaction was approved at a special stockholder meeting held on March 25, 2002.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

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ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of April 16, 2004, the number of shares of our common stock beneficially owned by (i) each person who is known by us to be the beneficial owner of more than five percent of the Company's common stock; (ii) each director; (iii) each of the named executive officers in the Summary Compensation Table; and (iv) all directors and executive officers as a group. Unless otherwise indicated, the stockholders listed in the table have sole voting and investment power with respect to the shares indicated.

NAME AND ADDRESS OF BENEFICIAL OWNER**	NUMBER OF SHARES BENEFICIALLY OWNED	% OF BENEFI
-----	-----	-----
Kin Shing Li (1) Flat A & B, 15/F, Block T42 Wisteria Mansion, 4 Taikoo Wan Road, Taikooshing, Hong Kong	1,750,000	
Sino Mart Management Ltd. (2) c/o ChoSam Tong Unit 3813, Hong Kong Plaza 188 Connaught Road West, Hong Kong	1,000,000	
ChoSam Tong (3)	1,030,000	
Tony Tong (4)	225,391	
ShaoJian (Sean) Wang (5)	80,400	
Victor Tong (6)	71,200	
Richard Chi Ho Lo (7)	40,000	
David Fisher (8)	23,000	
Peter Wang	-	
Michael Chun Ha (9)	5,000	
All directors and officers as a group (7 persons)	474,991	

* Less than one percent.

** The address for each beneficial owner not otherwise specified is: c/o PacificNet Inc. Unit 2710, Hong Kong Plaza, 188 Connaught Road West, Hong Kong.

(1) Information obtained from the Schedule 13D/A (Amendment No.1) filed by Mr. Kin Shing Li on October 14, 2003.

(2) Sino Mart Management Ltd. is owned by Mr. ChoSam Tong, the father of Messrs. Tony Tong and Victor Tong.

(3) Includes shares of common stock of Sino Mart Management Ltd., which is owned by Mr. ChoSamTong and currently exercisable stock options to acquire 23,000 shares of common stock.

(4) Includes currently exercisable stock options to acquire 41,000 shares of common stock. Excludes 1,000,000 shares owned by Sino Mart Management Ltd., as to which shares Mr. Tony Tong disclaims beneficial ownership.

(5) Includes currently exercisable stock options to acquire 41,000 shares of common stock.

(6) Includes currently exercisable stock options to acquire 36,000 shares of common stock. Excludes 1,000,000 shares owned by Sino Mart Management Ltd., as to which shares Mr. Victor Tong disclaims beneficial ownership.

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- (7) Includes currently exercisable stock options to acquire 21,000 shares of common stock.
- (8) Includes currently exercisable stock options to acquire 18,000 shares of common stock.
- (9) Includes currently exercisable stock options to acquire 5,000 shares of common stock.

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SELLING STOCKHOLDERS

On January 15, 2004, we completed a private placement in which we sold an aggregate of 617,285 shares of common stock and issued warrants to purchase up to an aggregate of 154,320 shares of common stock to the selling stockholders listed in the table below. We are filing this registration statement pursuant to the terms of a registration rights agreement between each investor and us. We also agreed to bear expenses in connection with the registration and sale of the shares. See "Plan of Distribution."

The following table sets forth as of April 16, 2004, information regarding the current beneficial ownership of our common stock by the selling stockholders and their beneficial ownership assuming sale of all of the shares of common stock offered hereby. Information as to current ownership is based upon information provided to us by the selling stockholders, which we have not independently verified. The selling stockholders are not making any representation that the shares covered by this prospectus will be offered for sale.

No selling stockholder has held any position nor had any material relationship with the Company or its affiliates during the past three years.

Name of Selling Stockholder -----	Shares Beneficially Owned Prior to Offering -----	Maximum Number of Shares to be Sold -----	Number Beneficially Owned After Offeri -----
Whalehaven Fund Limited(1)	25,720	25,720	0
Bluegrass Growth Fund(2)	128,601	128,601	0
Omicron Master Fund(3)	128,601	128,601	0
Greenwich Growth Fund Limited(4)	25,720	25,720	0
Excalibur Limited Partnership(5)	77,160	77,160	0
Vertical Ventures LLC(6)	128,601	128,601	0
Stonestreet LP(7)	128,601	128,601	0
Alpha Capital AG(8)	128,601	128,601	0

(1) Includes 5,144 shares of common stock issuable upon exercise of a warrant.

(2) Includes 25,720 shares of common stock issuable upon exercise

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of a warrant.

- (3) Includes 25,720 shares of common stock issuable upon exercise of a warrant.
- (4) Includes 5,144 shares of common stock issuable upon exercise of a warrant.
- (5) Includes 15,432 shares of common stock issuable upon exercise of a warrant.
- (6) Includes 25,720 shares of common stock issuable upon exercise of a warrant.
- (7) Includes 25,720 shares of common stock issuable upon exercise of a warrant.
- (8) Includes 25,720 shares of common stock issuable upon exercise of a warrant.

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DESCRIPTION OF SECURITIES

Our current authorized capital stock consists of 125,000,000 shares of common stock, par value \$.0001 per share, of which 7,260,262 shares were issued and outstanding as of April 16, 2004, and 5,000,000 shares of preferred stock, par value \$.0001 per share, none of which were issued and outstanding as of April 16, 2004.

COMMON STOCK

The holders of common stock are entitled to one vote for each share held of record on all matters to be voted on by the stockholders. The holders of common stock are entitled to receive dividends ratably when, as and if declared by the board of directors out of funds legally available therefore. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share equally and ratably in all assets remaining available for distribution after payment of liabilities and after provision is made for each class of stock, if any, having preference over the common stock.

The holders of common stock, as such, have no conversion, preemptive, or other subscription rights and there are no redemption provisions applicable to the common stock. All of the outstanding shares of common stock are validly issued, fully-paid and nonassessable.

PREFERRED STOCK

Under our Restated Certificate of Incorporation, as amended, the Board of Directors is authorized, subject to any limitations prescribed by the laws of the State of Delaware, but without any further action by our stockholders, to provide for the issuance of up to 5,000,000 shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in such series, to fix the designations, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof, and to increase or decrease the number of shares of any such series (but not below the number of shares of such series then outstanding) without any further vote or action by the stockholders. The board of directors may authorize and issue preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock.

PLAN OF DISTRIBUTION

We are registering the common stock on behalf of the above selling stockholders. The selling stockholders are offering shares of common stock that they received in connection with the private placement. As used in this prospectus, the term "selling stockholders" includes pledgees, transferees or other successors-in-interest selling shares received from the selling stockholders as pledgors, assignees, borrowers or in connection with other non-sale-related transfers after the date of this prospectus. This prospectus may also be used by transferees of the selling stockholders, including broker-dealers or other transferees who borrow or purchase the shares to settle or close out short sales of shares of common stock. The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale or non-sale related transfer. We will not receive any of the proceeds of such sales by the selling stockholders.

The selling stockholders may sell their shares of common stock directly to purchasers from time to time. Alternatively, they may from time to time offer the common stock to or through underwriters, broker/dealers or agents, who may receive compensation in the form of underwriting discounts, concessions or commissions from the selling stockholders or the purchasers of such securities for whom they may act as agents. The selling stockholders and any underwriters, broker/dealers or agents that participate in the distribution of common stock may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), and any profit on the sale of such securities and any discounts, commissions, concessions or other compensation received by any such underwriter, broker/dealer or agent may be deemed to be underwriting discounts and commissions under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The selling stockholders have informed us that they do not have any agreement or understanding, directly or indirectly, with any person to distribute the common stock.

The common stock may be sold by the selling stockholders from time to time in one or more transactions at or on any stock exchange, market or trading facility on which shares are traded or in private transactions. The sales may be made at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale or at negotiated prices. The sale of the common stock may be affected by means of one or more of the following transactions (which may involve cross or block transactions):

- o a block trade in which the broker-dealer so engaged will attempt to sell such shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- o purchases by a broker-dealer as principal and resale by such broker-dealer for its own account pursuant to this prospectus;
- o transactions on any exchange or quotation service on which the shares may be listed or quoted at the time of sale in accordance with the rules of the applicable exchange;
- o ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- o privately negotiated transactions;
- o transactions through the settlement of short sales;

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- o broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- o a combination of any such methods of sale;
- o transactions through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise; and
- o any other method permitted pursuant to applicable law.

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The selling stockholders may also sell shares under Rule 144 of the Securities Act, if available, rather than under this prospectus. To the extent required, this prospectus may be amended and supplemented from time to time to describe a specific plan of distribution.

Broker-dealers engaged by the selling stockholders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchase of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling stockholders may also enter into option or other transactions with broker-dealer's, or other financial institutions for the creation of one or more derivative securities, which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction.)

In connection with the sale of the common stock or otherwise, the selling stockholders may enter into hedging transactions with broker/dealers of other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these shares to close out such short positions, or loan or pledge common stock to broker/dealers that in turn may sell such securities.

The selling stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, which provisions may limit the timing of purchases and sales of any of the common stock by the selling stockholders. The foregoing may affect the marketability of such securities.

Pursuant to the registration rights agreement with the selling stockholders, all expenses of the registration of the common stock will be paid by us, including, without limitation, SEC filing fees; provided, however, that the selling stockholders will pay any broker or similar commissions, or, except to the extent otherwise provided for, any legal fees or other costs of the selling stockholders. The selling stockholders will be indemnified by us against certain civil liabilities, including certain liabilities under the Securities Act, or will be entitled to contribution in connection therewith. We will be indemnified by the selling stockholders severally against certain civil liabilities, including certain liabilities under the Securities Act, or will be entitled to contribution in connection therewith.

To comply with the securities laws of certain jurisdictions, if

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applicable, the common stock will be offered or sold in such jurisdictions only through registered or licensed brokers or dealers.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Section 145 of the Delaware General Corporation Law allows companies to indemnify their directors and officers against expenses, judgments, fines and amounts paid in settlement under the conditions and limitations described in the law.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Registrant, pursuant to the foregoing provisions, or otherwise the Company has been advised that in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable.

LEGAL MATTERS

The validity of the securities offered hereby has been passed upon for us by Loeb & Loeb LLP, New York, New York.

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EXPERTS

Our audited financial statements for the periods ended December 31, 2003 and 2002, have been included in this prospectus in reliance upon the report of Clancy and Co., P.L.L.C. independent auditors, appearing in this registration statement, and their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file all documents required to be filed pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act with the SEC through the Electronic Data Gathering, Analysis and Retrieval system (EDGAR), and is publicly available through the SEC's website located at <http://www.sec.gov>. This Amendment on Form SB-2, including all exhibits and schedules and amendments, has been filed with the SEC through EDGAR. You may also inspect this Amendment on Form SB-2, including all exhibits, without charge at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain copies of these materials from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington D.C. 20549, upon the payment of prescribed fees. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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FINANCIAL STATEMENTS

The consolidated financial statements and the reports and notes, which are attached hereto are incorporated herein by reference.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of PacificNet Inc.:

We have audited the accompanying consolidated balance sheets of PacificNet Inc. (a Delaware Corporation) and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PacificNet Inc. and Subsidiaries as of December 31, 2003 and 2002, and the results of their consolidated operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ CLANCY AND CO, P.L.L.C.
Phoenix, Arizona
March 30, 2004

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PACIFICNET INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands of United States dollars, except par values and share numbers)

DECEMBER 31, 2003

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ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 3,823
Restricted cash - pledged bank deposit (Note 8)	212
Accounts Receivables (net of allowance for doubtful accounts of \$0 as of December 31, 2003 and \$255 as of December 31, 2002)	1,890
Inventories (Note 3)	76
Other Current Assets	286

Total Current Assets	6,287
Property and Equipment, net (Note 6)	466
Goodwill (Note 5)	420

TOTAL ASSETS	\$ 7,173
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Bank Line of Credit (Note 7)	\$ 1,199
Bank Loans-current portion (Note 8)	1,405
Capital Lease Obligations - current portion (Note 9)	152
Accounts Payable	1,007
Accrued Expenses	360
Subscription Payable (Note 10)	722

Total Current Liabilities	4,845

Long-term liabilities:	
Bank Loans - non current portion (Note 8)	377
Capital Lease Obligations - non current portion (Note 9)	149

Total Long-Term Liabilities	526

Total Liabilities	5,371
Minority Interest in Consolidated Subsidiary	(110)
Commitments and Contingencies (Note 7)	
Stockholders' Equity:	
Preferred stock, par value \$0.0001, Authorized - 5,000,000 shares	
Issued and outstanding - none	--
Common Stock, par value \$0.0001, Authorized - 125,000,000 shares	
Issued and outstanding:	
December 31, 2003 - 6,163,977 issued; 5,363,977 outstanding	
December 31, 2002 - 4,907,252 shares	1
Treasury Stock, at cost (800,000 shares)	(5)
Additional Paid-In Capital	31,790
Cumulative Other Comprehensive Loss	(24)
Accumulated Deficit	(29,850)

Total Stockholders' Equity	1,912

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,173
	=====

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The accompanying notes are an integral part of these consolidated financial statements.

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PACIFICNET INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of United States dollars, except loss per share and share amounts)

YEAR ENDED DECEMBER 31:	2003	2002
	-----	-----
Revenues	\$ 1,217	\$ 1,217
Cost of Revenues	(698)	(698)
Gross Margin	519	519
Selling, General and Administrative expenses	(2,758)	(2,758)
Depreciation and amortization	(76)	(76)
Provision for written off of fixed assets	(208)	(208)
LOSS FROM OPERATIONS	(2,523)	(2,523)
Interest Income	27	27
Sundry income	54	54
LOSS BEFORE INCOME TAXES, MINORITY INTEREST AND DISCONTINUED OPERATIONS	(2,442)	(2,442)
Provision for income taxes (Note 12)	(32)	(32)
Provision for impairment loss of affiliated companies (Note 5)	--	--
Minority Interests	596	596
LOSS BEFORE DISCONTINUED OPERATIONS	(1,878)	(1,878)
LOSS FROM DISCONTINUED OPERATIONS (NOTE 2)	--	--
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	(\$ 1,878)	(\$ 1,878)
BASIC AND DILUTED LOSS PER COMMON SHARE:		
Loss from continuing operations	(\$ 0.36)	(\$ 0.36)
Loss from discontinued operations	--	--
Net loss	(\$ 0.36)	(\$ 0.36)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	5,234,744	5,234,744

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PACIFICNET INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands of United States dollars, except loss per share and share amounts)

	PREFERRED STOCK -----	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	CUMULATIVE OTHER COMPREHENSIVE INCOME/ (LOSS) -----	ACCUMULATED DEFICIT -----
BALANCE AT DECEMBER 31, 2001 (1,634,628 SHARES)	\$ -	\$ -	\$ 26,755	\$ (22)	\$ (2)
COMPREHENSIVE LOSS:					
Net loss	-	-	-	-	(-)
Change in Cumulative Effect of Foreign Currency Translation	-	-	-	(2)	
TOTAL COMPREHENSIVE LOSS					
Issuance of common stock for services (337,007 shares)	-	-	263	-	
Issuance of common stock to acquire fixed assets (155,058 shares)	-	-	186	-	
Issuance of common stock to satisfy liabilities (60,585 shares)	-	-	50	-	
Issuance of common stock for cash (2,725,000 shares)	-	1	3,999	-	
Treasury Stock acquired, at cost (4,970 shares)	-	-	-	-	
Share adjustment (56 shares reduction)	-	-	-	-	
BALANCE AT DECEMBER 31, 2002 (4,907,252 SHARES)	-	1	31,253	(24)	(2)
COMPREHENSIVE LOSS:					
Net loss	-	-	-	-	(-)
TOTAL COMPREHENSIVE LOSS					
Shares returned to the treasury (800,000 shares)	-	-	-	-	
Issuance of common stock to satisfy services (16,725 shares)	-	-	27	-	
Issuance of common stock for officer's exercise of stock options as part of employment compensation (200,000 shares)	-	-	100	-	

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Exercise of stock options and warrants for cash (240,000 shares)	-	-	410	-	
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2003 (5,363,977 SHARES)	\$ -	\$ 1	31,790	\$ (24)	\$ (2)
	-----	-----	-----	-----	-----

The accompanying notes are an integral part of these consolidated financial statements.

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PACIFICNET INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of United States dollars, except loss per share and share amounts)

	2003	2002
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CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(\$1,878)	(\$2,921)
Adjustment to reconcile net loss to net cash used in operating activities:		
Expenses settled by issuance of common shares	127	313
Minority Interest	(596)	98
Loss on disposal of fixed assets	208	142
Provision for impairment of software development costs	761	122
Provision for impairment of affiliated companies	--	97
Provision for write-off of goodwill	19	--
Depreciation	72	154
Amortization	4	110
Changes in:		
Accounts receivable and other current assets	272	145
Inventories	--	93
Other payables and accrued expenses	106	(525)
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Net cash used in operating activities	(905)	(2,172)
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CASH FLOWS FROM INVESTMENT ACTIVITIES		
Increase in restricted cash-pledged bank deposits	(52)	--
Acquisition of property and equipment	(29)	(14)
Acquisition of intangible assets	(19)	--
Acquisition of subsidiaries	(211)	--
Acquisition of affiliate company interests	--	(22)
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Net cash used in investing activities	(311)	(36)
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CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Advances under bank line of credit	634	565
Proceeds from sale of common stock	--	4,000
Proceeds from exercise of stock options and warrants	410	--
Repayment of amount borrowed	(465)	--

New bank loans
New finance lease

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