

乾坤燭® PROSTICKS®

ProSticks International Holdings Limited

乾坤燭國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

1st Quarterly Report

2009

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

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

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

HIGHLIGHTS

- Turnover increased by about 25% over the previous corresponding period to approximately HK\$898,000.
- A new service “ProSticks Multi-text” was launched in May 2002.
- The Group has entered into distributorship agreement and letter of intent with two PRC firms for distribution of products and services of the Group.
- Beijing representative office commenced operation in April 2002.

RESULTS

The Board of Directors (the "Board") is pleased to announce the unaudited consolidated results of ProSticks International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the three months ended 31 March 2002, together with the comparative unaudited figures of the corresponding period in 2001, as follows:

		Three months ended 31.3.2002 (unaudited) HK\$'000	Three months ended 31.3.2001 (unaudited) HK\$'000
	<i>Note</i>		
Turnover	2	898	717
Cost of sales		(666)	(497)
Gross profit		232	220
Other revenue	2	80	32
Other income		4	45
Advertising and promotion expenses		(143)	(174)
Administrative expenses		(2,812)	(2,304)
Other operating expenses		—	—
Loss from operations		(2,639)	(2,181)
Finance costs		(20)	—
Net loss attributable to shareholders		(2,659)	(2,181)
Loss per share			
Basic	4	0.66 cents	0.73 cents

Notes:

1. Group reorganization and basis of preparation

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (Revised) of the Cayman Islands on 10 July 2001. Pursuant to a group reorganisation scheme ("Group Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 24 November 2001. Details of the Group Reorganisation have been set out in the section headed "Corporate Reorganisation" in Appendix IV of the prospectus issued by the Company on 29 November 2001 (the "Prospectus").

The Company is an investment holding company and its shares were listed on the GEM of the Stock Exchange on 5 December 2001. Its subsidiaries are principally engaged in the development and distribution of financial software.

The Group after the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group.

2. Turnover

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

Turnover and revenue recognised by category are as follows:

	Three months ended 31.3.2002 HK\$'000	Three months ended 31.3.2001 HK\$'000
Membership subscription fees	266	96
System services and maintenance income	632	620
Turnover	898	716
Interest income	80	32
Other revenue	80	32
Revenue	978	748

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

3. Taxation

Hong Kong Profits Tax has not been provided as the Group has no assessable profit for the period (2001: nil).

4. Loss per share

The calculation of basic loss per share is based on the unaudited consolidated loss attributable to shareholders of HK\$2,659,000 (2001: loss of HK\$2,181,000) and the weighted average of 400,000,000 ordinary shares (2001: 300,000,000 shares) in issue during the year.

No amounts have been presented for the diluted loss per share because the Pre-IPO Share Options and convertible note outstanding during the three months ended 31 March 2002 had an anti-dilutive effect on the basic loss per share for the period. There was no potential ordinary share outstanding for the three months ended 31 March 2001.

5. Dividend

The directors do not recommend the payment of a dividend for the three months ended 31 March 2002 (2001: nil).

6. Movements of reserves

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As of 1 January 2001	—	20,988	(14,090)	6,898
Net loss for the period	—	—	(2,181)	(2,181)
As of 31 March 2001	<u>—</u>	<u>20,988</u>	<u>(16,271)</u>	<u>4,717</u>
As of 1 January 2002	20,998	24,415	(21,473)	23,940
Net loss for the period	—	—	(2,659)	(2,659)
As of 31 March 2002	<u>20,998</u>	<u>24,415</u>	<u>(24,132)</u>	<u>21,281</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2002, the Group's turnover was approximately HK\$898,000, which represented an increase of approximately 25% over the previous corresponding period. As the result of continuing upgrade and addition of new features in the Group's website, the number of subscribers enjoyed a stable growth and revenue from membership subscription accounted for approximately 30% of the Group's turnover in this quarter (2001: 13%).

During the period under review, the Group recorded approximately HK\$632,000 system services and maintenance income. It represented a slight increase of 2% when compared with the previous corresponding period (2001: 620,000).

Increase in cost of sales mainly caused by to increase of data cost incurred for real time streaming function which was not available to subscribers of the website until the second quarter of 2001. Due to the boosting of product development and market expansion, operating expenses for this quarter increased by 23% as compared with the first quarter of 2001. The rise in operating expenses was mainly attributable to the increase in professional expenses incurred for exploring new business and product development for the Group. The loss resulted from disposal of fixed assets incurred in this quarter also attributed to increase of operating expenses.

Advertising and promotion cost decreased slightly by HK\$31,000 to approximately HK\$143,000 for the three months ended 31 March 2002.

During the period under review, the Group maintained a positive liquidity position, held short-term bank deposits and generated approximately HK\$80,000 interest income in the first quarter.

BUSINESS REVIEW

The Group is a developer and distributor of its proprietary ProSticks Charting System and operational software application products. In order to expand its scope of business and revenue base, the Group continued to develop new product/service and upgrade its existing products.

During the period under review, ProSticks Trend-Rider System was refined, enhanced and localized for distribution in the PRC market. Operational software application products were further enhanced in response to feedback from existing clients and tailor-made features were added to client's operational system. The Group successfully obtained a new customer for the CORE FX Margin Trading System during the first quarter of 2002.

The Group continued to put its efforts on brand building, product promotion and market development. During the period under review, the Group focused on planning marketing campaigns and recruiting experienced sales executive to promote the new ProSticks Multi-text service. The Group also kept on holding discussion with several international software/hardware developers to arrange seminars in the PRC to promote the Group's products and services. In addition, the third publication on applications of ProSticks charts was published in March 2002.

In order to cope with unexpected changes and/or development in the technologies and business environment, the Group made certain refinements in its business strategies after due consideration. Up to the date of this report, certain strategies set out in the section "Statement of business objectives and strategies - for the six months ending 30 June 2002" in the prospectus issued on 29th November 2001 have been changed as a result of the uncontrollable market factors.

Research and Development

After careful evaluation, the directors are of the view that the development plan of upgrading the system platform of the Group's products from Windows-based to Linux-based should be postponed because the overall market acceptance of Linux technology is still incomparable to Windows technology at the moment. It is expected that the upgrading plan will be put off until the market for Linux technology becomes mature.

Products and services

As the development of retail market for 3G mobile phones is much slower than what the directors expect, the Group decided to delay its launching of services for distributing ProSticks charts to 3G mobile phone users until the 3G mobile phone market becomes well established.

FUTURE OUTLOOK

Expansion into the PRC market

With the rapid development of the finance industry in China, the directors envisage a growing need of sophisticated financial software for both financial institutions and individual investors in the territory. Therefore, the Group will deploy more resources to develop the PRC market. In early April of 2002, the Group's representative office in Beijing commenced operation. The Beijing office is established for the purposes of promoting products and services of the Group as well as providing customer services in the PRC.

Furthermore, the Group will start to distribute its proprietary software in the PRC through its licensed distributors, namely Business Today (Group) Co. Ltd and Beijing Holding International Trading Ltd, which have signed letter of intent and distributorship agreement with the Group respectively. The former will distribute ProSticks Trend-Rider System and ProSticks' publication in the PRC while the latter will distribute other software of the Group in the PRC. In May 2002, the Group will arrange an exhibition in Beijing to promote the products and services of the Group.

Introduction of new services

The Group launched a new service, namely ProSticks Multi-text, for provision of Internet-based real time stock quotes and news accompanying with ProSticks analytical tools in early May of 2002. In view of its unique features and affordable price, the Group is confident that ProSticks Multi-text will be competitive in the market. The Group may also launch this service to the PRC market if the response is satisfactory in Hong Kong.

The move taken by the Group to provide Internet real time stock quotes allows the Group to leverage on its existing experience and expertise on data management to meet the growing market demand of real time financial data and sophisticated investment analysis tools. Provision of this new service is expected to enlarge the revenue base of the Group.

Looking forward, the Group will continue to strengthen its core business in Hong Kong while actively exploring business opportunities in the PRC. Considering the launch of ProSticks Multi-text services and distribution of ProSticks Trend-Rider System in the PRC in the second quarter of this year, the directors believe that the Group will have a promising result in the future.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 31 March 2002.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Name of directors	Number of shares held and nature of interests		
	Personal	Corporation	Total
Mr. Goh Gen Cheung (<i>Note 1</i>)	—	58,571,982	58,571,982
Mr. Li Ching Ping Vincent (<i>Note 2</i>)	—	90,479,242	90,479,242

Notes:

1. These shares are held by New Dragon Ventures Limited, a company wholly owned by Mr. Goh Gen Cheung.
2. These shares are held by Great Power Associates Limited, a company wholly owned by Mr. Li Ching Ping Vincent.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Pursuant to the Company's Pre-IPO share option scheme adopted on 24 November 2001, the Company granted certain options to the following director which entitle the holder to subscribe for ordinary shares of the Company. The grantee will be entitled to exercise the options any time between 5 December 2001 and 4 December 2011. No share option was exercised during the period.

Details of the share options granted to the director is shown as follows:

Name	Date of grant	No. of Options outstanding at 31 March 2002	Exercise price of options HK\$
Mr. Ha Kee Choy Eugene	27 November 2001	40,000,000	0.12

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares	Percentage of share holding
Great Power Associates Limited *	90,479,242	22.62%
Frankie Dominion International Limited	75,260,986	18.82%
New Dragon Ventures Limited *	58,571,982	14.64%

* The shareholding is duplicated in the directors' interests in shares disclosed above.

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, REXCAPITAL (Hong Kong) Limited (the "Sponsor"), as at 31 March 2002, the Sponsor, its directors, employees or associates (as referred to Note 3 of Rules 6.35 of the GEM Listing Rules) did not have any interest in the securities of the Company and any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group. Pursuant to the agreement dated 28 November 2001 entered into between the Company and the Sponsor, the Sponsor received, and will receive, fees for acting as the Company's retainer sponsor for the period from 28 November 2001 to 31 December 2003.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the period under review, none of the directors nor the management shareholders of the Company had any interest in any business that directly or indirectly competed with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee on 26 November 2001 with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. The committee comprises the two independent non-executive directors, namely Mr. Ng Ge Bun and Mr. Wan Yiu Kwan Stephen.

The committee has met two times in 2002 up to the date of this report. The Group's consolidated financial statements for the three months ended 31 March 2002 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

By order of the Board

ProSticks International Holdings Limited

Goh Gen Cheung

Chairman

Hong Kong, 10 May 2002