

乾坤燭® PROSTØCKS®

ProSticks International Holdings Limited  
乾坤燭國際控股有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

Interim Report 2002

Yellow  
Sea

East China  
Sea

\* For identification only

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

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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**

- During the period, turnover has increased by about 10% over the previous corresponding period to approximately HK\$2,028,000.
- Development of a new service “ProSticks Multi-text” was completed and launched in May 2002.
- Beijing representative office has commenced operation in April 2002.

## INTERIM RESULTS (UNAUDITED)

The Board of Directors (the "Board") presents the unaudited condensed consolidated interim financial statements of ProSticks International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months and three months ended 30 June 2002 respectively, together with the comparative unaudited figures of the corresponding period in 2001, as follows:

### Condensed Consolidated Profit and Loss Account

|  | Note | (Unaudited)<br>For the six months<br>ended 30 June |                  | (Unaudited)<br>For the three months<br>ended 30 June |                  |
|--|------|--|------------------|--|------------------|
|  |      | 2002<br>HK\$'000                                   | 2001<br>HK\$'000 | 2002<br>HK\$'000                                     | 2001<br>HK\$'000 |
| <b>Turnover</b>  | 2    | <b>2,028</b>                                       | 1,851            | <b>1,131</b>   | 1,134            |
| Cost of sales  |      | <b>(1,532)</b>                                     | (1,197)          | <b>(867)</b>   | (699)            |
| Gross profit   |      | <b>496</b>   | 654              | <b>264</b>   | 435              |
| Other revenue  | 2    | <b>144</b>   | 51               | <b>64</b>  | 19               |
| Other income   |      | <b>7</b>   | 51               | <b>2</b>   | 6                |
| Advertising & promotion expenses                         |      | <b>(717)</b>                                       | (200)            | <b>(575)</b>   | (27)             |
| Administrative expenses                                  |      | <b>(8,153)</b>                                     | (4,286)          | <b>(5,339)</b>                                       | (1,982)          |
| <b>Loss from operations</b>                              |      | <b>(8,223)</b>                                     | (3,730)          | <b>(5,584)</b>                                       | (1,549)          |
| <b>Finance costs</b>                                     | 3    | <b>(28)</b>  | —                | <b>(8)</b>   | —                |
| <b>Loss from ordinary activities<br/>before taxation</b> | 3    | <b>(8,251)</b>                                     | (3,730)          | <b>(5,592)</b>                                       | (1,549)          |
| Taxation   | 5    | —  | —                | —  | —                |
| <b>Net loss attributable<br/>to shareholders</b>         |      | <b>(8,251)</b>                                     | (3,730)          | <b>(5,592)</b>                                       | (1,549)          |
| <b>Dividends</b>   | 6    | —  | —                | —  | —                |
| <b>Loss per share<br/>— Basic</b>                        | 7    | <b>(2.06 cents)</b>                                | (1.24 cents)     | <b>(1.40 cents)</b>                                  | (0.52 cents)     |

**CONDENSED CONSOLIDATED BALANCE SHEET**

|  |    | (Unaudited)<br>30 June<br>2002<br><i>HK\$'000</i> | (Audited)<br>31 December<br>2001<br><i>HK\$'000</i> |
|--|----|---|---|
| <b>Non-current assets</b>                    |    |   |   |
| Plant and equipment                          |    | 1,876   | 1,548   |
| Intangible assets                            |    | 3,102   | 1,821   |
|  |    | <u>4,978</u>                                      | <u>3,369</u>  |
| <b>Current assets</b>                        |    |   |   |
| Inventory                                    |    | 52  | —   |
| Trade and other receivables                  | 8  | 1,968   | 1,843   |
| Cash and cash equivalents                    |    | 14,057  | 26,526  |
|  |    | <u>16,077</u>                                     | <u>28,369</u>                                       |
| <b>Current liabilities</b>                   |    |   |   |
| Trade and other payables                     | 9  | (1,366)   | (1,798)   |
| <b>Net current assets</b>                    |    | <u>14,711</u>                                     | <u>26,571</u>                                       |
| <b>Total assets less current liabilities</b> |    | <u>19,689</u>                                     | <u>29,940</u>                                       |
| <b>Non-current liability</b>                 |    |   |   |
| Non-current interest bearing borrowings      | 10 | —   | (2,000)   |
| <b>NET ASSETS</b>                            |    | <u>19,689</u>                                     | <u>27,940</u>                                       |
| <b>CAPITAL AND RESERVE</b>                   |    |   |   |
| Issued capital                               |    | 4,000   | 4,000   |
| Reserves                                     |    | 15,689  | 23,940  |
|  |    | <u>19,689</u>                                     | <u>27,940</u>                                       |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

|  | (Unaudited)<br>For the six months ended<br>30 June<br>2002<br>HK\$'000 | (Unaudited)<br>2001<br>HK\$'000 |
|--|--|---------------------------------|
| Net cash outflow from operating activities             | <b>(8,654)</b>   | (4,819)                         |
| Net cash outflow from investing activities             | <b>(1,787)</b>   | (417)                           |
| Net cash outflow before financing activities           | <b>(10,441)</b>  | (5,236)                         |
| Net cash (outflow)/inflow from financing activities    | <b>(2,028)</b>   | 3,427                           |
| Decrease in cash and cash equivalents                  | <b>(12,469)</b>  | (1,809)                         |
| Cash and cash equivalents at the beginning of period   | <b>26,526</b>  | 4,600                           |
| Cash and cash equivalents at the end of period         | <b>14,057</b>  | 2,791                           |
| Analysis of the balances of cash and cash equivalents: |  |                                 |
| Bank balances and cash                                 | <b>14,057</b>  | 2,791                           |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

|                                    | (Unaudited)<br>Share<br>capital<br>HK\$'000 | (Unaudited)<br>Share<br>premium<br>HK\$'000 | (Unaudited)<br>Capital<br>reserve<br>HK\$'000 | (Unaudited)<br>Accumulated<br>losses<br>HK\$'000 | (Unaudited)<br>Total<br>HK\$'000 |
|------------------------------------|---|---|---|--|----------------------------------|
| As of 1 January 2001               | 1,200                                       | —   | 20,988  | (14,090)   | 8,098                            |
| Issue of shares by<br>a subsidiary | 36  | —   | 3,427   | —  | 3,463                            |
| Net loss for the period            | —   | —   | —   | (3,730)  | (3,730)                          |
| As of 30 June 2001                 | <b>1,236</b>                                | <b>—</b>                                    | <b>24,415</b>                                 | <b>(17,820)</b>                                  | <b>7,831</b>                     |
| As of 1 January 2002               | 4,000                                       | 20,998                                      | 24,415  | (21,473)   | 27,940                           |
| Net loss for the period            | —   | —   | —   | (8,251)  | (8,251)                          |
| As of 30 June 2002                 | <b>4,000</b>                                | <b>20,998</b>                               | <b>24,415</b>                                 | <b>(29,724)</b>                                  | <b>19,689</b>                    |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Group reorganization, basis of preparation and principle accounting policies

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 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. The shares of the Company were listed on the GEM of the Stock Exchange on 5 December 2001.

The unaudited condensed consolidated interim financial statements have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee.

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by Hong Kong Society of Accountants and with the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

The accounting policies adopted are consistent with those followed in the Company's annual financial statements for the year ended 31 December 2001.

#### *Amortization of development costs*

Development costs recognized as an asset are amortized on a straight line basis over a period not exceeding three years from the commencement of the commercial phase of the project.

### 2. Turnover

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

Turnover and revenue recognized by category are as follows:

|  | (Unaudited)<br>For the six months ended<br>30 June<br>2002<br>HK\$'000 | (Unaudited)<br>2001<br>HK\$'000 |
|--|--|---------------------------------|
| Membership subscription fees           | 528  | 244                             |
| System services and maintenance income | 1,500  | 1,607                           |
| <b>Turnover</b>                        | <b>2,028</b>   | 1,851                           |
| Interest income                        | 144  | 51                              |
| <b>Other revenue</b>                   | <b>144</b>   | 51                              |
| <b>Revenue</b>                         | <b>2,172</b>   | 1,902                           |

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

### 3. Operating loss

|  | (Unaudited)<br>For the six months ended<br>30 June<br>2002<br>HK\$'000 | (Unaudited)<br>2001<br>HK\$'000 |
|--|--|---------------------------------|
|--|--|---------------------------------|

This is stated after charging:

#### (a) Finance costs

|   |           |          |
|---|-----------|----------|
| Interest on borrowings wholly repayable within five years | <u>28</u> | <u>—</u> |
|---|-----------|----------|

#### (b) Other items

|   |            |              |
|---|------------|--------------|
| Staff costs, excluding directors' emoluments and net of amount of approximately HK\$634,000 (2001: 56,000) capitalised as development costs | 1,813      | 2,146        |
| Cost of services provided   | 1,532      | 1,197        |
| Auditors' remuneration  | 80         | 54           |
| Depreciation of plant and equipment   | 209        | 152          |
| Amortization of intangible assets   | 112        | —            |
| Operating lease charges   |            |              |
| — property rental, net of amount of approximately HK\$94,000 (2001: 9,000) capitalised as development costs                                 | 362        | 405          |
| — hire of equipment, net of amount of approximately HK\$55,000 (2001: nil) capitalised as development costs                                 | 90         | —            |
| Loss on disposal of plant and equipment   | 86         | —            |
| Research and development expenditure (included in administrative expenses)  | <u>760</u> | <u>1,010</u> |



#### 4. Segmental information

The Group's operations are located in Hong Kong in which revenue was derived principally therefrom. Accordingly, no geographical segments were presented. The Group has two business segments, financial instruments analysis software products and operational software applications products. An analysis of revenue and results for the period by business segments is as follows:

|   | <b>(Unaudited)</b><br><b>Financial instruments</b><br><b>analysis software</b><br><b>products</b><br><b>For the six months</b><br><b>ended 30 June</b> |                | <b>(Unaudited)</b><br><b>Operational software</b><br><b>applications products</b><br><b>For the six months</b><br><b>ended 30 June</b> |              | <b>(Unaudited)</b><br><b>Consolidated</b><br><b>For the six months</b><br><b>ended 30 June</b> |                |
|---|--|----------------|--|--------------|--|----------------|
|   | <b>2002</b>  | <b>2001</b>    | <b>2002</b>  | <b>2001</b>  | <b>2002</b>  | <b>2001</b>    |
|   | <b>HK\$</b>  | <b>HK\$</b>    | <b>HK\$</b>  | <b>HK\$</b>  | <b>HK\$</b>  | <b>HK\$</b>    |
| <b>Revenue</b>                                      |  |                |  |              |  |                |
| Segment revenue                                     | <u>528</u>   | <u>244</u>     | <u>1,500</u>   | <u>1,607</u> | <u>2,028</u>   | <u>1,851</u>   |
| <b>Result</b>                                       |  |                |  |              |  |                |
| Segment result                                      | <u>(2,164)</u>   | <u>(2,158)</u> | <u>1,001</u>   | <u>1,356</u> | <u>(1,163)</u>   | <u>(802)</u>   |
| Unallocated<br>operating income<br>and expenses     |  |                |  |              | <u>(7,060)</u>   | <u>(2,928)</u> |
| Loss from operations                                |  |                |  |              | <u>(8,223)</u>   | <u>(3,730)</u> |
| Finance costs                                       |  |                |  |              | <u>(28)</u>  | <u>—</u>       |
| Loss from ordinary<br>activities before<br>taxation |  |                |  |              | <u>(8,251)</u>   | <u>(3,730)</u> |
| Taxation  |  |                |  |              | <u>—</u>   | <u>—</u>       |
| Net loss attributable to<br>shareholders            |  |                |  |              | <u>(8,251)</u>   | <u>(3,730)</u> |

#### 5. Taxation

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

#### 6. Dividend

The directors do not recommend the payment of a dividend for the six months and three months ended 30 June 2002 (2001: nil).

## 7. Loss per share

The calculation of basic loss per share for the six months and three months ended 30 June 2002 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$8,251,000 and HK\$5,592,000 respectively (*six months and three months ended 30 June 2001: unaudited consolidated loss attributable to shareholders of approximately HK\$3,730,000 and HK\$1,549,000 respectively*) and the weighted average of 400,000,000 ordinary shares (2001: 300,000,000 shares) in issue during the periods.

No amounts have been presented for the diluted loss per share as the Pre-IPO Share Options and convertible note outstanding during the six months and three months ended 30 June 2002 had an anti-dilutive effect on the basic loss per share for the periods. There was no potential ordinary share outstanding for the six months and three months ended 30 June 2001.

## 8. Trade and other receivables

|   | <b>(Unaudited)</b><br><b>30 June 2002</b><br><i>HK\$'000</i> | (Audited)<br>31 December 2001<br><i>HK\$'000</i> |
|---|--|--|
| <b>Trade receivables</b>                |  |  |
| From third parties                      | <u>478</u>   | <u>—</u>   |
| <b>Other receivables</b>                |  |  |
| Deposits, prepayments and other debtors | <u>1,490</u>   | <u>1,843</u>                                     |
|   | <b><u>1,968</u></b>  | <b><u>1,843</u></b>                              |

Debts are due within 30 days from date of billing.

The ageing analysis of trade receivables of the group as at the balance sheet date is as follows:

|                | <b>(Unaudited)</b><br><b>30 June 2002</b><br><i>HK\$'000</i> | (Audited)<br>31 December 2001<br><i>HK\$'000</i> |
|----------------|--|--|
| Within 30 days | 240  | —  |
| Over 60 days   | 119  | —  |
| Over 120 days  | <u>119</u>   | <u>—</u>   |
|                | <b><u>478</u></b>  | <b><u>—</u></b>                                  |

## 9. Trade and other payables

|  | (Unaudited)<br>30 June 2002<br>HK\$'000 | (Audited)<br>31 December 2001<br>HK\$'000 |
|--|---|---|
| <b>Other payables</b>                    |   |   |
| Receipts in advance                      |   |   |
| — membership subscription fees           | 186                                     | 150                                       |
| — system services and maintenance income | 371                                     | 198                                       |
| — others                                 | 5                                       | 2   |
| Accrued charges and other creditors      | <u>804</u>                              | <u>1,448</u>                              |
|  | <u><b>1,366</b></u>                     | <u><b>1,798</b></u>                       |

## 10. Non-current interest bearing borrowings

|                             | (Unaudited)<br>30 June 2002<br>HK\$'000 | (Audited)<br>31 December 2001<br>HK\$'000 |
|-----------------------------|---|---|
| Convertible note, unsecured | <u>—</u>                                | <u>2,000</u>                              |

Convertible note of HK\$2 million was issued on 27 August 2001. The note bears interest from the date of issue at the rate of 4% per annum. The Company repaid the convertible note together with all outstanding interest on 10 May 2002.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL PROGRESS

### Business Objectives for the period from 1 January 2002 to 30 June 2002

### Actual Business Progress

#### Revenue and Business Development

Commence to explore opportunities of the PRC market for TAS

The Company has held preliminary discussion with a PRC bank for licencing of TAS

TAS expected to contribute to revenue growth

The implementation plan of TAS for a Hong Kong based client is delayed at the client's request

The operations in Hong Kong and the PRC markets will become the major revenue source of the Group

Hong Kong market was the major revenue source of the Group during the period

#### Products and Services

Commence services of distributing ProSticks charts to 3G mobile phone users

As mentioned in the 2002 first quarterly report, the Group decided to delay the launch of services to 3G mobile phone users until the 3G mobile phone market becomes well established

Launch publication on applications of ProSticks in the PRC market

Publication on applications of ProSticks has been launched in May 2002 in the PRC market

#### Sales and Marketing

Continue to promote TAS in Hong Kong

The Group continued to approach potential clients in Hong Kong

Continue to enlarge the sales and marketing team of the Group and establish showrooms in the PRC market

Having regard to the current market conditions, the Group considered that it would not be most cost-efficient to expand direct sales force of the Group and open showrooms in the PRC. The Group has thus revised its marketing plan and has been actively seeking business partners for product promotion

## Research and Development

### A. Financial instruments analysis software products

Continue the development of local version of the ProSticks software products for the Taiwan market

Due to poor performance of the stock market, development of the Taiwan market has been postponed until the market recovers

Commence the development of derivative ProSticks software products

The plan for developing new derivative ProSticks software products has commenced

Set up a research and development center in Vancouver, Canada, where, in the opinion of the Directors, possesses the necessary expertise for the development of new ProSticks products

The Group has started planning for staff recruitment and office location with respect to the set up of the research and development center in Canada

Commence development of a new website for the Taiwan market

Due to poor performance of the stock market, development of the Taiwan market has been postponed until the market recovers

### B. Operational software applications products

Complete system development and testing phase of Internet FX Margin Trading Platform

The development has reached the final stage and is expected to complete in the third quarter of 2002

Continue the development of the Branches Central Pricing System

In progress

Continue to upgrade the system platform of the Group's products from Windows-based to Linux-based

As mentioned in the 2002 first quarterly report, the Group decided to postpone the development plan until the market of Linux technology becomes mature

## Human Resources Deployment

|                                    |           |                                    |           |
|------------------------------------|-----------|------------------------------------|-----------|
| General management                 | 6         | General management                 | 5         |
| Sales and marketing                | 17        | Sales and marketing                | 4         |
| Research and development           | 12        | Research and development           | 9         |
| Technical and programming          | 10        | Technical and programming          | 9         |
| General administration and finance | 5         | General administration and finance | 4         |
| Total                              | <u>50</u> | Total                              | <u>31</u> |

## USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

| (from 1 January 2002 to 30 June 2002)  | <b>Proposed</b><br>(HK\$'000) | <b>Actual</b><br>(HK\$'000) |
|--|-------------------------------|-----------------------------|
| Promotion and market development in Hong Kong, the PRC, Taiwan and North America |                               |                             |
| — advertising  | 1,500                         | 303                         |
| — seminars/roadshows/exhibitions   | 2,000                         | 160                         |
| — promotion materials/gifts  | 200                           | 177                         |
| — other promotion and market development campaigns                               | 300                           | 77                          |
| <b>Sub-total</b>   | <u>4,000</u>                  | <u>717</u>                  |
| Research and development   |                               |                             |
| — ProSticks software products  | 1,600                         | 1,356                       |
| — Operational software applications products                                     | 400                           | 404                         |
| <b>Sub-total</b>   | <u>2,000</u>                  | <u>1,760</u>                |
| <b>Total</b>   | <u><u>6,000</u></u>           | <u><u>2,477</u></u>         |

In light of the depressed economy, the Board took a more prudent approach to utilize its resources. The plan of expanding the sales and marketing team, opening showrooms and development of the Taiwan market has been revised and postponed until better economic environment. As a result, fund being allocated to research and development as well as promotion and marketing has been reduced.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the six months ended 30 June 2002, the Group's turnover was approximately HK\$2,028,000 which represented an increase of approximately 10% over the previous corresponding period. Revenue from membership subscription rose sharply by 116% while revenue from operational software applications products has slightly decreased by 7%. Revenue from membership and operational software accounted for approximately 26% and 74% respectively of the Group's total turnover in this period (2001: 13% and 87%).

Cost of sales for the six months ended 30 June 2002 rose by approximately 28% mainly due to additional data and internet costs incurred for provision of new real time service, ProSticks Multi-text. Administrative expenses for the six months period ended 30 June 2002 increased by approximately HK\$3,867,000, which represented an increase of approximately 90% as compared with the corresponding period in 2001. Such an increase was mainly attributable to the increase in professional expenses incurred for exploring new business and product development of the Group, opening of the representative office in Beijing and increase of salary expense. The loss resulted from disposal of fixed assets incurred during this six months period also attributed to the increase of administrative expenses.

Advertising and promotion expenses rose by approximately HK\$517,000 for the first six months of 2002, representing an increase of approximately 259% as compared with the corresponding period in 2001. Increase in advertising and promotion expenses was mainly due to the promoting of ProSticks' products in the PRC market, exhibition held in Beijing, roadshow, press conference and advertisement with respect to the launch of ProSticks Multi-text in May 2002.

## **FINANCIAL POSITION**

The Group has net assets of approximately HK\$20 million, including cash and bank balances of approximately HK\$14 million as at 30 June 2002. The Group maintained a positive liquidity position, held short-term bank deposits and generated approximately HK\$144,000 interest income in the first six months of 2002. The gearing ratio, defined as total liabilities over total assets, was 6% as at 30 June 2002 compared with 12% as at 31 December 2001. Decrease of gearing ratio mainly due to repayment of HK\$2 million convertible notes in May 2002 in order to eliminate unnecessary interest expenses. Finance costs of approximately HK\$28,000 represented interest paid for outstanding convertible notes during the six months period in 2002. The Group has no borrowings and no charge on group assets as at 30 June 2002.

All transactions of the Group are denominated in Hong Kong dollars, United States dollars, Great Britain Pounds or Chinese Yuan. As the exchange rates of these currencies were stable during the period under review, no hedging or other alternatives had been implemented. It is considered that the Group has no significant currency exposure.

The Group intends to finance its daily operations and product development with internal funds and the Group implements stringent control on treasury activities. Unused financial resources will be placed in banks for interest.

## BUSINESS REVIEW

Segment revenue for operational software applications products was mainly generated from system maintenance and system licencing/enhancement/upgrade. System maintenance service provided a stable revenue source to the Group while revenue from system licencing/enhancement/upgrade dropped slightly in the first six months of 2002 due to tightening of budgets by most of the banks for system development/upgrade under poor economic conditions. Result of this segment for the six months period ended 30 June 2002 has been reduced by approximately 26% as compared with the corresponding period in 2001, which was largely attributed to a higher salary cost incurred in the current period. There was no increase of headcount for this business segment. However, the effect of additional technical staff in June 2001 was fully reflected in the result for the first six months of 2002 but not in 2001. Despite the current economic downturn, the Board is confident that the demand from bank sector for operational software applications products will recover in the future as Hong Kong will remain as the major financial center in Asia.

Segment revenue for financial instruments analysis software products has sharp increase mainly due to increase in the number of subscriber of ProSticks' services. The total number of subscriber as at 30 June 2002 has increased by more than 80% as compared with that of 30 June 2001. In particular, the number of real time services subscriber enjoyed a steady growth since the service launched in June 2001. However, a corresponding higher cost of sales incurred due to additional real-time data costs and internet costs required for provision of new services. Thus, there was no significant change in segment result as the increase of revenue was offset by the additional costs.

After evaluating the PRC market conditions, the Board decided to change the distribution channel of ProSticks software in the PRC. The Group intended to distribute its ProSticks software by licencing to PRC brokerage firms instead of selling PC-based ProSticks software to investors in the PRC. The Board believes that the new distribution channel is a cost-effective approach to penetrate the PRC market.

In the second quarter of 2002, the Group has discussed with a third party for distributing ProSticks' chart through that third party's website in the United States. It is expected that the Group will start distributing the ProSticks charts through that U.S. website in the third quarter which will bring in additional revenue. The directors believe that it is a good opportunity for ProSticks to open the U.S. market by cooperating with a local financial portal which already has a large customer base in the United States.



## Research and development

During this six months period, the Group has recruited one R&D staff and two technicians to develop and upgrade products. Development of ProSticks Multi-text has completed in May of this year. The Group's R&D staff had worked closely with the PRC business partner in order to obtain thorough understanding of PRC clients' needs as well as the operational system of PRC securities firm. Upon completion of testing, ProSticks Trend-Rider System will be distributed through PRC securities firms at the initial stage.

The Group continued to keep abreast of the latest technology development and applied new technology in developing and upgrading its existing products in order to maintain competitiveness.

## Sales and marketing

During the second quarter of this financial year, the Group carried out a series of promotion campaigns, such as roadshow, exhibition and press conference held in the Central district of Hong Kong and advertisements through various media were launched to promote the ProSticks Multi-text.

An exhibition was held in Beijing in May 2002 to explore business opportunities for the Group. The third publication on applications of ProSticks charts was published in March 2002 and the simplified Chinese version of the second publication of ProSticks were also published for promotion in the PRC market in May 2002.

The Board had continued refining its business strategies to cope with the current market development. After due and careful consideration, the Board decided to postpone the development plan for the Taiwan market due to the current economic conditions and poor performance of the stock market. The Board also intended to promote its products by relying on business partners or re-distributors which, in the view of the directors, will be more cost-efficient than establishing a large sales force.

## Employee and remuneration policy

As at 30 June 2002, the Group had 31 employees. Total staff costs, including staff salary capitalized as development costs, was approximately HK\$2,447,000 for the first six months in 2002. It represented an increase of approximately 11% as compared with corresponding period in 2001. There was no significant change in headcount, however, the Group had recruited staff with better experience and higher salary in the period under review. The directors believe that the employee remuneration packages currently offered are competitive with other companies in the market. The Group also provides mandatory provident fund, medical benefits and training programs, where appropriate, for staff. No share options have been granted to employees during the six months ended period 30 June 2002.

As at 30 June 2002, no employees had completed the required number of years of service under Employment Ordinance (the “Ordinance”) to be eligible for long service payments on termination of their employment with the Group. The Group is only liable to make such payments where termination meets the required circumstances specified in the Ordinance. As at 30 June 2002, the Group has no contingent liabilities provided for such purpose.

## **MATERIAL INVESTMENTS AND CAPITAL ASSETS**

No significant investments or material acquisitions and disposals of subsidiaries and affiliated companies which have significant impact on financial results of the Group were made in the first six months of 2002. At 30 June 2002, the Group did not have any plan for material investments or acquisition of material capital assets.

## **OUTLOOK**

After entrenching its business in Hong Kong, the Group will continue its expansion in other regions which possess opportunities and potential. A research center will be set up in the third quarter in Canada for exploring market opportunity in North America. The Board believes that expansion into North America will largely broaden the customer base of the Group.

The Group will also emphasis its business development in the greater china region. After holding several in-depth discussions with Business Today (Group) Co. Ltd. in respect of promoting and distributing ProSticks Trend-Rider System in the PRC, the Group has developed a close business relation with Business Today (Group) Co. Ltd. to jointly explore the PRC market in the near future. The Board strongly believes that the PRC market has huge potential and that it will ultimately contribute significant revenue to the Group.

## **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 six months ended 30 June 2002.

## DIRECTORS' INTERESTS IN SHARES

As at 30 June 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, on 24 November 2001, the Company granted certain options to a director who resigned on 6 June 2002 to subscribe for 40,000,000 ordinary shares of the Company. This director had waived his right to subscribe for 40,000,000 ordinary shares of the Company upon his resignation. No share option was exercised during the period under review.

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 30 June 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 30 June 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 Group's unaudited condensed consolidated financial statements for the six months and three months ended 30 June 2002 respectively 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.

## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since the listing of its share on GEM of the Stock Exchange on 5 December 2001.

By order of the board  
**ProSticks International Holdings Limited**  
**Goh Gen Cheung**  
*Chairman*

Hong Kong, 8 August 2002