

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)



3rd Quarterly Report

* For identification only

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.

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of its report.

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 for the nine months ended 30 September 2002 increased by approximately 10% over the previous corresponding period.
- The Group acquired a software namely STARTS to enhance services provision in October 2002.
- The Group started providing ProSticks charts and system through a US based financial portal and a Singapore based financial portal in July 2002 and October 2002 respectively.
- A research and development centre in Canada was established in September 2002.

RESULTS (UNAUDITED)

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

	Note	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	3,035	2,759	1,007	908
Cost of sales		(2,496)	(1,931)	(961)	(734)
Gross profit		539	828	46	174
Other revenue	2	193	57	49	6
Other income		41	56	34	5
Advertising & promotion expenses		(768)	(330)	(51)	(130)
Administrative expenses		(11,529)	(5,744)	(3,379)	(1,458)
Loss from operations		(11,524)	(5,133)	(3,301)	(1,403)
Finance costs		(28)	—	—	—
Loss from ordinary activities before taxation		(11,552)	(5,133)	(3,301)	(1,403)
Taxation	3	—	—	—	—
Net loss attributable to shareholders	4	(11,552)	(5,133)	(3,301)	(1,403)
Dividends	5	—	—	—	—
Loss per share					
— Basic	4	(2.89 cents)	(1.71 cents)	(0.83 cents)	(0.47 cents)

NOTES

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 reorganization 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 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.

	Unaudited		Unaudited	
	For the nine months ended 30 September		For the three months ended 30 September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Membership subscription fee	809	510	281	266
System services and maintenance income	2,226	2,249	726	642
Turnover	3,035	2,759	1,007	908
Interest income	193	57	49	6
Other revenue	193	57	49	6
Revenue	3,228	2,816	1,056	914

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 for the nine months and three months ended 30 September 2002 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$11,552,000 and HK\$3,301,000 respectively (nine months and three months ended 30 September 2001: unaudited consolidated loss attributable to shareholders of approximately HK\$5,133,000 and HK\$1,403,000 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 because the Pre-IPO Share Options and convertible note outstanding during the nine months and three months ended 30 September 2002 had an anti-dilutive effect on the basic loss per share for the period. There was no potential ordinary share outstanding for the nine months and three months ended 30 September 2001.

5. Dividend

The directors do not recommend the payment of a dividend for the nine months and three months ended 30 September 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>
At 1 January 2001	—	20,988	(14,090)	6,898
Net loss for the period	—	—	(5,133)	(5,133)
At 30 September 2001	—	20,988	(19,223)	1,765
At 1 January 2002	20,998	24,415	(21,473)	23,940
Net loss for the period	—	—	(11,552)	(11,552)
At 30 September 2002	20,998	24,415	(33,025)	12,388

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the nine months ended 30 September 2002, the Group's turnover was approximately HK\$3,035,000 which represented an increase of approximately 10% over the previous corresponding period. Revenue from membership subscription rose by approximately 59% while revenue from operational software applications products slightly decreased by approximately 1%. Revenue from membership and operational software applications products accounted for approximately 27% and 73% respectively of the Group's total turnover in this period (2001: 18% and 82%).

Cost of sales for the nine months ended 30 September 2002 rose by approximately 29% as compared with last corresponding period mainly due to additional data and internet costs incurred for providing ProSticks Multi-text services. Administrative expenses for the nine months period ended 30 September 2002 increased by approximately 101% as compared with the corresponding period in 2001 mainly due to increase in professional expenses incurred for exploring and evaluating new business opportunities and product development for the Group, additional operating expenses incurred for the representative office in Beijing and increase of salary expense as a result of appointment of directors and hiring of better experienced staff. The loss resulted from disposal of fixed assets and amortization of intangible assets during the period under review also attributed to the increase of administrative expenses.

Advertising and promotion expenses for the nine months ended 30 September 2002 mainly incurred for exhibition held in Beijing for developing the PRC market and promotion events held for launching of ProSticks Multi-text services in the second quarter.

OPERATION REVIEW

Financial instrument analysis software products

During the period under review, the Group continued to develop and upgrade its products and services in order to maintain its market position in a highly competitive environment. In the third quarter of this financial year, there were several upgrade of charts and addition of functions to the website so as to enhance overall performance and better suit to users' needs.

The Group started providing its propriety ProSticks charts and system through a U.S. based financial portal to investors in the North America in July 2002. The Directors believe that co-operation with U.S. based financial portal is a cost-

effective approach to penetrate into the U.S. market. In the future, the Group will continue to seek for business partnership with other financial portals in the North America to enhance market development and products recognition in North America's financial markets. The Group also started providing ProSticks charts and system to a financial portal in Singapore in October 2002.

The Group has established a research and development centre in Canada in September 2002. The research and development centre is responsible for overall web-based development of the Group as well as management of financial market data of the North America. The Group established the research and development centre in Canada with an aim to further strengthen the website development by getting better understanding of investor behavior in the North America and increase operation efficiency by re-allocation of human resources.

Operational software applications products

During the third quarter of this year, the Group continued to implement upgrade of operational software applications products for existing bank clients and the development of the Branches Central Pricing System was in process. After careful evaluation of industrial practice and individual customers' operations, the research and development team of the Group had identified several areas of bank operation can be strengthen by extending the scope and functions of the Branches Central Pricing System, which has been modified to support the management of foreign currency deposits and other investment products such as bonds, certificates of deposit and other derivative products in addition to the FX margin trading operation system.

Existing operational software applications product, SOFIT, was further refined and enhanced so as to cater for client's changing needs. Additional functions such as bond management and premium deposits management functions will be embedded into the software to provide cross divisions operational system support. Significant enhancement of other operational software applications products has also been carried out in an attempt to provide a versatile tool to highly integrated financial institutions for increasing operation efficiency and managing risk exposure.

OUTLOOK

In September 2002, the Company had entered into an agreement with a third party vendor to acquire the entire issued share capital of Global Media Services Limited, which has developed a software namely "STARTS" for which can further enhance the Group's products and services by providing intra-day trading signals. The transaction was completed in early October 2002 that the Company is able to integrate the software into the Group's existing charting system in

order to provide a full array of products and services in the fourth quarter of this year. The Group is currently in negotiation with two potential clients for licencing the ProSticks charts and system incorporated with intra-day signal system. These potential clients are reputable FX traders with large customer base in the United States and Hong Kong respectively. The Board believes that customer base and reputation of the Group can be broaden and raised by establishing business partnership or strategic alliance with these FX traders.

The Group has discussed with a new potential bank client with regard to licence the Branches Central Pricing System. It is expected that the discussion will be finalized and confirmed in November 2002 that the Branches Central Pricing System will be launched and started contributing revenue to the Group by the end of this year. The Board has confidence that the Branches Central Pricing System will be recognized by the banking industry and further raise the Group's reputation in the industry.

The Group will continue to focus on expanding income sources and implementing cost control procedures simultaneously while the economy downturn persists and we are confident that we will weather this challenging environment.

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 nine months and three months ended 30 September 2002.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 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		Total
	Personal	Corporation	
Mr. Li Ching Ping Vincent (<i>Note 1</i>)	—	90,479,242	90,479,242

Notes:

- These shares are held by Great Power Associates Limited, a company wholly owned by Mr. Li Ching Ping Vincent.

2. Nominee shares in subsidiaries has been held by a director in trust for the Group as at 30 September 2002.

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 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 September 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 September 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 consolidated results for the nine months and three months ended 30 September 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.

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
Li Ching Ping Vincent
Chairman

Hong Kong, 7 November 2002