

乾坤燭<sup>®</sup> PROSTICKS<sup>®</sup>

**ProSticks International Holdings Limited**

乾坤燭國際控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)



First Quarterly Report 2003

\* For identification only

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

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

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

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

*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 announcement.*

*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 FOR THE THREE MONTHS ENDED 31 MARCH 2003

- Turnover increased by about 35% over the previous corresponding period to approximately HK\$1,212,000.
- Loss attributable to shareholders recorded approximately HK\$3,580,000.
- Loss per share for the three months ended 31 March 2003 amounted to HK\$0.85 cents.
- The Board of Directors (the “Board”) does not recommend the payment of an interim dividend for the three months ended 31 March 2003.

## RESULTS

The Board of Directors (the "Board") of ProSticks International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2003, together with the comparative unaudited figures of the corresponding period in 2002, as follows:

	Note	Unaudited Three months ended 31.3.2003 HK\$'000	Unaudited Three months ended 31.3.2002 HK\$'000
<b>Turnover</b>	2	1,212	898
Cost of sales		(777)	(666)
Gross profit		435	232
Other revenue	2	7	80
Other income		40	4
Advertising and promotion expenses		(25)	(143)
Administrative expenses		(4,037)	(2,812)
<b>Loss from operations</b>		<b>(3,580)</b>	(2,639)
Finance costs		—	(20)
<b>Loss from ordinary activities before taxation</b>		<b>(3,580)</b>	(2,659)
Taxation	3	—	—
<b>Net loss attributable to shareholders</b>		<b>(3,580)</b>	(2,659)
<b>Loss per share</b>			
Basic	4	(0.85 cents)	(0.66 cents)

Notes:

### 1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standard issued by Hong Kong Society of Accountants. They have been prepared under historical cost convention.

The basis of preparation and accounting policies adopted in preparation of quarterly accounts are consistent with those followed in the Company's annual financial statements for the year ended 31 December 2002.

### 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:

	<b>Unaudited Three months ended 31.3.2003 HK\$'000</b>	Unaudited Three months ended 31.3.2002 HK\$'000
Membership subscription fees	255	266
System services and maintenance income	957	632
<b>Turnover</b>	<b>1,212</b>	898
Interest income	7	80
<b>Other revenue</b>	<b>7</b>	80
<b>Revenue</b>	<b>1,219</b>	978

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 (2002: nil).

#### 4. Loss per share

The calculation of basic loss per share is based on the unaudited consolidated loss attributable to shareholders of HK\$3,580,000 (2002: loss of HK\$2,659,000) and the weighted average of 420,000,000 ordinary shares (2002: 400,000,000 shares) in issue during the periods.

No amounts have been presented for the diluted loss per share because the Pre-IPO Share Options during the three months ended 31 March 2003 and 2002 had an anti-dilutive effect on the basic loss per share for the periods.

#### 5. Dividend

The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: nil).

#### 6. Movements of reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	20,998	24,415	—	(21,473)	23,940
Net loss for the period	—	—	—	(2,659)	(2,659)
At 31 March 2002	20,998	24,415	—	(24,132)	21,281
At 1 January 2003	22,598	24,415	—	(41,765)	5,248
Exchange differences on translation of:					
— financial statements of overseas subsidiary	—	—	(22)	—	(22)
Net loss for the period	—	—	—	(3,580)	(3,580)
At 31 March 2003	22,598	24,415	(22)	(45,345)	1,646

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Review

For the three months ended 31 March 2003, the Group's turnover was approximately HK\$1,212,000, which represented an increase of approximately 35% over the previous corresponding period. Membership subscription income slightly decreased by approximately 4% while system services and maintenance income increased by approximately 51% when compared with the previous corresponding period. Decrease of income from membership subscription mainly attributable to worldwide sluggish stock market and overall bad economic conditions. Income from system services and maintenance increased mainly because the Group has successfully obtained two new licence contracts from two bank clients to launch the Retail Banking Product Pricing System and the Retail Banking Product Distribution System operation systems respectively in this quarter.

Increase of cost of sales mainly due to increase of labor, data and internet cost incurred for provision of real time services to customers. Advertising and promotion cost decreased to approximately HK\$25,000 as no marketing campaign was launched in the first quarter of 2003. Administrative expenses in this quarter increased by approximately 44% as compared with the first quarter in 2002, which is mainly attributable to the markets development in the PRC and the North America, ceased capitalization of development expenditures as certain products' development was substantially completed since the second quarter in 2002, increase of new product development cost, and loss on disposal of fixed assets resulted from office removal.

### Financial Positions

As at 31 March 2003, the Group had no bank borrowings and maintained a positive liquidity position. All of the transactions of the Group are denominated in Hong Kong dollars, United States dollars, Canadian dollars, Chinese RMB and Great Britain Pounds. 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 there was no significant currency exposure of the Group.

The Group had entered into a subscription agreement with a third party for proposed issuance of unlisted convertible bond in the principal sum of HK\$3,000,000 in February 2003. The unlisted convertible bond was subsequently issued to the subscriber in April 2003 and the fund will be applied to development of North America market and for daily operating expenses of the Group.

## Business Review

During the period under review, the Group continues to upgrade and enhance its products and services despite of the unfavorable market conditions. The Group has put in great efforts to develop the North America website as well as repackage websites of the Group as a whole. The North America website was official launched in April 2003 and the Hong Kong website was also re-launched with new layout by the end of April 2003.

The Group continues to search for strategic partners to promote and market its products and services. In the first quarter of this year, it has negotiated with several information services providers and financial intermediates to cooperate in distribution of ProSticks' proprietary software. A subsidiary of the Company has entered into a distributorship agreement with ET Net Limited, a financial information services provider in Hong Kong and PRC, in April 2003 which allows ET Net Limited to distribute ProSticks charts and services in Hong Kong and PRC. The directors believe that by leverage on the client base of ET Net Limited, the Group will be able to penetrate into the PRC market with minimal marketing and promotion expenditures.

Besides development and promotion of products, management of the Company also implemented several costs control procedures including reallocation of office and salary cut were in place in order to cut down operating costs. The directors believe that both costs control and broaden revenue base are vital to improve profitability of the Group.

## Outlook

As the post-war economic recovery is uncertain and the negative impact of the Severe Acute Respiratory Syndrome (SARS) to the local market continues, management believes that it will take some time for investors and traders to regain the confidence in investing in stock markets and other financial markets. Management expects an unfavorable operating environment to be persisted that promotion and marketing of the Group's products and services, in particular the PRC market, will continue to be challenging in the foreseeable future.

Despite the deteriorating economic conditions, the Group has made solid progress in obtaining new contracts to licence a new operational software product to a bank client and to licence the internet module of CORE FX Margin Trading System to a securities house in April, which is expected to bring revenue growth to the Group in the second half of this year.



## 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 2003.

## DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, 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:

1. 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 31 March 2003.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Pursuant to the Company's Pre-IPO share option scheme, a past director was granted options to subscribe for 40,000,000 ordinary shares of the Company in November 2001. Share options in the amount of 40,000,000 granted to this past director under the Pre-IPO share option scheme were lapsed.

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 2003, 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	21.54%
Frankie Dominion International Limited	75,260,986	17.92%
New Dragon Ventures Limited	58,571,982	13.95%

\* 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 2003, 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 2003 up to the date of this report. The Group's consolidated financial statements for the three months ended 31 March 2003 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**  
**Li Ching Ping Vincent**  
*Chairman*

Hong Kong, 12 May 2003