

Interim Report 2003

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)

* For identification only

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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 for the six months and three months ended 30 June 2003 increased by approximately 32% and 30% respectively over the previous corresponding periods.
- Loss attributable to shareholders for the six months and three months ended 30 June 2003 amounted to HK\$5,703,000 and HK\$2,123,000 respectively.
- The Board of Directors (the “Board”) does not recommend the payment of an interim dividend for the six months and three months ended 30 June 2003.
- The ProSticks U.S. website was launched in April 2003.
- Two new operational system licences were granted to a bank client and a securities house respectively in May 2003.

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 2003 respectively, together with the comparative unaudited figures of the corresponding period in 2002, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	2,681	2,028	1,469	1,131
Cost of sales		(1,449)	(1,532)	(672)	(867)
Gross profit		1,232	496	797	264
Other revenue	2	13	144	6	64
Other income		150	7	110	2
Advertising & promotion expenses		(63)	(717)	(38)	(575)
Administrative expenses		(6,997)	(8,153)	(2,960)	(5,339)
Loss from operations		(5,665)	(8,223)	(2,085)	(5,584)
Finance costs	4	(38)	(28)	(38)	(8)
Loss from ordinary activities before taxation	4	(5,703)	(8,251)	(2,123)	(5,592)
Taxation	5	—	—	—	—
Net loss attributable to shareholders		(5,703)	(8,251)	(2,123)	(5,592)
Dividends	6	—	—	—	—
Loss per share					
— Basic	7	(1.36 cents)	(2.06 cents)	(0.51 cents)	(1.40 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Non-current assets			
Plant and equipment		1,532	1,746
Intangible assets		2,652	2,651
		4,184	4,397
Current assets			
Inventories		38	38
Trade and other receivables	8	1,987	1,588
Cash and bank balances		2,506	7,495
		4,531	9,121
Current liabilities			
Trade and other payables	9	(2,053)	(4,070)
Net current assets		2,478	5,051
Total assets less current liabilities		6,662	9,448
Non-current liability			
Non-current interest bearing borrowings	10	(3,000)	—
NET ASSETS		3,662	9,448
CAPITAL AND RESERVE			
Issued capital		4,200	4,200
Reserves		(538)	5,248
		3,662	9,448

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	(Unaudited) For the six months ended 30 June	(Audited) 2002 HK\$'000
	2003 HK\$'000	2002 HK\$'000
Net cash outflow from operating activities	(7,706)	(8,654)
Net cash outflow from returns investing activities	(245)	(1,787)
Net cash outflow before financing activities	(7,951)	(10,441)
Net cash inflow/(outflow) from financing activities	2,962	(2,028)
Decrease in cash and cash equivalents	(4,989)	(12,469)
Cash and cash equivalents at the beginning of period	7,495	26,526
Cash and cash equivalents at the end of period	2,506	14,057
Analysis of the balance of cash and cash equivalents: Cash and bank balances	2,506	14,057

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	
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	4,000	20,998	24,415	—	(29,724)	19,689
As of 1 January 2003	4,200	22,598	24,415	—	(41,765)	9,448
Exchange differences on translation of: — financial statements of overseas subsidiary	—	—	—	(83)	—	(83)
Net loss for the period	—	—	—	—	(5,703)	(5,703)
As of 30 June 2003	4,200	22,598	24,415	(83)	(47,468)	3,662

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

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 in preparation of interim accounts are consistent with those followed in the Company’s annual financial statements for the year ended 31 December 2002.

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.

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)		(Unaudited)	
	For the six months ended 30 June		For the three months ended 30 June	
	2003 HK\$’000	2002 HK\$’000	2003 HK\$’000	2002 HK\$’000
Membership subscription fees	513	528	258	262
System services and maintenance income	2,168	1,500	1,211	869
Turnover	2,681	2,028	1,469	1,131
Interest income	13	144	6	64
Other revenue	13	144	6	64
Revenue	2,694	2,172	1,475	1,195

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

3. Segmental information

(a) Primary reporting format — business segments

The Group's revenue and results for the period by business segments is as follows:

	(Unaudited) Financial instruments analysis software products For the six months ended 30 June		(Unaudited) Operational software applications products For the six months ended 30 June		(Unaudited) Consolidated For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Revenue						
Segment revenue	513	528	2,168	1,500	2,681	2,028
Result						
Segment result	(1,609)	(2,164)	994	1,001	(615)	(1,163)
Unallocated operating income and expenses					(5,050)	(7,060)
Loss from operations					(5,665)	(8,223)
Finance costs					(38)	(28)
Loss from ordinary activities before taxation					(5,703)	(8,251)
Taxation					—	—
Net loss attributable to shareholders					(5,703)	(8,251)

(b) Secondary reporting format — geographical segments

No geographical segment information is presented as during the six months ended 30 June 2003, as more than 90% of the Group's turnover and assets were derived from customers and operations respectively, in Hong Kong during the period.

4. Operating loss

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
This is stated after charging:				
(a) Finance costs				
Interest on convertible notes	38	28	38	8
(b) Other items				
Staff costs, excluding directors' emoluments	2,737	2,447	1,271	952
Less: amounts capitalized as development cost	—	(634)	—	(235)
	2,737	1,813	1,271	717
Cost of services provided	1,449	1,532	672	867
Auditors' remuneration	90	80	45	40
Depreciation of plant and equipment	246	209	122	113
Amortization of intangible assets	—	112	—	112
Operating lease for premise	495	456	167	244
Operating lease for plant and equipment	277	145	142	145
Less: amounts capitalized as development cost	—	(149)	—	(89)
	772	452	309	300
Write-off of plant and equipment	238	86	—	—
Research and development expenditure (included in administrative expenses)	1,771	760	631	476

5. Taxation

Hong Kong Profits Tax has not been provided as the Group has no assessable profit for the period (2002: nil).

6. Dividend

The directors do not recommend the payment of a dividend for the six months and three months ended 30 June 2003 (2002: nil).

7. Loss per share

The calculation of basic loss per share for the six months and three months ended 30 June 2003 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$5,703,000 and HK\$2,123,000 respectively (six months and three months ended 30 June 2002: unaudited consolidated loss attributable to shareholders of approximately HK\$8,251,000 and HK\$5,592,000 respectively) 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 and convertible note outstanding during the six months and three months ended 30 June 2003 had an anti-dilutive effect on the basic loss per share for the periods.

8. Trade and other receivables

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Trade receivables		
From third parties	1,106	399
Other receivables		
Deposits, prepayments and other debtors	881	1,189
	1,987	1,588

Debts are due within 30 days from date of billing.

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

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Within 3 months	1,106	175
Over 3 months but less than 1 year	—	224
	1,106	399

9. Trade and other payables

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Other payables		
Receipts in advance		
— membership subscription fees	165	165
— system services and maintenance income	580	201
— others	3	2
Accrued charges and other creditors	1,306	3,702
	2,054	4,070

10. Non-current interest bearing borrowings

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Convertible note, unsecured	3,000	0

Convertible note of HK\$3 million was issued on 1 April 2003. The note is convertible into ordinary shares of the Company between 1 April 2003 to 31 March 2005 at conversion price of HK\$0.05 per share. If the note has not been converted, it will be redeemed on 1 April 2005 at par. The note bears interest from the date of issue at the rate of 5% per annum on the principal amount of the note, which will be payable by the Company in arrears on a half-year basis from the date of issue of the note.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL PROGRESS

Business Objectives for the period from 1 January 2003 to 30 June 2003

Revenue and Business Development

Actively pursue the technical analysis tool market in Taiwan and North America

Revenue from sale of PC-based ProSticks software in the PRC expected to remain the revenue driver of the Group

Actual Business Progress

As mentioned in the 2002 annual report, the Company decided to postpone the development of Taiwan market due to poor performance of stock market

As mentioned in the 2002 annual report, the Company decided to change the distribution channel of ProSticks software in the PRC through business partner instead of selling PC-based ProSticks software to investors in the PRC. The Company is in the process of seeking more resellers to distribute its product in the PRC

Products and Services

Official launch of PC-based and Internet-based ProSticks software products in Taiwan market

As mentioned in the 2002 annual report, the Company decided to postpone the development of Taiwan market due to poor performance of stock market

Official launch of Internet-based ProSticks software products in North America

ProSticks US website is officially launched in North America in April 2003

Launch publication on applications of ProSticks in the North American market

The Company is in the process of selecting a qualified writer for new ProSticks publication in North America market

Launch the artificial intelligence trading system for ProSticks

The Company is in the process of seeking suitable business partners to promote and distribute the system

Sales and Marketing

Establish additional outlets and showrooms in the PRC

As mentioned in the 2002 interim report and 2002 annual report, the Company has revised its marketing plan by relying on business partners or resellers for product promotion which is considered more cost effective than establish additional outlets and showrooms in the PRC

Organize large-scale promotion campaign to promote new products in North America and Taiwan

The Company is in the process of organizing promotion campaign in North America to promote the US website

Establish outlets and showrooms in Taiwan

As mentioned in the 2002 interim report and 2002 annual report, the Company decided to postpone the development of Taiwan market due to poor performance of stock market

Establish a sales office in North America

The research and development center in North America will take up sales and marketing activities in the North America as establishing of a separate sales office is not considered cost-effective at current stage

Research and Development

A. *Financial instruments analysis software products*

Continue the development of derivative ProSticks software products

In progress

Complete the system development and testing phase of ProSticks software products for the markets of Taiwan and North America

System development and testing phase of ProSticks software products for North America is completed

Continue the development of Internet-based and PC-based ProSticks software products for the Singapore market

As mentioned in the 2002 annual report, development of Singapore market has been postponed until the market recovers

B. *Operational software applications products*

Continue the development of new operational software applications products

The Company is in the process of developing two new operational software modules

Human Resources Deployment

General management	6
Sales and marketing	25
Research and development	19
Technical and programming	10
General administration and finance	5

Total	65
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General management	5
Sales and marketing	3
Research and development	10
Technical and programming	7
General administration and finance	4

Total	29
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USE OF PROCEEDS

(from 1 January 2003 to 30 June 2003)

	Proposed (HK\$'000)	Actual (HK\$'000)
Promotion and market development in Hong Kong, the PRC, Taiwan and North America		
— advertisement	1,500	30
— seminars/roadshows/exhibitions	2,000	25
— promotion materials/gifts	200	8
— other promotion and market development campaigns	300	—
Sub-total	4,000	63
Research and development		
— ProSticks software products	2,400	643
— Operational software applications products	600	1,128
Sub-total	3,000	1,771
Total	7,000	1,834

As the plan of expanding ProSticks software products into other Asia markets such as Taiwan and Singapore has been delayed until recovery of economy and the initial plan to launch large scale promotion and set up sales offices had been replaced by the plan to develop business alliance with strategic partners for marketing and promotion of the Group's products and services, therefore funds being spent to promotion and marketing activities were significantly reduced.

Research and development expenditures have been arranged according to actual business development. As the demand of new operational software applications products increased and the development plan of ProSticks software products for Taiwan and Singapore markets has been delayed, more resources were employed for research and development of operational software applications products. In view of the continuing depressed economy, the Board will continue its prudent approach in managing the financial resources of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 30 June 2003, the Group recorded a turnover of approximately HK\$1,469,000, representing a 30% increase from approximately HK\$1,131,000 for the same period in previous year. Of the turnover amount, financial instrument analysis software products and operational applications software products accounted for approximately HK\$258,000 or 18% and approximately HK\$1,211,000 or 82% respectively (2002: 23% and 77%).

At 30 June 2003, the Group had approximately HK\$1,770,000 worth of licencing contracts that were in progress. The Group recorded net loss of approximately HK\$2,123,000 for the three months ended 30 June 2003, representing a decrease of approximately 62% compared with last corresponding period.

Cost of sales for the three months ended 30 June 2003 decrease by approximately 22% to approximately HK\$672,000 mainly due to restructuring of financial data supplies and service provision. Advertising and promotion costs decreased by approximately 93% to approximately HK\$38,000 for the three months ended 30 June 2003 as no large scale marketing campaign was launched in the current period. Administrative expenses for the three months period ended 30 June 2003 decreased by approximately 45% to approximately HK\$2,960,000 mainly due to the implementation of the cost-control procedures during the period under review.

Financial Position

The Group had net assets of approximately HK\$3,662,000, including cash and bank balances of approximately HK\$2,506,000 as at 30 June 2003. The Group maintained a positive liquidity position with gearing ratio (defined as total liabilities over total assets) of 58% as at 30 June 2003 as compared to 30% as at 31 December 2002. Increase of gearing ratio mainly due to the issuance of convertible bond of HK\$3 million in April 2003. Finance costs of approximately HK\$38,000 represented interest expense incurred in the second quarter of 2003. The Group had no charge on group assets as at 30 June 2003.

All transactions of the Group were denominated in Hong Kong dollars, United States dollars, Great Britain Pounds, Chinese Yuan and Canadian dollars. 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

Revenue from membership subscription remained stable despite of continuing depressed economy while revenue from system services and maintenance has increased by approximately 35% for the three months ended 30 June 2003 period.

During the period under review, the Group has put in efforts to cut down operating cost by streamlined operation, restructured data supplies and service provision, modified promotion strategy by relying on business partner to market its product. The segmental result of financial instruments analysis products has slightly improved because of a lower cost of sales and advertising and promotion expenses during the current period.

The Group has entered into a distributorship agreement with ET Net Limited, a financial services provider, that ET Net Limited was appointed the marketing agent of certain ProSticks charts and services in Hong Kong and the PRC. The directors believe that it is a cost-effective way to penetrate the financial instruments analysis tool market of PRC by leveraging on ET Net Limited's client base and sales network in Hong Kong and the PRC. The Group also intends to further co-operate with ET Net Limited and a US based financial information provider with respect to distribution of a new ProSticks derivatives products namely ProSticks Intelligence in Hong Kong and the PRC.

Increase in revenue of operational software applications products mainly due to a new banking system licence was granted to a bank client and a new internet module of CORE FX Margin Trading System was granted to a securities house respectively in May 2003. In order to cope with the increasing demand of new operational systems from bank and financial institution clients, more resources (particularly research and development) were allocated to develop and implement new operational software applications products that led to a decrease of profit margin for this business segment in the first six months of 2003. However, the directors have confidence that the profit margin of this business segment will be restored upon completion of major product development and increase of system maintenance income in the future.

Employee and remuneration policy

The Group had 29 employees as at 30 June 2003 and total staff costs (excluding directors' emoluments of approximately HK\$1,471,000) was approximately HK\$2,737,000 for the first six months in 2003. It represented a decrease of approximately 12% as compared with corresponding period in 2002. There was no significant change in headcount, however, the average salary was decreased as a result of pay-cut 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 on-the-job training for staff. No share options have been granted to employees during the six months ended 30 June 2003.

As at 30 June 2003, 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 2003, the Group has no contingent liabilities provided for such purpose.

Outlook

Currently, the Group is preparing a marketing campaign in North America to promote the products and service of the US website (www.prosticks.com.us). The North America office has also liaised with a financial portal in North America in an attempt to market and distribute part of our services through its website to investors in North America. The directors believe that the co-operation will strengthen our presence in North America and the discussion will be finalized in the third quarter of 2003.

The Group is in an advance stage of discussion with an existing bank client for licencing of an enhanced operation system, which had embedded with new functions such as bonds and premium deposits management. The directors expect that the discussion shall finalize and bring in revenue to the Group in the forth quarter of 2003. The Group is also in discussion with a company for possible co-operation in promote and market the Group's operational application software products.

It is the Group's intention to focus its strength in research and development of new products with value-added features and to rely on business partners for sales and marketing of the Group's products and services. The Board believes that the strategy of creating synergy effect with business partners and leveraging on their extensive client base and sales network will help preserve the Group's financial resources for product development and business expansion in the future. Thus, the Group will continue searching for suitable business partners to promote and market its products and services.

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 2003. At 30 June 2003, the Group did not have any plan for material investments or acquisition of material capital assets.

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 and three months ended 30 June 2003.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2003, the interests and short positions of the directors or chief executive in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which are required (a) to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to section 352, to be entered in the register referred therein; or (c) which had to be notified to the Company and the Stock Exchange pursuant to Rule 5.40 to 5.49 of the GEM Listing Rules were as follows:

Long positions in shares

Name of directors	Number of shares held and nature of interests			Total percentage of shareholding
	Personal	Corporation	Total	
Mr. Li Ching Ping Vincent "Mr. Li" (Note 1)	—	90,479,242	90,479,242	21.54
Mr. James Yip	15,000,000	—	15,000,000	3.57
Mr. Chan Chee Ming Harris	15,000,000	—	15,000,000	3.57

Notes:

1. These shares are held by Great Power Associates Limited, a company wholly owned by Mr. Li.
2. Nominee shares in subsidiaries has been held by Mr. Li in trust for the Group as at 30 June 2003.

Save as disclosed above, as at 30 June 2003, none of the directors or chief executive has any interests or short position in shares, underlying shares or debentures of the Company and its associated corporation which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to section 352, to be entered in the register referred therein; or (c) which had to be notified to the Company and the Stock Exchange pursuant to Rule 5.40 to 5.49 of the GEM Listing Rules.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following persons (other than the directors or chief executive of the Company) had interests in the shares of the Company which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who has interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Long positions in shares

Name	Capacity	Number of shares	Percentage of issued share capital
Great Power Associates Limited (Note 1)	Beneficial owner	90,479,242	21.54
Mr. Li (Note 1)	Interest of a controlled corporation	90,479,242	21.54
Ms. Li Yuen Sze Mak (Note 2)	Family interest	90,479,242	21.54
Frankie Dominion International Limited	Beneficial owner	75,260,986	17.92
Mr. Lam Po Kwai "Mr. Lam" (Note 3)	Interest of a controlled corporation	75,260,986	17.92
Ms. Lee Yuen Bing (Note 4)	Family interest	75,260,986	17.92
New Dragon Ventures Limited (Note 5)	Beneficial owner	28,571,982	6.80
Mr. Goh Gen Cheung "Mr. Goh"	Interest of a controlled corporation	28,571,982	6.80
Ms. Poon Ay Chuen (Note 5)	Family interest	28,571,982	6.80

Notes:

1. Great Power Associates Limited is wholly owned by Mr. Li and the shareholding is duplicated in the directors' interests in shares disclosed above.
2. Ms. Li Yuen Sze Mak is the spouse of Mr. Li and is deemed to be interested in all 90,479,242 shares in which Mr. Li is interested under section 316 of the SFO.
3. Frankie Dominion International Limited is beneficially owned as to 44.2% by Mr. Lam. Accordingly, Mr. Lam is deemed to be interested in 75,260,986 shares owned by Frankie Dominion International Limited.
4. Ms. Lee Yuen Bing is the spouse of Mr. Lam and is deemed to be interested in all 75,260,986 shares in which Mr. Lam is interested under section 316 of the SFO.
5. New Dragon Ventures Limited is wholly owned by Mr. Goh. Ms. Poon Ay Chuen is the spouse of Mr. Goh and is deemed to be interested in all 28,571,982 shares in which Mr. Goh is interested under section 316 of the SFO.

Long positions in underlying shares

As at 30 June 2003, the following persons (other than the directors or chief executive of the Company) had interests in the underlying shares of equity derivatives (being convertible note) issued by the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Maximum number of underlying shares	Percentage of issued share capital
Rapid Falcon Limited	Beneficial owner	60,000,000	14.29
King Fook Finance Company Limited	Interest of a controlled corporation	60,000,000	14.29
Mr. Chow Lork Sang	Interest of a controlled corporation	60,000,000	14.29

Note: The Company has issued a convertible note of HK\$3 million to Rapid Falcon Limited in April 2003. Upon full conversion of the convertible note, Rapid Falcon Limited will hold 12.5% of the enlarged issued share capital of the Company. Rapid Falcon Limited is beneficially owned as to 61% by Mr. Chow Lork Sang and 39% by King Fook Finance Company Limited, a private corporation incorporated in Hong Kong. Accordingly, each of Mr. Chow Lork Sang and King Fook Finance Company Limited is deemed to be interested in the 60,000,000 underlying shares.

Save as disclosed above, as at 30 June 2003, the directors were not aware of any other persons (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who has interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' RIGHT TO ACQUIRE SHARE

Saved as disclosed above, as at 30 June 2003, none of the directors was granted options to subscribe for shares of the Company. As at 30 June 2003, none of the directors nor their spouses or children under the age of 18 had any right to acquire the shares in the Company or had exercised any such right during the period.

SHARE OPTION SCHEME

The Company has adopted a Pre-IPO share option scheme and a share option scheme on 24 November 2001. A summary of the principal terms and conditions of these option schemes are set out in the sections headed "Summary of terms of the Share Option Scheme" and "Summary of terms of the Pre-IPO Share Option Scheme" in Appendix IV of the prospectus of the Company. No option has been granted pursuant to the share option scheme during the period under review or outstanding as at 30 June 2003. No option has been and will be granted under the Pre-IPO share option scheme since listing of the Company's shares on GEM on 5 December 2001.

SUBSEQUENT EVENT

Under the share option scheme, share options entitling the holders to subscribe for an aggregate of 83,700,000 shares of the Company were granted between 4 July 2003 and 1 August 2003 to two executive directors, one consultant and 20 employees of the Group. The exercise price is HK\$0.021 per share and the relevant directors/consultant/employees are able to subscribe the shares during a period of ten years from the date of grant.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, REXCAPITAL (Hong Kong) Limited (the "Sponsor"), as at 30 June 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 Group's unaudited condensed consolidated financial statements for the six months and three months ended 30 June 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.

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, 8 August 2003