

ProSticks International Holdings Limited

乾坤燭國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

1st Quarterly Report
2004



+8.12	+1.36
+0.31	+2.31
+0.27	+2.39
+0.47	+5.75
+0.26	+2.33
+0.12	+1.12
-0.02	-0.21
0.01	



乾坤燭® PROSTICKS®

*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.

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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 FOR THE THREE MONTHS ENDED 31 MARCH 2004

- Turnover increased by about 36% over the previous corresponding period to approximately HK\$1,649,000.
- Loss attributable to shareholders recorded approximately HK\$2,679,000.
- Loss per share for the three months ended 31 March 2004 amounted to Hong Kong Cents 0.52.
- The Board of Directors (the “Board”) does not recommend the payment of a dividend for the three months ended 31 March 2004.

RESULTS

The board (the “Board”) of directors (the “Directors”) of ProSticks International Holdings Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2004, together with the comparative unaudited figures of the corresponding period in 2003, as follows:

		Unaudited Three months ended 31.3.2004 HK\$'000	Unaudited Three months ended 31.3.2003 HK\$'000
	<i>Note</i>		
Turnover	2	1,649	1,212
Cost of sales		<u>(763)</u>	<u>(777)</u>
Gross profit		886	435
Other revenue	2	2	7
Other income		11	40
Advertising and promotion expenses		(68)	(25)
Administrative expenses		<u>(3,462)</u>	<u>(4,037)</u>
Loss from operations		(2,631)	(3,580)
Finance costs		<u>(48)</u>	<u>–</u>
Net loss attributable to shareholders		<u>(2,679)</u>	<u>(3,580)</u>
Loss per share			
– Basic	4	<u>(0.52 cents)</u>	<u>(0.85 cents)</u>

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 2003.

The unaudited condensed consolidated financial statements for the three months ended 31 March 2004 have not been audited by the Company's auditors, 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 recognised by category are as follows:

	Unaudited three months ended 31.3.2004 HK\$'000	Unaudited three months ended 31.3.2003 HK\$'000
Membership subscription fees	376	255
System services and maintenance income	<u>1,273</u>	<u>957</u>
Turnover	<u>1,649</u>	<u>1,212</u>
Interest income	<u>2</u>	<u>7</u>
Other revenue	<u>2</u>	<u>7</u>
Revenue	<u><u>1,651</u></u>	<u><u>1,219</u></u>

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 (2003: nil).

4. Loss per share

The calculation of basic loss per share is based on the unaudited consolidated loss attributable to shareholders of HK\$2,679,000 (2003: loss of HK\$3,580,000) and the weighted average of 513,688,571 ordinary shares (2003: 420,000,000 shares) in issue during the periods.

No amounts have been presented for the diluted loss per share because the Pre-IPO share options, share options and convertible bond outstanding during the three months ended 31 March 2004 had an anti-dilutive effect on the basic loss per share for the period.

5. Dividend

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2004 (2003: 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 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	-	-	-	(3,610)	(3,610)
At 31 March 2003	<u>22,598</u>	<u>24,415</u>	<u>(22)</u>	<u>(45,375)</u>	<u>1,616</u>
At 1 January 2004	23,113	24,415	(135)	(53,581)	(6,188)
Issue of new shares	3,685	-	-	-	3,685
Exchange differences on translation of:					
- financial					
statements of overseas subsidiary	-	-	(151)	-	(151)
Net loss for the period	-	-	-	(2,679)	(2,679)
At 31 March 2004	<u>26,798</u>	<u>24,415</u>	<u>(286)</u>	<u>(56,260)</u>	<u>(5,333)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2004, the Group's turnover was approximately HK\$1,649,000, which represented an increase of approximately 36% over the previous corresponding period. Membership subscription income increased by approximately 47% while system enhancement and maintenance income increased by approximately 33% when compared with the previous corresponding period. Increase of income from membership subscription mainly attributable to provision of new services and appointment of distribution agent. Income from system enhancement and maintenance increased mainly due to continuous exploring of business opportunities within the bank industry and update of products.

There was no material change in cost of sales during the period under review. Advertising expenses remained minimal as no large scaled marketing or promotion campaign had been carried out during the first quarter of 2004. Administrative expenses decreased by approximately 14% as compared with the corresponding period in 2003, which is mainly attributable to successfully cost control procedures such as decrease in office rental expenses and professional expenses.

Financial Positions

As at 31 March 2004, 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.

BUSINESS REVIEW AND PROSPECTS

A new service named PRFX was officially launched to Hong Kong market in January 2004. PRFX is a financial instruments analysis service which provides intra-day signals and coupled with additional financial content provided by a world renowned financial data supplier. For North America and PRC markets, the management has discussed with a financial data provider in Canada for marketing the US website in North America and a PRC short message service provider in PRC regarding distribution of ProSticks services in the PRC.

In light of improvement of economic conditions, the Directors envisage the growing needs for innovative information technology solutions within the financial sectors. In order to further strengthen the Company's R&D capacity, the Company has discussed with a technology transfer company to co-develop or transfer technology. The Company has also expanded its R&D division by recruiting more technical staff to further enhance functionality of its products and services

During the first quarter of 2004, the Group has made solid progress in developing business relationship with potential customers. The management is in discussion with several new and existing clients in respect of licensing of new operational software or upgrade existing software systems. As the enhanced operational software of the Company can fully integrate back office operation and enhance operation efficiency of our potential clients, the Directors believe that the operational software will be well received by financial institutions and will contribute to revenue growth of the Group.

The Company had issued and allotted an aggregate of 183,400,000 new shares, representing approximately 28% of the enlarged issued share capital of the Company, to Investec Bank (UK) Limited upon completion of the share subscription agreement in March 2004. The Directors are of the view that the capital and shareholder base of the Group are strengthened by the new substantial shareholder.

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 2004.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2004, the interests and short positions of the directors or chief executive of the Company 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 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) pursuant to Rule 5.46 to 5.67 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" (<i>Note 1</i>)	–	90,479,242	90,479,242	13.88
Mr. James Yip "Mr. Yip"	15,000,000	–	15,000,000	2.30
Mr. Chan Chee Ming Harris "Mr. Chan"	15,000,000	–	15,000,000	2.30

Notes:

1. These shares are held by Great Power Associates Limited, a company wholly owned by Mr. Li.
2. Nominee shares in subsidiaries were held by a Director in trust for the Group as at 31 March 2004.

Short positions in shares

Name of director	Number of underlying Shares	Nature of interest	Total percentage of shareholding
Mr. Li	23,000,000	Corporation	3.53

Note: These shares are held by Great Power Associates Limited, a company wholly owned by Mr. Li. Great Power Associates Limited has entered into a contract on 2 December, 2003 to offer an option to an Independent Third Party to purchase up to 23,000,000 Shares at an exercise price of HK\$0.03 per Share with the exercise period of two years.

Save as disclosed above, as at 31 March 2004, none of the directors or chief executive of the Company has any interests or short position in shares, debentures or underlying shares of the Company and its associated corporations 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) pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, 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 interests 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
Investec Bank (UK) Limited	Beneficial owner	183,400,000	28.14
Great Power Associates Limited (Note 1)	Beneficial owner	90,479,242	13.88
Mr. Li (Note 1)	Interest of a controlled corporation	90,479,242	13.88
Ms. Li Yuen Sze Mak (Note 2)	Family interest	90,479,242	13.88
Frankie Dominion International Limited	Beneficial owner	75,260,986	11.55
Mr. Lam Po Kwai "Mr. Lam" (Note 3)	Interest of a controlled corporation	75,260,986	11.55
Ms. Lee Yuen Bing (Note 4)	Family interest	75,260,986	11.55
4Bio Signs Corporation	Beneficial owner	33,000,000	5.06

Name	Capacity	Number of shares	Percentage of issued share capital
Mr. Loh James "Mr. Loh"	Interest of a controlled corporation	33,000,000	5.06
Ms. Loh Cheung Yuk Pok Natalie (<i>Note 5</i>)	Family interest	33,000,000	5.06

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 in.
3. Frankie Dominion International Holdings Limited is beneficially owned as to 44.5% 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 in.
5. Ms. Loh Cheung Yuk Pok Natalie is the spouse of Mr. Loh and is deemed to be interested in all 33,000,000 shares in which Mr. Loh is interested in.

Long positions in underlying shares

As at 31 March 2004, 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	Number of shares	Percentage of issued share capital
Rapid Falcon Limited	Beneficial owner	60,000,000	9.21
King Fook Finance Company Limited	Interest of a controlled corporation	60,000,000	9.21
Mr. Chow Lork Sang	Interest of a controlled corporation	60,000,000	9.21

Note: The Company has issued a convertible bond of HK\$3 million to Rapid Falcon Limited in April 2003. 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.

Short positions in shares

Name	Capacity	Number of underlying shares	Percentage of issued share capital
Great Power Associates Limited <i>(Note 1)</i>	Corporation	23,000,000	3.53
Mr. Li <i>(Note 2)</i>	Interest of a controlled corporation	23,000,000	3.53
Ms. Li Yuen Sze Mak <i>(Note 3)</i>	Family interest	23,000,000	3.53

Notes:

1. Great Power Associates Limited has entered into a contract on 2 December, 2003 to offer an option to an independent third party to purchase up to 23,000,000 Shares at an exercise price of HK\$0.03 per share with the exercise period of two years.
2. Great Power Associates Limited is wholly owned by Mr. Li and the shareholding is duplicated in the directors' interests in shares disclosed above.
3. Ms. Li Yuen Sze Mak is the spouse of Mr. Li and is deemed to be interested in all shares in which Mr. Li is interested in.

Save as disclosed above, as at 31 March 2004, 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

During the period under review, no directors of the Company were granted share options to subscribe for the shares of the Company pursuant to the Share Option Scheme. Details of Directors' outstanding share options as at 31 March 2004 were as follows:

Directors	Date of grant	Number of share options			Option exercise period	Exercise price per share HK\$
		At 1 January 2004	Granted/ Exercised/ Cancelled during the period	At 31 March 2004		
Mr. Li	20/11/2003	24,000,000	0	24,000,000	20/11/2003-19/11/2013	0.021
Mr. Yip	20/11/2003	34,000,000	0	34,000,000	20/11/2003-19/11/2013	0.021
Mr. Chan	20/11/2003	10,000,000	0	10,000,000	20/11/2003-19/11/2013	0.021

Saved as disclosed above, 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.

CORPORATE GOVERNANCE

The Company has complied with Board Practices and Procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules since the listing of its share on GEM of the Stock Exchange on 5 December 2001.

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 consolidated financial statements for the three months ended 31 March 2004 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 2004