

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)

## 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 FOR THE SIX MONTHS AND THREE MONTHS ENDED 30 JUNE 2004

- Turnover for the six months and three months ended 30 June 2004 increased by approximately 18% and 2% respectively over the previous corresponding periods.
- Loss attributable to shareholders for the six months and three months ended 30 June 2004 amounted to HK\$6,007,000 and HK\$3,328,000 respectively.
- Loss per share for the six months and three months ended 30 June 2004 amounted to Hong Kong Cents 1.03 and 0.51 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 2004.

## RESULTS

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 2004, together with the comparative unaudited figures of the corresponding period in 2003, as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(Unaudited)		(Unaudited)	
		For the six months		For the three months	
		ended 30 June	ended 30 June	ended 30 June	ended 30 June
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>	2	<b>3,152</b>	2,681	<b>1,503</b>	1,469
Cost of sales		<b>(1,612)</b>	(1,449)	<b>(849)</b>	(672)
<b>Gross profit</b>		<b>1,540</b>	1,232	<b>654</b>	797
Other revenue	2	<b>3</b>	13	<b>1</b>	6
Other income		<b>42</b>	150	<b>31</b>	110
Advertising & promotion expenses		<b>(77)</b>	(63)	<b>(9)</b>	(38)
Administrative expenses		<b>(7,429)</b>	(6,997)	<b>(3,967)</b>	(2,960)
<b>Loss from operations</b>		<b>(5,921)</b>	(5,665)	<b>(3,290)</b>	(2,085)
Finance costs	4	<b>(86)</b>	(38)	<b>(38)</b>	(38)
<b>Loss from ordinary activities before taxation</b>	4	<b>(6,007)</b>	(5,703)	<b>(3,328)</b>	(2,123)
Taxation	5	<b>-</b>	-	<b>-</b>	-
<b>Net loss attributable to shareholders</b>		<b>(6,007)</b>	(5,703)	<b>(3,328)</b>	(2,123)
<b>Dividends</b>	6	<b>-</b>	-	<b>-</b>	-
<b>Loss per share</b>					
- Basic	7	<b>(1.03 cents)</b>	(1.36 cents)	<b>(0.51 cents)</b>	(0.51 cents)

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
	<i>Note</i>		
Non-current assets			
Plant and equipment		1,152	979
Intangible assets		—	—
		<u>1,152</u>	<u>979</u>
Current assets			
Inventories		32	32
Trade and other receivables	8	1,215	1,495
Cash and bank balances		3,900	1,349
		<u>5,147</u>	<u>2,876</u>
Current liabilities			
Trade and other payables	9	(2,257)	(2,375)
Short term loan	10	(3,000)	—
		<u>(5,257)</u>	<u>(2,375)</u>
Net current (liabilities)/assets		<u>(110)</u>	<u>501</u>
Total assets less current liabilities		<u>1,042</u>	<u>1,480</u>
Non-current liability			
Non-current interest bearing borrowings	11	(3,000)	(3,000)
NET LIABILITIES		<u>(1,958)</u>	<u>(1,520)</u>
CAPITAL AND RESERVE			
Issued capital		6,517	4,668
Reserves		(8,475)	(6,188)
		<u>(1,958)</u>	<u>(1,520)</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	(Unaudited) For the six months ended 30 June 2004 <i>HK\$'000</i>	(Audited) 2003 <i>HK\$'000</i>
Net cash outflow from operating activities	(5,497)	(7,706)
Net cash outflow from investing activities	(399)	(245)
Net cash outflow before financing activities	(5,896)	(7,951)
Net cash inflow from financing activities	8,447	2,962
Increase/(decrease) in cash and cash equivalents	2,551	(4,989)
Cash and cash equivalents at the beginning of period	1,349	7,495
Cash and cash equivalents at the end of period	<u>3,900</u>	<u>2,506</u>
Analysis of the balance of cash and cash equivalents:		
Cash and bank balances	<u>3,900</u>	<u>2,506</u>

## 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 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	<u>4,200</u>	<u>22,598</u>	<u>24,415</u>	<u>(83)</u>	<u>(47,468)</u>	<u>3,662</u>
As of 1 January 2004	4,668	23,113	24,415	(135)	(53,581)	(1,520)
Issue of new shares	1,849	3,685	–	–	–	5,534
Exchange differences on translation of:						
– financial statements of overseas subsidiary	–	–	–	35	–	35
Net loss for the period	–	–	–	–	(6,007)	(6,007)
As of 30 June 2004	<u>6,517</u>	<u>26,798</u>	<u>24,415</u>	<u>(100)</u>	<u>(59,588)</u>	<u>(1,958)</u>

## 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 2003.

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) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Membership subscription fees	772	513	396	258
System services and maintenance income	2,380	2,168	1,107	1,211
<b>Turnover</b>	<b>3,152</b>	<b>2,681</b>	<b>1,503</b>	<b>1,469</b>
Interest income	3	13	1	6
<b>Other revenue</b>	<b>3</b>	<b>13</b>	<b>1</b>	<b>6</b>
<b>Revenue</b>	<b>3,155</b>	<b>2,694</b>	<b>1,504</b>	<b>1,475</b>

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

## 3. Segment 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	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
<b>Revenue</b>						
Segment revenue	772	513	2,380	2,168	3,152	2,681
<b>Result</b>						
Segment result	(1,142)	(1,609)	(224)	994	(1,366)	(615)
Unallocated operating income and expenses					(4,555)	(5,050)
Loss from operations					(5,921)	(5,665)
Finance costs					(86)	(38)
Loss from ordinary activities before taxation					(6,007)	(5,703)
Taxation					-	-
Net loss attributable to shareholders					(6,007)	(5,703)



(b) *Secondary reporting format – geographical segments*

No geographical segment information is presented as during the six months ended 30 June 2004, 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. **Operation loss**

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
This is stated after charging:				
<i>(a) Finance costs</i>				
Interest on convertible note and short-term loan	<u>86</u>	<u>38</u>	<u>38</u>	<u>38</u>
<i>(b) Other items</i>				
Staff costs, excluding directors' emoluments	3,866	2,737	2,140	1,271
Cost of services provided	1,612	1,449	849	672
Auditors' remuneration	90	90	45	45
Depreciation of plant and equipment	222	246	116	122
Operating lease for premise	181	495	106	167
Operating lease for plant and equipment	<u>281</u>	<u>277</u>	<u>139</u>	<u>142</u>
	462	772	245	309
Write-off of plant and equipment	7	238	4	–
Research and development expenditure (included in administrative expenses)	<u>2,747</u>	<u>1,771</u>	<u>1,562</u>	<u>631</u>

5. **Taxation**

Hong Kong Profits Tax has not been provided as the Group has no assessable profit for the period (2003: nil).

6. **Dividend**

The directors do not recommend the payment of interim dividend for the six months and three months ended 30 June 2004 (2003: nil).

7. **Loss per share**

The calculation of basic loss per share for the six months and three months ended 30 June 2004 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$6,007,000 and HK\$3,328,000 respectively (six months and three months ended 30 June 2003: unaudited consolidated loss attributable to shareholders of approximately HK\$5,703,000 and HK\$2,123,000 respectively) and the weighted average of 582,694,286 and 651,700,000 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 six months ended 30 June 2004 had an anti-dilutive effect on the basic loss per share for the period.

#### 8. Trade and other receivables

	(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
<b>Trade receivables</b>		
From third parties	691	1,063
<b>Other receivables</b>		
Deposits, prepayments and other debtors	524	432
	<b>1,215</b>	<b>1,495</b>

Debts are due within 30 days from date of billing.

The ageing analysis of trade receivable of the group as at 30 June 2004 as follows:

	(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
Within 3 months	527	1,024
Over 3 months but less than 1 year	164	39
	<b>691</b>	<b>1,063</b>

#### 9. Trade and other payables

	(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
Other payables		
Receipts in advance		
– membership subscription fees	274	215
– system services and maintenance income	330	255
– others	2	2
Accrued charges and other creditors	1,651	1,903
	<b>2,257</b>	<b>2,375</b>

#### 10. Short-term loan

	(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
Short-term loan, unsecured	3,000	–

Unsecured short-term loan is repayable upon demand and bears interest at Hong Kong prime rate less 0.5% per annum.

**11. Non-current interest bearing borrowings**

	(Unaudited) 30 June 2004 <i>HK\$'000</i>	(Audited) 31 December 2003 <i>HK\$'000</i>
Convertible note, unsecured	<u>3,000</u>	<u>3,000</u>

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 an adjusted conversion price of HK\$0.0462 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS****FINANCIAL REVIEW**

For the six months ended 30 June 2004, the Group's turnover was approximately HK\$3,152,000, which represented an increase of approximately 18% over the previous corresponding period. Membership subscription income increased by approximately 50% while system services and maintenance income increased by approximately 10% when compared with the previous corresponding period. Revenue from membership and system services and maintenance accounted for approximately 24% and 76% respectively of the Group's total turnover in this six-month period (2003: 19% and 81%).

Cost of sales for the six months ended 30 June 2004 rose by approximately 11% mainly due to additional labor cost incurred for maintenance of bank operational systems. As several new maintenance contracts has started in current year, addition manpower was devoted to serve the increased number of clients accordingly.

There was no material change in advertising expenses during the period under review. Administrative expenses increased by approximately 6% as compared with the corresponding period in 2003, which was mainly attributable to increase of research and development ("R&D") headcount for development of new operational software systems. Excluding the increase of R&D expenditures, general administrative expenses has decreased by approximately HK\$544,000, which represented a decrease of approximately 8% compared with the previous corresponding period.

**Financial Positions**

The Group financed its operations primarily with internally generated cash flows together with the proceeds from the issue of 183,400,000 new shares in March 2004. The Group adhered to a prudent financial management policy. Unused financial resources will be placed in banks for interest.

As at 30 June 2004, the Group had current assets of approximately HK\$5,147,000, of which approximately HK\$3,900,000 were bank and cash balances. Total outstanding borrowings of HK\$6,000,000 comprised an unsecured short-term loan of HK\$3,000,000, which had been fully settled in July 2004, and unsecured convertible bond of HK\$3,000,000, which will mature in April 2005.

Gearing ratio defined as total liabilities over total assets was 131% as at 30 June 2004 (31 December 2003: 139%). As at 30 June 2004, the Company's total number of issued shares was 651,700,000 (31 December 2003: 466,800,000). During the period under review, finance costs of approximately HK\$86,000 represented interest expenses incurred on the unsecured convertible bonds which bears interest at a rate of 5% per annum and short-term loan which bears interest at Hong Kong prime rate less 0.5% per annum. The Group had no charge on group assets as at 30 June 2004.

During the period under review, 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

During the period under review, segment loss of financial instruments analysis software products has slightly reduced by approximately HK\$467,000, which was mainly due to increase in segment revenue of approximately HK\$259,000 and decrease in software development cost of approximately HK\$216,000. Increase in income and decrease in software development cost at the same time was attributed by completion of major product development in year 2003 and launching of new services in 2004.

The segment results of financial instruments analysis software products has gradually improved over the past years as a result of the management's efforts in rationalizing the marketing and costing strategies for this product segment.

Segment results of operational software applications products has decreased by approximately HK\$1,218,000 as compared with previous corresponding period. Turnover of this segment has increased by approximately HK\$212,000, however, software development cost of this segment has significant increased by approximately HK\$1,192,000 as compared with last corresponding period. Headcount of R&D team of this segment has increased from 9 to 25, expansion of R&D team is mainly for development of new software solutions for existing and potential clients. As at 30 June 2004, the Group has licence contracts in progress amounted to approximately HK\$1.8 million. The segment loss for this period was caused by delay of implementation of licencing systems. The management expected those systems will be completed later in this year and segment profits will be restored by the end of the year.

### **Employee and remuneration policy**

The Group had 40 employees (excluding directors) as at 30 June 2004 and total staff costs (excluding directors' emoluments of approximately HK\$1,574,000) was approximately HK\$3,866,000 for the first six months in 2004. It represented an increase of approximately 41% as compared with corresponding period in 2003, which was mainly due to an increase of R&D headcount 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. A total of 2,860,000 share options have been granted to employees during the six months ended 30 June 2004.

As at 30 June 2004, 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 2004, the Group has no contingent liabilities provided for such purpose.

### **Outlook**

The Group has started discussion with third parties regarding co-operation in product development. It is expected that the Group will co-operate with various business or strategic partners to co-develop, market and promote its products/services in the future as management believes it is a more cost-effective means to raise its reputation and product quality while keeping the cost low by creating synergy effect with business partners.

As the promotion and marketing strategy of the Group had been changed to rely on sales agents or strategic partners to promote business in the PRC, the management has decided to close the PRC representative office after careful considerations. Management believes the operating cost can be further lower in the second half of the year.

The Group is making solid progress in negotiation with two new overseas clients to licence for operational software systems, which is expected to be finalized in the third quarter of this year. The directors are confident that the effort in product R&D and pursuing of business opportunities shall bring fruitful results to the Group in the future. In addition to various cost control measures, it is expected that operation results will continue improve.

## **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 2004. At 30 June 2004, 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 2004.

## DIRECTORS' INTERESTS IN SHARES

As at 30 June 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 5.68 of the GEM Listing Rules were as follows:

### Long positions in shares

Name of directors	Number of shares held and nature of interests		Total	Total percentage of shareholding
	Personal	Corporation		
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:

- These shares are held by Great Power Associates Limited, a company wholly owned by Mr. Li.
- Nominee shares in subsidiaries were held by a Director in trust for the Group as at 30 June 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 30 June 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 5.68 of the GEM Listing Rules.

## INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 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 ( <i>Note 1</i> )	Beneficial owner	90,479,242	13.88
Mr. Li ( <i>Note 1</i> )	Interest of a controlled corporation	90,479,242	13.88
Ms. Li Yuen Sze Mak ( <i>Note 2</i> )	Family interest	90,479,242	13.88
Frankie Dominion International Limited	Beneficial owner	75,260,986	11.55
Mr. Lam Po Kwai "Mr. Lam" ( <i>Note 3</i> )	Interest of a controlled corporation	75,260,986	11.55
Ms. Lee Yuen Bing ( <i>Note 4</i> )	Family interest	75,260,986	11.55
4Bio Signs Corporation	Beneficial owner	33,000,000	5.06
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 30 June 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	64,935,065	9.96
King Fook Finance Company Limited	Interest of a controlled corporation	64,935,065	9.96
Mr. Chow Lork Sang	Interest of a controlled corporation	64,935,065	9.96

*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 64,935,065 underlying shares.



**Short positions in shares**

<b>Name</b>	<b>Capacity</b>	<b>Number of underlying shares</b>	<b>Percentage of issued share capital</b>
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 30 June 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 30 June 2004 were as follows:

Directors	Date of grant	Number of share options			Option period	Exercise price per share HK\$
		At 1 January 2004	Granted/ Exercised/ Cancelled during the period	At 30 June 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.

## SHARE OPTION SCHEME

### (a) Pre-IPO share option scheme

On 27 November 2001, a director of the Company was granted options to subscribe for 40,000,000 shares in the Company, and an ex-employee of the Group was granted options to subscribe for 4,000,000 shares in the Company. The director waived his right to subscribe for the 40,000,000 shares of the Company upon his resignation on 6 June 2002. The exercise price of the Pre-IPO share option is HK\$0.12 per share and exercise period is from 5 December 2001 to 4 December 2011.

No options under the Pre-IPO Share Option Scheme were exercised, cancelled or lapsed during the period under review. No option will be granted under the Pre-IPO share option scheme since listing of the Company's shares on GEM on 5 December 2001.

**(b) Share option scheme**

On 29 January 2004, a total of 4,060,000 options were granted to employees and consultants pursuant to the Company's share option scheme. The closing price of the share immediately preceding the date on which the options were granted (i.e. 28 January 2004) was HK\$0.04 per share.

During the period under review, a total of 1,500,000 options were exercised, of which 480,000 options and 1,020,000 options were exercised on 17 February 2004 and 5 March 2004 respectively. Closing prices of the shares immediately before the dates on which the options were exercised (i.e. 16 February 2004 and 4 March 2004) were HK\$0.068 and HK\$0.073 per share respectively.

Details of the share options are as follows:

Category of participant	Date of grant	Number of share options		Outstanding as at 30 June 2004	Option period	Exercise price per share HK\$
		As at 1 January 2004	Granted/ (Exercised) during the period			
Directors in aggregate (Note 1)	20/11/2003	68,000,000	0	68,000,000	20/11/2003-19/11/2013	0.021
Employees in aggregate	04/07/2003	29,700,000	(1,500,000)	28,200,000	04/07/2003-03/07/2013	0.021
Employees in aggregate	20/11/2003	25,000,000	0	25,000,000	20/11/2003-19/11/2013	0.021
Employees in aggregate	29/01/2004	0	2,860,000	2,860,000	29/01/2004-28/01/2014	0.050
Consultant	04/07/2003	4,200,000	0	4,200,000	04/07/2003-03/07/2013	0.021
Consultants in aggregate	29/01/2004	0	1,200,000	1,200,000	29/01/2004-28/01/2006	0.050
		<u>126,900,000</u>	<u>2,560,000</u>	<u>129,460,000</u>		

*Notes:*

1. Details of the share options granted to the directors of the Company pursuant to the share option scheme are set out in the section headed "Directors' right to acquire share" above.
2. None of the shares options granted and outstanding as at 1 January 2004 was cancelled or lapsed during the period under review.

The directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

## SUBSEQUENT EVENTS

The Company has entered into agreements on 3 August 2004 with two subscribers to issue convertible bonds at an aggregate amount of HK\$5 million. The details of the issue of convertible bonds are set out in the company's announcement dated 4 August 2004.

## 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.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2004, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## 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 six months and three months ended 30 June 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*

The Board as of the date of this report comprises of Mr. Li Ching Ping Vincent and Mr. Fung Yan Shun (who are executive directors of the Company); Mr. Chan Chee Ming Harris and Mr. Yip James (who are non-executive directors of the Company); and Mr. Ng Ge Bun and Mr. Wan Yiu Kwan Stephen (who are independent non-executive directors of the Company).

Hong Kong, 11 August 2004