

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)



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

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

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

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

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

This report, for which the directors of ProSticks International Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to ProSticks International Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS:

- Turnover for the nine months ended 30 September 2004 increased by approximately 29% over the previous corresponding period.
- Net loss attributable to shareholders increased by approximately 8% for the nine months ended 30 September 2004 as compared with the previous corresponding period.
- The Directors do not recommend payment of any dividend for the nine months ended 30 September 2004.

RESULTS (UNAUDITED)

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 nine months and three months ended 30 September 2004, together with the comparative unaudited figures of the corresponding periods in 2003, as follows:

| | <i>Note</i> | (Unaudited) | | (Unaudited) | |
|--|-------------|---|-----------------|--|-----------------|
| | | For the nine months ended 30 September | | For the three months ended 30 September | |
| | | 2004 | 2003 | 2004 | 2003 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 2 | 4,973 | 3,841 | 1,821 | 1,160 |
| Cost of sales | | (2,509) | (2,193) | (897) | (744) |
| Gross profit | | 2,464 | 1,648 | 924 | 416 |
| Other revenue | 2 | 4 | 15 | 1 | 2 |
| Other income | | 205 | 152 | 163 | 2 |
| Advertising & promotion expenses | | (190) | (131) | (113) | (68) |
| Administrative expenses | | (10,848) | (9,472) | (3,419) | (2,475) |
| Loss from operations | | (8,365) | (7,788) | (2,444) | (2,123) |
| Finance costs | | (148) | (75) | (62) | (37) |
| Loss from ordinary activities before taxation | | (8,513) | (7,863) | (2,506) | (2,160) |
| Taxation | 3 | - | - | - | - |
| Net loss attributable to shareholders | | (8,513) | (7,863) | (2,506) | (2,160) |
| Dividends | 5 | - | - | - | - |
| Loss per share | | | | | |
| - Basic | 4 | (1.41 cents) | (1.87 cents) | (0.38 cents) | (0.51 cents) |

NOTES

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and complied with accounting standards issued by Hong Kong Institute of Certified Public Accountants.

The basis of preparation and accounting policies adopted in the preparation of the 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 nine months and three months ended 30 September 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.

| | (Unaudited) For the nine months ended 30 September | | (Unaudited) For the three months ended 30 September | |
|--|--|------------------|---|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Membership subscription fee | 1,182 | 799 | 410 | 286 |
| System services and maintenance income | 3,791 | 3,042 | 1,411 | 874 |
| Turnover | 4,973 | 3,841 | 1,821 | 1,160 |
| Interest income | 4 | 15 | 1 | 2 |
| Other revenue | 4 | 15 | 1 | 2 |
| Revenue | 4,977 | 3,856 | 1,822 | 1,162 |

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 had no assessable profit for the period under review (2003: nil).

4. Loss per share

The calculation of basic loss per share for the nine months and three months ended 30 September 2004 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$8,513,000 and HK\$2,506,000 respectively (nine months and three months ended 30 September 2003: approximately HK\$7,863,000 and HK\$2,160,000 respectively) and the weighted average of 605,864,088 ordinary shares and 651,700,000 ordinary shares (nine months and three months ended 30 September 2003: 421,371,429 shares and 424,069,565 shares respectively) in issue during the nine months and three months ended 30 September 2004 respectively.

No amount has been presented for the diluted loss per share because the Pre-IPO share options, share options and convertible bonds outstanding during the nine months and three months ended 30 September 2004 had an anti-dilutive effect on the basic loss per share for the corresponding periods.

5. Dividend

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2004 (2003: nil).

6. Movements of reserves

| | Share premium <i>HK\$'000</i> | Capital reserve <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|---------------------------------------|--|--|--------------------------|
| At 1 January 2003 | 22,598 | 24,415 | – | (41,765) | 5,248 |
| Issue of shares | 515 | – | – | – | 515 |
| Exchange differences on translation of financial statements of overseas subsidiary | – | – | (77) | – | (77) |
| Net loss for the period | – | – | – | (7,863) | (7,863) |
| At 30 September 2003 | <u>23,113</u> | <u>24,415</u> | <u>(77)</u> | <u>(49,628)</u> | <u>(2,177)</u> |
| At 1 January 2004 | 23,113 | 24,415 | (135) | (53,581) | (6,188) |
| Issue of shares | 3,685 | – | – | – | 3,685 |
| Exchange differences on translation of financial statements of overseas subsidiary | – | – | (108) | – | (108) |
| Net loss for the period | – | – | – | (8,513) | (8,513) |
| At 30 September 2004 | <u>26,798</u> | <u>24,415</u> | <u>(243)</u> | <u>(62,094)</u> | <u>(11,124)</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 30 September 2004, the Group had a total turnover of approximately HK\$1,821,000, which represents an increase of approximately 57% over the previous corresponding period. When compared with the corresponding period in 2003, revenue from membership of ProSticks website increased substantially by approximately 43% while revenue from operational application software products increased by approximately 61% in 2004. Revenue from membership of ProSticks website and operational application software products accounted for approximately 22.5% and 77.5% respectively of the Group's total turnover for the three months ended 30 September 2004 (three months ended 30 September 2003: 24.6% and 75.4% respectively).

The Group's gross profit margin also recorded a significant growth to approximately 51% for the three months ended 30 September 2004 (three months ended 30 September 2003: 36%). The increase was attributable to the increase of revenue from operational application software products, which enjoyed a relatively higher profit margin.

As a result of the increases in finance costs, advertising and promotion expenses and staff remuneration, the Group's net loss attributable to shareholders increased by approximately 16%, when compared with the corresponding period of 2003, to HK\$2,506,000 during the three months ended 30 September 2004.

During the period under review, the Company issued two convertible bonds with aggregate amount of HK\$5.0 million to two investment funds, pursuant to which, the bondholders can exercise the conversion rights subject to the conditions of the convertible bonds at any time before 3 August 2006 to subscribe shares of the Company at an initial conversion price of HK\$0.05 per share, subject to adjustment(s), if any. As at 30 September 2004, the total outstanding interest-bearing loans of the Group amounted to approximately HK\$8 million, all of which were in the form of convertible bonds.

BUSINESS REVIEW

With the increased marketing and promotion effort of the sales agents, the number of members for subscription of services in ProSticks website had increased by approximately 9% during the three months ended 30 September 2004. As the major product development work for the financial instruments analysis software has been completed, the Directors expect that research and development costs will further decrease and thus the profitability of this business segment will be improved in the coming year. Meanwhile, the Group will also endeavor to explore new marketing channels for promoting the membership services and to seek opportunities for bundling services with other strategic partners.

Revenue from operational application software products for the three months ended 30 September 2004 increased by more than 60% when compared with the corresponding period in 2003. The increase in revenue was mainly attributable to the delivery of software and completion of certain contracts in progress. As at 30 September 2004, the outstanding contracts in progress amounted to approximately HK\$1.5 million.

In order to develop a new operational software solution for a potential customer, the research and development costs for operational application software products for the three months ended 30 September 2004 increased by approximately 135% when compared with the corresponding period in 2003. It is expected that the research and development costs will remain high in the fourth quarter of this year. However, the costs will be trimmed down after completing the core system development works.

OUTLOOK

With the track record of providing reliable and efficient operational application software for renowned financial institutions, the Group is competent in bidding operational software licensing contracts in the financial industry. The Group is currently finalizing the detailed terms of the licensing agreements with two foreign banks and a local bank for the provision of operational application software products. The Directors expect that the contracts will be signed in the fourth quarter of this year and the software products will be delivered to the clients in the first half of 2005.

In the last few months, the global economy has been gradually recovered from the economic downturn. The Group will make use of its core competencies to capture a larger market share in the financial software market. Although there are uncertainty factors that may affect the business environment of the Group, the Directors are optimistic about the performance and strength of the Group in the next 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 nine months ended 30 September 2004.

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 nine months ended 30 September 2004. As at 30 September 2004, the Group did not have any plan for material investments or acquisition of material capital assets.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2004, the interests and short positions of the Directors and 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 were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or which were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO; or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules"), were as follows:

Long positions in shares of the Company

| 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. Yip James ("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 were 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.

Share options

| Name of Directors | Date of grant | Number of share options | | | Exercise period | Exercise price per share HK\$ |
|-------------------|---------------|-------------------------|--|----------------------|-------------------------|----------------------------------|
| | | At 1 January 2004 | Granted/ Exercised/ Cancelled/ Lapsed during the period | At 30 September 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 |

Short positions in shares of the Company

| Name of Director | Nature of interest | Number of underlying Shares | Total percentage of shareholding |
|------------------------|--------------------------------------|-----------------------------|----------------------------------|
| Mr. Li (<i>Note</i>) | Interest of a controlled corporation | 23,000,000 | 3.53 |

Note: Great Power Associates Limited, a company wholly owned by Mr. Li, has written a call option to an independent third party, pursuant to which the option holder has the right to purchase from Great Power Associates Limited up to 23,000,000 shares of the Company at an exercise price of HK\$0.03 per share during the period of 2 years, commencing from 2 December 2003.

Save as disclosed above, as at 30 September 2004, none of the Directors or chief executive of the Company had any interests or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or which was required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO; or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, so far as known to any Director or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

| Name of shareholders | Capacity | No. of issued ordinary shares held | Percentage of issued share capital |
|--|--------------------------------------|------------------------------------|------------------------------------|
| Investec Bank (UK) Limited | Beneficial owner | 183,400,000 | 28.14 |
| Great Power Associates Limited | Beneficial owner | 90,479,242 | 13.88 |
| Ms. Li Yuen Sze Mak ("Mrs. Li") (Note 1) | 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 2) | Interest of a controlled corporation | 75,260,986 | 11.55 |
| Ms. Lee Yuen Bing (Mrs. Lam") (Note 2) | Family interest | 75,260,986 | 11.55 |
| 4Bio Signs Corporation | Beneficial owner | 33,000,000 | 5.06 |
| Mr. Loh James "Mr. Loh" (Note 3) | Interest of a controlled corporation | 33,000,000 | 5.06 |
| Ms. Loh Cheung Yuk Pok Natalie ("Mrs. Loh") (Note 3) | Family interest | 33,000,000 | 5.06 |

Notes:

1. Great Power Associates Limited is wholly owned by Mr. Li. Accordingly, each of Mr. Li and Mrs. Li, the spouse of Mr. Li, was deemed to be interested in 90,479,242 shares of the Company.
2. Frankie Dominion International Limited is beneficially owned as to 44.2% by Mr. Lam. Accordingly, each of Mr. Lam and Mrs. Lam, the spouse of Mr. Lam, was deemed to be interested in 75,260,986 shares of the Company.
3. 4Bio Signs Corporation is wholly owned by Mr. Loh. Accordingly, each of Mr. Loh and Mrs. Loh, the spouse of Mr. Loh, was deemed to be interested in 33,000,000 shares of the Company.

Long positions in underlying shares of the Company

| Name of shareholders | Capacity | No. of issued ordinary shares held | Percentage of issued share capital |
|---|--------------------------------------|---|---|
| Rapid Falcon Limited (<i>Note 1</i>) | Beneficial owner | 64,935,065 | 9.96 |
| King Fook Finance Company Limited (<i>Note 2</i>) | Interest of a controlled corporation | 64,935,065 | 9.96 |
| Mr. Chow Lork Sang (<i>Note 2</i>) | Interest of a controlled corporation | 64,935,065 | 9.96 |
| JL Strategic Fund (<i>Note 3</i>) | Beneficial owner | 50,000,000 | 7.67 |
| Swordfish Holdings Limited (<i>Note 4</i>) | Beneficial owner | 50,000,000 | 7.67 |
| JL Capital Pte. Ltd (<i>Note 5</i>) | Investment manager | 100,000,000 | 15.34 |
| Mr. Loh (<i>Note 6</i>) | Interest of a controlled corporation | 100,000,000 | 15.34 |
| Mrs. Loh (<i>Note 6</i>) | Interest of a controlled corporation | 100,000,000 | 15.34 |

Notes:

1. The Company issued a convertible bond of HK\$3 million to Rapid Falcon Limited in April 2003. Upon full conversion of the convertible bond, Rapid Falcon Limited will be entitled to 64,935,065 shares of the Company.
2. 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 was deemed to be interested in the 64,935,065 underlying shares of the Company.
3. The Company issued a convertible bond of HK\$2.5 million to JL Strategic Fund in August 2004. Upon full conversion of the convertible bond, JL Strategic Fund will be entitled to 50,000,000 shares of the Company.
4. The Company issued a convertible bond of HK\$2.5 million to Swordfish Holdings Limited in August 2004. Upon full conversion of the convertible bond, Swordfish Holdings Limited will be entitled to 50,000,000 shares of the Company.
5. JL Capital Pte. Ltd is the investment manager of JL Strategic Fund and Swordfish Holdings Limited and is thus deemed to be interested in 100,000,000 underlying shares of the Company.
6. Mr. Loh holds 99% interest in JL Capital Pte. Ltd.. Therefore, each of Mr. Loh and Mrs. Loh, the spouse of Mr. Loh, was deemed to be interested in 100,000,000 underlying shares of the Company.

Short positions in shares of the Company

| Name | Capacity | Number of underlying shares | Percentage of issued share capital |
|--|------------------|------------------------------------|---|
| Great Power Associates Limited (<i>Note 1</i>) | Beneficial owner | 23,000,000 | 3.53 |
| Mrs. Li (<i>Note 2</i>) | Family interest | 23,000,000 | 3.53 |

Notes:

1. Great Power Associates Limited, a company wholly owned by Mr. Li, has written a call option to an independent third party, pursuant to which the option holder has the right to purchase from Great Power Associates Limited up to 23,000,000 shares of the Company at an exercise price of HK\$0.03 per share during the period of 2 years, commencing from 2 December 2003.
2. Great Power Associates Limited is wholly owned by Mr. Li. Accordingly, each of Mr. Li and Mrs. Li, the spouse of Mr. Li, was deemed to be interested in the short positions of 23,000,000 shares of the Company.

Save as disclosed above, as at 30 September 2004, the Directors were not aware of any other persons (other than the Directors or chief executive of the Company) who had an interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

CORPORATE GOVERNANCE

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

COMPETING INTERESTS

During the period under review, none of the Directors nor the management shareholders of the Company had any interest in business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2004, the Company had 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 had 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. As at 30 September 2004, the committee comprises three independent non-executive Directors, namely Mr. Ng Ge Bun, Mr. Wan Yiu Kwan Stephen and Mr. Lee Kar Wai.

The Group's consolidated financial statements for the nine months and three months ended 30 September 2004 have been reviewed by the audit committee, which is of the opinion that such statements were complied with the applicable accounting standards and 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 Mr. Li Ching Ping Vincent and Mr. Fung Yan Shun as executive Directors, Mr. Chan Chee Ming Harris and Mr. Yip James as non-executive Directors, Mr. Ng Ge Bun, Mr. Wan Yiu Kwan Stephen and Mr. Lee Kar Wai as independent non-executive Directors.

Hong Kong, 10 November 2004