

1st Quarterly Report
2005



乾坤燭[®]
PROSTICKS[®]

ProSticks International Holdings Limited

(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 increased by more than 115% to approximately HK\$3,554,000.
- Net loss attributable to shareholders decreased by approximately 76% to approximately HK\$632,000.
- The Directors do not recommend payment of any dividend for the three months ended 31 March 2005.

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 three months ended 31 March 2005, together with the comparative unaudited figures of the corresponding period in 2004, as follows:

	Note	For the three months ended 31 March	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	3,554	1,649
Cost of sales		(803)	(763)
Gross profit		2,751	886
Other revenue	2	1	13
Advertising & promotion expenses		(17)	(68)
Administrative expenses		(3,273)	(3,462)
Loss from operations		(538)	(2,631)
Finance costs		(94)	(48)
Loss before taxation		(632)	(2,679)
Taxation	3	-	-
Net loss attributable to shareholders		(632)	(2,679)
Loss per share			
- Basic	4	(0.10 cents)	(0.52 cents)

Notes:

1. Basis of preparation

The accounts have been prepared in accordance with the 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 2004.

The unaudited condensed consolidated financial statements for the three months ended 31 March 2005 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.

	For the three months ended 31 March	
	2005 HK\$'000	2004 HK\$'000
Turnover		
Membership subscription fee	402	376
System services and maintenance income	3,152	1,273
	3,554	1,649
Other Revenue		
Interest income	–	2
Exchange loss	(3)	–
Others	4	11
	1	13

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 (2004: nil).

4. Loss per share

The calculation of basic loss per share for the three months ended 31 March 2005 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$632,000 (2004: loss of HK\$2,679,000) and the weighted average of 651,700,000 ordinary shares (2004: 513,688,571 shares) in issue during the period.

The diluted loss per share is not presented because the Pre-IPO share options, share options and convertible bonds outstanding during the three months ended 31 March 2005 had an anti-dilutive effect on the basic loss per share for the period.

5. Dividend

The Directors do not recommend payment of any dividend for the three months ended 31 March 2005 (2004: 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 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 an overseas subsidiary	-	-	(151)	-	(151)
Net loss for the period	-	-	-	(2,679)	(2,679)
At 31 March 2004	26,798	24,415	(286)	(56,260)	(5,333)
At 1 January 2005	26,798	24,415	(359)	(63,042)	(12,188)
Issue of shares	-	-	-	-	-
Exchange differences on translation of financial statements of an overseas subsidiary	-	-	2	-	2
Net loss for the period	-	-	-	(632)	(632)
At 31 March 2005	26,798	24,415	(357)	(63,674)	(12,818)

7. Comparative figures

To conform to the current period's presentation, the comparative figure of "other income" of approximately HK\$11,000 was reclassified as "other revenue". Such reclassification has no effect on the results for the period under review or the corresponding period of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 31 March 2005, the Group had a total turnover of approximately HK\$3,554,000, which represents an increase of approximately 116% over the previous corresponding period. When compared with last year, revenue for financial instruments analysis software products had only a slight increase of approximately 7% while revenue for operational application software products had a substantial growth of approximately 148% for the three months ended 31 March 2005.

The Group's gross profit margin for the three months ended 31 March 2005 soared to approximately HK\$2,751,000 from approximately HK\$886,000 in the corresponding period in 2004 and the net loss attributable to shareholders plunged from approximately HK\$2,679,000 to approximately HK\$632,000, which represents a descent of over 76%.

For the period under review, the advertising and promotional expenses decreased by approximately 75% to approximately HK\$17,000. With the implementation of more stringent cost control measures, the total administrative expenses decreased slightly by 5% to approximately HK\$3,273,000 albeit there were substantial increases in traveling and hotel accommodation expenses and product development fee. There was a substantial increase in traveling and hotel accommodation expenses because relevant staff was sent overseas for system implementation for overseas clients. The increases in such expenses were offset by the decreases in staff costs, legal and professional fees and various office administrative expenses.

The finance cost of the Group for the three months ended 31 March 2005 was almost twice as much as that for the corresponding period in 2004. The increase in finance cost was due to the issuance of two convertible bonds with aggregate amount of HK\$5.0 million in September 2004. As at 31 March 2005, the total outstanding interest-bearing loans of the Group amounted to approximately HK\$8 million.

Business Review

During the period under review, the Group focused on developing the business of operational applications software products. As a result, exceptional growth in revenue for the sector of operational application software products was recorded and there was a significant change in the Group's revenue mix. The revenue for operational application software products accounted for approximately 89% of the Group's total turnover (2004: 77%) while the proportion of revenue for financial instruments analysis software products shrank to 11% (2004: 23%).

The number of subscribers for ProSticks website remained stable in the period under review. In order to increase the customer base of ProSticks website, free subscription for the service of "ProSticks 930" has been offered for registered members since January 2005. Management of the Group considers that the offering of complimentary service may stimulate the registrants to subscribe for other fee-based services.

For the sector of operational application software products, all contracts on hand progressed smoothly. Customers are generally contented with the quality of our systems. The research and development for new products also progressed on schedule. Subsequent to the period under review, the Group signed several new system licensing contracts with customers. The systems are expected to be delivered progressively to the customers in the 3rd and 4th quarters of the year.

OUTLOOK

The management expects that the business of financial instruments analysis software will remain stable in the near future. On the other hand, the business of operational applications software products is expected to have a promising growth in this year. Therefore, operational applications software products will remain as the major development focus of the Group for the rest of the year.

The Group had a good start in 2005 by achieving an improved results in the first quarter. Management expects that the Group will be able to further improve its performance in the coming quarters.

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 2005.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2005, 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 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 pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules") to be notified to the Company and the Stock Exchange, 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") (Note 1)	–	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:

- These shares were 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.

Short position in shares of the Company

Name of Director	Nature of interest	Number of underlying shares	Total percentage of shareholding
Mr. Li	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.

Share options

Name of Directors	Date of grant	Number of share options			Exercise period	Exercise price per share HK\$
		At 1 January 2005	Granted/Exercised/ Cancelled/Lapsed during the period	At 31 March 2005		
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	02/12/2003	10,000,000	0	10,000,000	02/12/2003 – 01/12/2013	0.021

Save as disclosed above, as at 31 March 2005, none of the Directors or chief executive of the Company had any interest or short position in the 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 pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, 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 and 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 September 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 September 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 was 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 position of 23,000,000 shares of the Company.

Save as disclosed above, as at 31 March 2005, 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 and 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.

COMPETING INTERESTS

During the period under review, none of the Directors nor any substantial shareholders of the Company and their respective associates 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 since 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 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 three months ended 31 March 2005 have been reviewed by the audit committee, which was of the opinion that such statements have complied with the applicable accounting standards and that adequate disclosures have been made.

By order of the Board
ProSticks International Holdings Limited
Li Ching Ping Vincent
Chairman

Hong Kong, 9 May 2005

The Board as of the date of this report comprises Mr. Li Ching Ping Vincent and Mr. Fung Yan Shun as executive Directors, Mr. Ng Ge Bun, Mr. Wan Yiu Kwan Stephen and Mr. Lee Kar Wai as independent non-executive Directors.