

乾坤燭<sup>®</sup> PROSTICKS<sup>®</sup>

**PROSTICKS INTERNATIONAL HOLDINGS LIMITED**

(Incorporated in Cayman Islands with limited liability)

Stock Code : 8055

Interim Report 2006

## **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. Listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website 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 (the “Company”) 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 for the purpose of giving information with regard to the Company. 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.*

## INTERIM RESULTS

The board (the “Board”) of directors (“Directors”) of ProSticks International Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months and three months ended 30 June 2006, together with the comparative unaudited figures of the corresponding periods in 2005, as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Continuing Operations</b>					
<b>Turnover</b>	2	<b>2,835</b>	4,800	<b>1,566</b>	2,330
Cost of sales		(491)	(450)	(203)	(207)
Gross profit		<b>2,344</b>	4,350	<b>1,363</b>	2,123
Other revenue	2	<b>257</b>	41	<b>246</b>	41
Advertising & promotion expenses		(3)	(2)	(2)	(1)
Administrative expenses		(3,943)	(4,853)	(1,890)	(2,277)
<b>Loss from operations</b>		<b>(1,345)</b>	(464)	<b>(283)</b>	(114)
Finance costs		(394)	(208)	(163)	(114)
Gain on novation of loan	3	<b>3,000</b>	—	<b>3,000</b>	—
<b>Profit/(Loss) before taxation</b>	6	<b>1,261</b>	(672)	<b>2,554</b>	(228)
Taxation	7	—	—	—	—

	Note	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Profit/(Loss) for the period from continuing operations</b>		<b>1,261</b>	(672)	<b>2,554</b>	(228)
<b>Discontinued Operation</b>					
Profit/(Loss) for the period from discontinued operation		<u>322</u>	<u>(703)</u>	<u>796</u>	<u>(515)</u>
<b>Profit/(Loss) for the period attributable to shareholders</b>		<b><u>1,583</u></b>	<u>(1,375)</u>	<b><u>3,350</u></b>	<u>(743)</u>
<b>Dividend</b>	8	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Basic earnings/(loss) per share</b>	9				
— from continuing operations		<u>0.24 cents</u>	(0.10) cents	<u>0.65 cents</u>	(0.03) cents
— from discontinued operation		<u>0.06 cents</u>	<u>(0.11) cents</u>	<u>0.20 cents</u>	<u>(0.08) cents</u>
		<b><u>0.30 cents</u></b>	<u>(0.21) cents</u>	<b><u>0.85 cents</u></b>	<u>(0.11) cents</u>
<b>Diluted earnings/(loss) per share</b>	9				
— from continuing operations		<u>0.17 cents</u>	N/A	<u>0.47 cents</u>	N/A
— from discontinued operation		<u>0.04 cents</u>	N/A	<u>0.15 cents</u>	N/A
		<b><u>0.21 cents</u></b>		<b><u>0.62 cents</u></b>	

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 June 2006 HK\$'000	(Audited) 31 December 2005 HK\$'000
	<i>Note</i>		
<b>Non-current assets</b>			
Plant and equipment		83	478
		<u>83</u>	<u>478</u>
<b>Current assets</b>			
Trade and other receivables	10	492	1,855
Cash and bank balances		5,865	1,319
		<u>6,357</u>	<u>3,174</u>
<b>Current liabilities</b>			
Other payables	11	(1,412)	(3,142)
Amount due to directors		(250)	(153)
Interest bearing borrowings	12	(4,973)	(4,890)
		<u>(6,635)</u>	<u>(8,185)</u>
<b>Net current liabilities</b>		<u>(278)</u>	<u>(5,011)</u>
<b>Total assets less current liabilities</b>		<u>(195)</u>	<u>(4,533)</u>
<b>Non-current liabilities</b>			
Interest bearing borrowings	12	—	(4,938)
<b>NET LIABILITIES</b>		<u>(195)</u>	<u>(9,471)</u>
<b>CAPITAL AND RESERVE</b>			
Share capital		14,517	6,517
Reserves		(14,712)	(15,988)
<b>TOTAL EQUITY</b>		<u>(195)</u>	<u>(9,471)</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	(Unaudited) For the six months ended 30 June	(Unaudited) 2005 HK\$'000
	2006 HK\$'000	
<b>Net cash inflow/(outflow) from operating activities of:</b>		
— continuing operations	(1,540)	(272)
— discontinued operation	(828)	719
Net cash inflow/(outflow) from operating activities	(2,368)	447
<b>Net cash inflow/(outflow) from investing activities of:</b>		
— continuing operations	(391)	(59)
— discontinued operation	1	(1)
Net cash outflow from investing activities	(390)	(60)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>7,529</b>	<b>(208)</b>
<b>Increase in cash and cash equivalents</b>	<b>4,771</b>	<b>179</b>
Cash and cash equivalents at the beginning of period	1,319	1,023
Effect of exchange rate changes	(225)	56
<b>Cash and cash equivalents at the end of period</b>	<b>5,865</b>	<b>1,258</b>
Analysis of the balance of cash and cash equivalents:		
Cash and bank balances	5,865	1,258

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share-based payment reserve HK\$'000	Capital reserve HK\$'000	Convertible bonds — equity component HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	
<b>As of 1 January 2005</b> <b>(restated)</b>	<b>6,517</b>	<b>26,798</b>	<b>873</b>	<b>24,415</b>	<b>481</b>	<b>(359)</b>	<b>(64,107)</b>	<b>(5,382)</b>
Net loss for the period	—	—	—	—	—	—	(1,375)	(1,375)
Redemption of a convertible bond	—	—	—	—	(163)	—	163	—
Exchange differences on translation of the financial statements of an overseas subsidiary	—	—	—	—	—	56	—	56
<b>As of 30 June 2005</b>	<b>6,517</b>	<b>26,798</b>	<b>873</b>	<b>24,415</b>	<b>318</b>	<b>(303)</b>	<b>(65,319)</b>	<b>(6,701)</b>
<b>As of 1 January 2006</b> <b>(restated)</b>	<b>6,517</b>	<b>26,798</b>	<b>530</b>	<b>24,415</b>	<b>399</b>	<b>(473)</b>	<b>(67,657)</b>	<b>(9,471)</b>
Net profit for the period	—	—	—	—	—	—	1,583	1,583
Issue of new shares	8,000	—	—	—	—	—	—	8,000
Redemption of convertible bonds	—	—	—	—	(82)	—	—	(82)
Exchange differences on translation of the financial statements of an overseas subsidiary	—	—	—	—	—	(225)	—	(225)
<b>As of 30 June 2006</b>	<b>14,517</b>	<b>26,798</b>	<b>530</b>	<b>24,415</b>	<b>317</b>	<b>(698)</b>	<b>(66,074)</b>	<b>(195)</b>

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and complied with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable 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 unaudited condensed consolidated interim financial statements have not been audited by external auditors, but have been reviewed by the Company’s audit committee.

The financial statements are prepared under the historical cost convention. The accounting principles used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2005.

## 2. TURNOVER AND OTHER REVENUE

The Group is principally engaged in the development, production and distribution of financial instruments analysis software and operational software application products. Turnover and other revenue of the continuing operations recognized by category are as follows:

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 30 June</b>		<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 June</b>	
	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
<b>Turnover</b>				
Membership				
subscription fees	<b>51</b>	54	<b>23</b>	37
System services and				
maintenance income	<b>2,784</b>	4,746	<b>1,543</b>	2,293
	<b>2,835</b>	4,800	<b>1,566</b>	2,330
<b>Other Revenue</b>				
Interest income	<b>20</b>	1	<b>19</b>	—
Exchange gain	<b>224</b>	—	<b>226</b>	—
Others	<b>13</b>	40	<b>1</b>	41
	<b>257</b>	41	<b>246</b>	41



### 3. GAIN ON NOVATION OF LOAN

The amount represents the gain arising from the novation of an unsecured loan of HK\$3,000,000 owed by the Company. Please refer to note 12 for further details.

### 4. SEGMENT INFORMATION

#### (a) Primary reporting format — business segments

The Group is principally divided into two business operating divisions — financial instruments analysis software and operational software application products. These divisions are the basis on which the Group reports its primary segment information.

In May 2006, the Group disposed of one of its major subsidiaries, which was mainly engaged in the development, production and distribution of financial instruments analysis software products, to a third party independent of the Group. The operation of such subsidiary was discontinued by the Group on 1 June 2006 (see note 5).

The segment information about the continuing businesses is presented below:

	Financial instruments analysis software products For the six months ended 30 June		Operational software application products For the six months ended 30 June		Total for continuing operations For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Revenue</b>						
Segment revenue	<u>51</u>	<u>54</u>	<u>2,784</u>	<u>4,746</u>	<u>2,835</u>	<u>4,800</u>
<b>Result</b>						
Segment result	<u>(219)</u>	<u>(495)</u>	<u>953</u>	<u>2,614</u>	<u>734</u>	<u>2,119</u>
Unallocated operating income and expenses					<u>(2,079)</u>	<u>(2,583)</u>
Profit/(Loss) from operations					<u>(1,345)</u>	<u>(464)</u>
Finance costs					<u>(394)</u>	<u>(208)</u>
Gain on novation of loan					<u>3,000</u>	<u>—</u>
Profit/(Loss) before taxation					<u>1,261</u>	<u>(672)</u>
Taxation					<u>—</u>	<u>—</u>
Net profit/(loss) attributable to shareholders					<u>1,261</u>	<u>(672)</u>

**(b) Secondary reporting format — geographical segments**

The Group's operations are principally located in Hong Kong throughout the period. Therefore, no analyses by geographical segments are provided.

**5. DISCONTINUED OPERATION**

On 27 March 2006, the Group entered into a sale and purchase agreement to dispose of a subsidiary, ProSticks.com Limited, which carried out a substantial part of the Group's operation of financial instruments analysis software products. The subsidiary has sustained net losses in the past consecutive years and the disposal was effected in order to relieve the Group from continuous losses and cash outflow. The disposal was completed on 31 May 2006, on which date control of ProSticks.com Limited passed to the purchaser.

The profit for the six months ended 30 June 2006 from the discontinued operation is analyzed as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Loss of operation for the period	<b>(832)</b>	(703)
Gain on disposal of a subsidiary	<b>1,154</b>	—
	<b>322</b>	<b>(703)</b>

The results of the discontinued operation for the periods from 1 January 2006 to 31 May 2006 and from 1 January 2005 to 30 June 2005, which have been included in the consolidated income statement, were as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Revenue	<b>1,155</b>	1,702
Cost of sales	<b>(642)</b>	(1,004)
Other income	<b>4</b>	11
Advertising & promotion expenses	<b>(62)</b>	(116)
Administrative expenses	<b>(1,287)</b>	(1,296)
Loss before tax	<b>(832)</b>	(703)
Taxation	<b>—</b>	—
Loss for the period	<b>(832)</b>	<b>(703)</b>

The net assets of ProSticks.com Limited at the date of disposal and at 31 December 2005 were as follows:

	<b>As at 31 May 2006 HK\$'000</b>	As at 31 December 2005 <i>HK\$'000</i>
Plant and equipment	<b>324</b>	383
Trade receivable and other receivables	<b>629</b>	690
Cash and cash equivalents	<b>410</b>	1,237
Other payables	<b>(517)</b>	(632)
Net assets	<b><u>846</u></b>	<u>1,678</u>
Net assets disposed of	<b>(846)</b>	
Total consideration	<b><u>2,000</u></b>	
Gain on disposal of the subsidiary	<b><u>1,154</u></b>	

During the six months ended 30 June 2006, ProSticks.com Limited contributed net cash outflow of approximately HK\$828,000 (2005: net cash inflow of HK\$719,000) in respect of operating activities and net cash inflow of approximately HK\$1,000 (2005: net cash outflow of HK\$1,000) in respect of investing activities.

**6. PROFIT/(LOSS) BEFORE TAXATION**

	Continuing Operations		Discontinued Operation		Continuing Operations		Discontinued Operation	
	For the six months ended 30 June				For the three months ended 30 June			
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
This is stated after charging:								
<b>(a) Finance costs</b>								
Interest on convertible bonds and unsecured loan	<u>394</u>	208	<u>—</u>	<u>—</u>	<u>163</u>	114	<u>—</u>	<u>—</u>
<b>(b) Other items</b>								
Staff costs, including directors' emoluments	<u>3,265</u>	3,874	<u>773</u>	758	<u>1,513</u>	1,821	<u>275</u>	366
Auditors' remuneration	<u>120</u>	99	<u>—</u>	<u>—</u>	<u>60</u>	53	<u>—</u>	<u>—</u>
Depreciation of plant and equipment	<u>11</u>	7	<u>60</u>	190	<u>6</u>	4	<u>20</u>	75
Operating lease for premises	<u>—</u>	32	<u>199</u>	174	<u>—</u>	16	<u>98</u>	86
Operating lease for plant and equipment	<u>—</u>	<u>—</u>	<u>79</u>	189	<u>—</u>	<u>—</u>	<u>32</u>	53
Research and development expenditure (included in staff costs)	<u>1,338</u>	1,736	<u>346</u>	403	<u>489</u>	811	<u>145</u>	195

**7. TAXATION**

Hong Kong Profits Tax has not been provided as the Group has no assessable profit for the period (2005: nil).

**8. DIVIDEND**

The Directors do not recommend payment of interim dividend for the six months ended 30 June 2006 (2005: nil).

## 9. EARNINGS/(LOSS) PER SHARE

### (a) From continuing operations

The calculation of the basic and diluted earnings/(loss) per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	For the six months ended 30 June		For the three months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit/(loss) for the period attributable to equity holders of the Company	1,583	(1,375)	3,350	(743)
Less: Profit/(loss) for the period from discontinued operation	322	(703)	796	(515)
Profit/(loss) from continuing operations for the purposes of basic and diluted earnings/loss per share	1,261	(672)	2,554	(228)
Weighted average number of ordinary shares for the purpose of basic earnings/loss per share	521,789,227	651,700,000	393,306,044	651,700,000
Weighted average number of ordinary shares for the purpose of diluted earnings/loss per share	729,362,510	N/A	539,120,722	N/A

Diluted loss per share from continuing operations for the six months and three months ended 30 June 2005 are not presented because the exercise of the Company's outstanding convertible bonds and options would have an anti-dilutive impact.

**(b) From discontinued operation**

The calculation of the basic and diluted earnings/(loss) per share from discontinued operation attributable to the ordinary equity holders of the Company is based on the following data:

	For the six months ended 30 June		For the three months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit/(Loss) for the period from discontinued operation for the purposes of basic and diluted earnings/(loss) per share	<b>322</b>	(703)	<b>796</b>	(515)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<b>521,789,227</b>	651,700,000	<b>393,306,044</b>	651,700,000
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<b>729,362,510</b>	N/A	<b>539,120,722</b>	N/A

Diluted loss per share from discontinued operation for the six months and three months ended 30 June 2005 are not presented because the exercise of the Company's outstanding convertible bonds and options would have an anti-dilutive impact.

**10. TRADE AND OTHER RECEIVABLES**

	<b>(Unaudited)</b> <b>30 June 2006</b> <i>HK\$'000</i>	(Audited) 31 December 2005 <i>HK\$'000</i>
<b>Trade receivables</b>	<b>340</b>	1,332
<b>Other receivables</b>		
Deposits, prepayments and other debtors	<b>152</b>	523
	<b>492</b>	1,855

Note: The aging analysis of trade receivables of the Group as at 30 June 2006 is shown as follows:

	<b>(Unaudited)</b> <b>30 June 2006</b> <i>HK\$'000</i>	(Audited) 31 December 2005 <i>HK\$'000</i>
Within 30 days	<b>280</b>	1,041
Between 31 days and 60 days	—	115
Between 61 days and 90 days	—	—
Over 90 days	<b>60</b>	176
	<b>340</b>	1,332

The general credit terms that the Group offered to customers range from 30 days to 90 days from billing.

**11. OTHER PAYABLES**

	<b>(Unaudited)</b> <b>30 June 2006</b> <i>HK\$'000</i>	(Audited) 31 December 2005 <i>HK\$'000</i>
<b>Other payables</b>		
Receipts in advance		
— membership subscription fees	<b>9</b>	143
— system services and maintenance income	<b>574</b>	445
— trade deposit received	<b>381</b>	500
Accrued charges and other creditors	<b>319</b>	1,750
Accrued interests	<b>129</b>	304
	<b>1,412</b>	3,142

**12. INTEREST BEARING BORROWINGS**

	<b>(Unaudited)</b> <b>30 June 2006</b> <i>HK\$'000</i>	(Audited) 31 December 2005 <i>HK\$'000</i>
<b>Current portion</b>		
Repayable within 1 year		
— convertible bonds	<b>4,973</b>	4,890
<b>Non-current portion</b>		
Repayable after 1 year but not exceeding 2 years		
— convertible bonds	—	1,938
— unsecured loan	—	3,000
	<b>4,973</b>	<b>9,828</b>

The convertible bonds contain two components, liability and equity elements. The equity element is presented in equity heading “convertible bonds — equity component”. The effective interest rate of the liability component is Hong Kong prime rate plus 3% per annum.

The movement of the liability component of the convertible bonds for the six months ended 30 June 2006 and the year ended 31 December 2005 are set out below:

	<b>(unaudited)</b> <b>For the six</b> <b>months ended</b> <b>30 June 2006</b> <i>(HK\$'000)</i>	(audited) For the year ended 31 December 2005 <i>(HK\$'000)</i>
Liability component at the beginning of the period	<b>6,828</b>	7,711
Issue of convertible bonds	—	1,919
Interest charged	<b>319</b>	580
Interest paid and payable	<b>(256)</b>	(382)
Redemption of convertible bonds	<b>(1,918)</b>	(3,000)
Liability component at the end of the period	<b>4,973</b>	<b>6,828</b>



During the six months ended 30 June 2006, a convertible bond of aggregate principal amount of HK\$2,000,000 was cancelled as a consideration for the disposal of a subsidiary. Save for the above, no convertible bonds were redeemed, purchased by the Company or converted into shares of the Company.

On 31 May 2006, the Company entered into a novation agreement with Mr. Li Ching Ping Vincent, a director of the Company, and Rapid Falcon Limited, the creditor of the loan in sum of HK\$3,000,000 owed by the Company (the "Loan"), pursuant to which, Mr. Li agreed to assume all liabilities in connection with the Loan in replacement of the Company in consideration of HK\$1.

### **13. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current period's presentation.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

For the six months ended 30 June 2006, the Group's total turnover from continuing operation decreased by approximately 41% to approximately HK\$2,835,000 (2005: HK\$4,800,000). Revenue of operational software application products amounted to approximately HK\$2,784,000, which accounted for over 98% of the total turnover from continuing operations, while revenue of financial instruments analysis software products amounted to approximately HK\$51,000, which represented approximately 2% of the Group's total turnover from continuing operations.

For the discontinued operation, the Group also recorded a decrease in turnover of approximately 32% and the loss of operation for the six months ended 30 June 2006 increased by approximately 18% from HK\$703,000 in the corresponding period of 2005 to HK\$832,000.

As the Group refocused its business in Hong Kong during the period under review, the expenses for traveling and hotel accommodations from continuing operations decreased substantially by approximately 100%. Furthermore, there was a reduction of approximately 16% in staff costs and directors' emoluments for the continuing operation. As a result, the total administrative expenses of the Group's continuing operations decreased by approximately 19% to HK\$3,942,000.

On the other hand, the finance costs increased substantially by approximately 89% as the outstanding loan and convertible bonds maintained at a high level during the period under review.

Despite the substantial decrease in total turnover and increase in finance costs, the Group recorded a net profit of approximately HK\$1,583,000 for the six months ended 30 June 2006 (2005: loss of HK\$1,375,000). Such profit was mainly attributable to the gain arising from the novation of a loan of HK\$3,000,000 from the Company to a Director and the gain on disposal of a subsidiary of approximately HK\$1,154,000. The net profit for the six months ended 30 June 2006 from continuing operations and discontinued operation amounted to HK\$1,261,000 (2005: loss of HK\$672,000) and HK\$322,000 (2005: loss of HK\$703,000) respectively.

### **Liquidity and financial resources**

During the period under review, the Group raised additional funding of approximately HK\$8,000,000 by issuance of new shares, and cancelled a convertible bond of HK\$2,000,000 as the consideration for disposal of a subsidiary, ProSticks.com Limited. Pursuant to the novation agreement entered into between, inter alia, the Company and Mr. Li Ching Ping Vincent, a director of the Company, on 31 May 2006, an unsecured loan of HK\$3,000,000 owed by the Company was novated to Mr. Li. As a result, the Group's financial position was significantly improved and the net liabilities of the Company decreased from HK\$9,471,000 as at 31 December 2005 to HK\$195,000 as at 30 June 2006.

The Group keeps most of its cash in Hong Kong dollar and places them as short-term deposits in banks for interests. As at 30 June 2006, the Group had current assets of approximately HK\$6,357,000, including cash and bank balances of approximately HK\$5,865,000. The total assets amounted to approximately HK\$6,440,000.

As at 30 June 2006, the total borrowings of the Group, which comprised two convertible bonds, amounted to approximately HK\$4,973,000. The convertible bonds bear interest at the rate of Hong Kong prime rate less 0.5% per annum and are repayable on 1 September 2006. All borrowings of the Group are denominated in Hong Kong dollar.

The gearing ratio, as expressed as the ratio of total borrowings to total assets, of the Group was approximately 77% as at 30 June 2006.

## **Capital Structure**

Subsequent to the passing of the resolution by the shareholders on 16 May 2006, the consolidation of every 10 shares in the issued and unissued share capital of the Company into one consolidation share in the issued and unissued share capital of the Company was effective 17 May 2006.

On 26 May 2006, 80,000,000 new shares were issued and allotted to Magic Key International Holdings Limited and Boyce Limited pursuant to the subscription agreement dated 27 March 2006.

Following the share consolidation and the issue of new shares as described above, as at 30 June 2006, the authorized share capital of the Company was HK\$80,000,000 divided into 800,000,000 shares of HK\$0.10 each and the issued share capital of the Company was HK\$14,517,000 divided into 145,170,000 shares of HK\$0.10 each.

## **Foreign exchange exposure**

Most of the sales and expenditures of the Group were denominated in Hong Kong dollar and United States dollar while some transactions were denominated in Canadian dollar and Great Britain pound. As Hong Kong dollar is closely linked with United States dollar and the exchange rates for other currencies used by the Group are relatively stable, the management considers that the Group has no significant foreign exchange exposures. The Company had no currency borrowings and no hedging has been implemented during the year.

## **Charges on the Group's assets**

There were no material charges on the Group's assets as at 30 June 2006.

## **Contingent liabilities**

As at 30 June 2006, the Group had no material contingent liabilities.

## OPERATIONAL REVIEW

### **Financial Instruments Analysis Software Products**

The business of financial instruments analysis software has sustained net losses in the past consecutive years albeit various measures and development plans have been implemented. In order to relieve the Group from the continued net cash outflow for the business of financial instruments analysis software and to improve the financial position of the Group, the Company entered into a sale and purchase agreement on 27 March 2006 to dispose of its wholly-owned subsidiary, ProSticks.com Limited, which mainly engaged in the development, production and distribution of financial instruments analysis software. The disposal was completed on 31 May 2006.

The Group is in a process of winding up another subsidiary which is mainly engaged in the distribution of financial instruments analysis software for North American market. It is expected that the winding up process will be completed by September 2006. After the dissolution of this subsidiary, the Group will cease the business of financial instruments analysis software completely.

### **Operational Software Application Products**

The segment revenue of operational software application products for the six months ended 30 June 2006 decreased from HK\$4,746,000 to HK\$2,784,000, representing a reduction of approximately 41% when compared with that of the previous corresponding period. The segment profit for the six months ended 30 June 2006 also decreased substantially to approximately HK\$953,000 from approximately HK\$2,614,000 in the corresponding period in 2005. Reduction in segment revenue and profit were recorded as the Group mainly focused on completing the contracts on hand and less effort was placed on soliciting new contracts during the period under review.

In order to have better control on the software development and maintenance costs and to reduce the Group's fixed costs, the Group has outsourced its software development and maintenance services to a third party since June 2006. The Group's management believes that the new business model can increase the Group's cost effectiveness.

## Employees information

Subsequent to the resignations of Mr. Fung Yan Shun, Mr. Wan Yiu Kwan Stephen, Mr. G.B. Ng and Mr. Lee Kar Wai as directors of the Company in May 2006, a new Board has been established. Currently, the Board comprises Ms. Tsang Wing Yee, Mr. Yuen Sun Chak, Dr. Chan Lai Yin Simon, Mr. Chan Yat Leong, Mr. Law Tin Fan Arthur and Mr. Li Ching Ping Vincent as executive Directors and Mr. Lau Wing and Mr. Ho Ho Yee Alexandra as independent non-executive Directors.

Following the outsourcing of its software development and maintenance services to a third party, the number of staff of the Group decreased substantially. As at 30 June 2006, the group had a total of 9 employees. The salaries and benefits of the Group's employees were kept at a market level and employees were rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Staff benefits include contributions to mandatory provident fund and share options. During the six months ended 30 June 2006, no share options were granted to employees of the Group.

## SIGNIFICANT INVESTMENTS AND CAPITAL ASSETS

No significant investments were made during the six months ended 30 June 2006. As at 30 June 2006, the Group did not have any detailed plan for material investments or acquisition of capital assets.

## MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

As disclosed in the first quarterly report, the Group entered into a sale and purchase agreement on 27 March 2006 to dispose of its entire equity interest in ProSticks.com Limited at a total consideration of HK\$2,000,000, to be settled by canceling the convertible bond issued by the Company. The disposal was completed on 31 May 2006 and a gain on disposal of approximately HK\$1,154,000 was recorded in the Group's account.

The deregistration process of Daily Vantage Investment Limited, a dormant subsidiary of the Company, was completed on 26 May 2006 and it has been dissolved since then.

Save as aforementioned, no material acquisitions or disposals of subsidiaries and affiliated companies which have significant impact on financial results of the Group were made during the six months ended 30 June 2006.

## PROSPECTS

Following the capital investment by the new investors and cancellation of a convertible bond, the Group's financial position has been improved significantly and resumed to a more healthy state. After the disposal of the financial instruments analysis software business, more resources will be devoted to the development and licensing of operational software application products. The Group will strive for increasing the market share of the Group's operational software application products in the local market as well as expanding its presence in the international market. Meanwhile, the Board is actively exploring new business opportunities for the Group to further increase the shareholders' value of the Company and to reduce the business risk of the Group by business diversification.

With the improved financial position of the Group and a new management team, the Board is optimistic about the development of the Group in the foreseeable future.

## DIRECTORS' INTERESTS IN SHARES

As at 30 June 2006, 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 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, were as follows:

## Long positions in shares and underlying shares of the Company

Name of Directors	Capacity	Number of shares or underlying shares held			Percentage of issued share capital
		Shares	Share options	Total	
Tsang Wing Yee <sup>Note 1</sup>	Family Interest	80,000,000	—	80,000,000	55.11
Chan Yat Leong <sup>Note 1</sup>	Interest of a controlled corporation	80,000,000	—	80,000,000	55.11
Chan Lai Yin Simon <sup>Note 1</sup>	Interest of a controlled corporation	80,000,000	—	80,000,000	55.11
Li Ching Ping Vincent <sup>Note 2</sup>	Interest of a controlled corporation	9,047,924	—	9,047,924	6.23
	Beneficial owner	—	2,400,000	2,400,000	1.65
		<u>9,047,924</u>	<u>2,400,000</u>	<u>11,447,924</u>	<u>7.88</u>

### Notes:

- 43,551,000 shares and 36,449,000 shares were held by Magic Key International Holdings Limited and Boyce Limited respectively. Each of Magic Key International Holdings Limited and Boyce Limited is owned as to 13.95% by Ms. Tsang Wing Yee, 32.55% by Mr. Chan Yat Leong and 32.55% by Dr. Chan Lai Yin Simon respectively. Ms. Tsang Wing Yee is the spouse of Mr. Chan Yat Leong and thus Ms. Tsang was deemed to be interested in the shares held by Mr. Chan Yat Leong.
- These shares were held by Great Power Associates Limited, a company wholly owned by Mr. Li Ching Ping Vincent.
- Nominee shares in subsidiaries were held by a Director in trust for the Group.

Save as disclosed above, as at 30 June 2006, none of the Director 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 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 30 June 2006, so far as known to any Director or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had interests in the shares or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 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 and underlying shares of the Company

Name	Capacity	Number of shares or underlying shares held			Percentage of issued share capital
		Shares	Underlying shares	Total	
Investec Bank (UK) Limited	Beneficial owner	18,340,000	—	18,340,000	12.63
Great Power Associates Limited <sup>Note 1</sup>	Beneficial owner	9,047,924	—	9,047,924	6.23
Frankie Dominion International Limited	Beneficial owner	7,526,098	—	7,526,098	5.18
Mr. Lam Po Kwai <sup>Note 2</sup>	Interest of a controlled corporation	7,526,098	—	7,526,098	5.18
JL Capital Pte. Ltd <sup>Note 3</sup>	Investment manager	—	10,000,000	10,000,000	6.89
Mr. Loh James <sup>Note 4</sup>	Interest of a controlled corporation	—	10,000,000	10,000,000	6.89
	Beneficial owner	3,300,000	—	3,300,000	2.27
		<u>3,300,000</u>	<u>10,000,000</u>	<u>13,300,000</u>	<u>9.16</u>



*Notes:*

1. Great Power Associates Limited is wholly owned by Mr. Li Ching Ping Vincent.
2. Frankie Dominion International Limited is beneficially owned as to 44.2% by Mr. Lam Po Kwai. Accordingly, Mr. Lam Po Kwai was deemed to be interested in 7,526,098 shares of the Company.
3. JL Capital Pte. Ltd is the investment manager of JL Strategic Fund and Swordfish Holdings Limited, each of which holds a convertible bond of HK\$2.5 million issued by the Company. Upon full conversion of the convertible bonds, each of JL Strategic Fund and Swordfish Holdings Limited will be entitled to 5,000,000 shares of the Company. JL Capital Pte. Ltd. was thus deemed to be interested in 10,000,000 underlying shares of the Company.
4. Mr. Loh James holds 99% interest in JL Capital Pte. Ltd.. Therefore, Mr. Loh was deemed to be interested in 10,000,000 underlying shares of the Company.

Save as disclosed above, as at 30 June 2006, the Directors were not aware of any other persons (other than the Directors or chief executive of the Company) who 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.

## SHARE OPTION SCHEME

### (a) Pre-IPO Share Option Scheme

No options were granted under the Pre-IPO Share Option Scheme during the six months ended 30 June 2006 and none of the options granted under the Pre-IPO Share Option Scheme were exercised, cancelled or lapsed during the period under review. An option to subscribe for 400,000 shares was outstanding as at 30 June 2006.

### (b) Share Option Scheme

The movements in the share options of the Company, granted under the Share Option Scheme, during the six months ended 30 June 2006 are shown in the following table:

Name/ Category of participants	Date of grant and vesting	Exercise period	Exercise price per share HK\$	No. of share options				
				As at 1 January 2006	Granted/ cancelled or exercised during the period	Adjustment for share consolidation	Lapsed during the period	As at 30 June 2006
<b>Director:</b>								
Li Ching Ping Vincent	20/11/2003	20/11/2003 – 19/11/2013	0.21	24,000,000	–	(21,600,000)	–	2,400,000
				<u>24,000,000</u>	<u>–</u>	<u>(21,600,000)</u>	<u>–</u>	<u>2,400,000</u>
<b>Participants with options granted in excess of the individual limit:</b>								
Li Yue Toa Gilbert	14/07/2003	14/07/2003 – 04/07/2013	0.21	16,000,000	–	(14,400,000)	–	1,600,000
Chan Cheong Pang	01/12/2003	01/12/2003 – 30/11/2013	0.21	5,000,000	–	(4,500,000)	(500,000)	–
Chan Oi Chi Joyce	02/12/2003	02/12/2003 – 01/12/2013	0.21	5,000,000	–	(4,500,000)	–	500,000
Cheng Chi Kong	09/12/2003	09/12/2003 – 08/12/2013	0.21	3,600,000	–	(3,240,000)	–	360,000
Lau Chi Ming	11/12/2003	11/12/2003 – 10/12/2013	0.21	5,000,000	–	(4,500,000)	–	500,000
				<u>34,600,000</u>	<u>–</u>	<u>(31,140,000)</u>	<u>(500,000)</u>	<u>2,960,000</u>

Name/ Category of participants	Date of grant and vesting	Exercise period	Exercise price per share HK\$	No. of share options				
				As at 1 January 2006	Granted/ cancelled or exercised during the period	Adjustment for share consolidation	Lapsed during the period	As at 30 June 2006
<b>Employees:</b>								
In aggregate	12/07/2003	12/07/2003 – 04/07/2013	0.21	1,800,000	—	—	(1,800,000)	—
	14/07/2003	14/07/2003 – 04/07/2013	0.21	800,000	—	(720,000)	—	80,000
	21/07/2003	21/07/2003 – 04/07/2013	0.21	2,000,000	—	(1,800,000)	—	200,000
	30/07/2003	30/07/2003 – 04/07/2013	0.21	2,000,000	—	(1,800,000)	—	200,000
	01/08/2003	01/08/2003 – 04/07/2013	0.21	600,000	—	(540,000)	—	60,000
	03/02/2004	03/02/2004 – 29/01/2014	0.50	2,200,000	—	(1,350,000)	(700,000)	150,000
				<u>9,400,000</u>	<u>—</u>	<u>(6,210,000)</u>	<u>(2,500,000)</u>	<u>690,000</u>
<b>Others:</b>								
Consultants in aggregate	16/07/2003	16/07/2003 – 04/07/2013	0.21	4,200,000	—	(3,780,000)	—	420,000
	13/02/2004	13/02/2004 – 29/01/2006	0.50	1,200,000	—	—	(1,200,000)	—
				<u>5,400,000</u>	<u>—</u>	<u>(3,780,000)</u>	<u>(1,200,000)</u>	<u>420,000</u>
				<u>73,400,000</u>	<u>—</u>	<u>(62,730,000)</u>	<u>(4,200,000)</u>	<u>6,470,000</u>

*Note:* As a result of the share consolidation effective May 2006, the exercise price of the options was adjusted by multiplying a factor of 10 and the number of options entitled was adjusted by a factor of 1/10.

## CORPORATE GOVERNANCE

According to Rule 5.05 and 5.28 of the GEM Listing Rules, every board of directors of an issuer must include at least three independent non-executive directors and the audit committee must comprise a minimum of three members. However, following the resignation of Mr. Lee Kar Wai, Mr. Ng Ge Bun and Mr. Wan Yiu Kwan Stephen and the appointment of Mr. Ho Ho Yee Alexandra and Mr. Lau Wing on 31 May 2006, the Board has only two independent non-executive Directors and audit committee comprises only two members. Therefore, the Company has been unable to strictly comply with the relevant requirements of the GEM Listing Rules since then. The Company has identified a suitable candidate for taking up the vacancy and such appointment shall be finalized in due course.

Save as disclosed above, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 in the GEM Listing Rules during the period under review.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

During the period under review, none of the Directors, substantial shareholders of the Company and their respective associates had any interest in any business that directly or indirectly competed or might compete with the business of the Group.

## 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 ended 30 June 2006.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 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 during the period under review.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. As at 30 June 2006, the committee comprised two independent non-executive Directors, namely Mr. Lau Wing and Mr. Ho Ho Yee Alexandra.

The audit committee has reviewed the financial statements of the Group for the six months ended 30 June 2006 pursuant to the relevant provisions contained in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules and was of the opinion that such statements complied with the applicable accounting standards and that adequate disclosures have been made in respect thereof.

By order of the Board

**ProSticks International Holdings Limited**

**Tsang Wing Yee**

*Chairman*

Hong Kong, 11 August 2006

*The board as of the date of this report comprises Ms. Tsang Wing Yee, Mr. Yuen Sun Chak, Dr. Chan Lai Yin Simon, Mr. Chan Yat Leong, Mr. Law Tin Fan Arthur and Mr. Li Ching Ping Vincent as executive Directors, and Mr. Lau Wing and Mr. Ho Ho Yee Alexandra as independent non-executive Directors.*