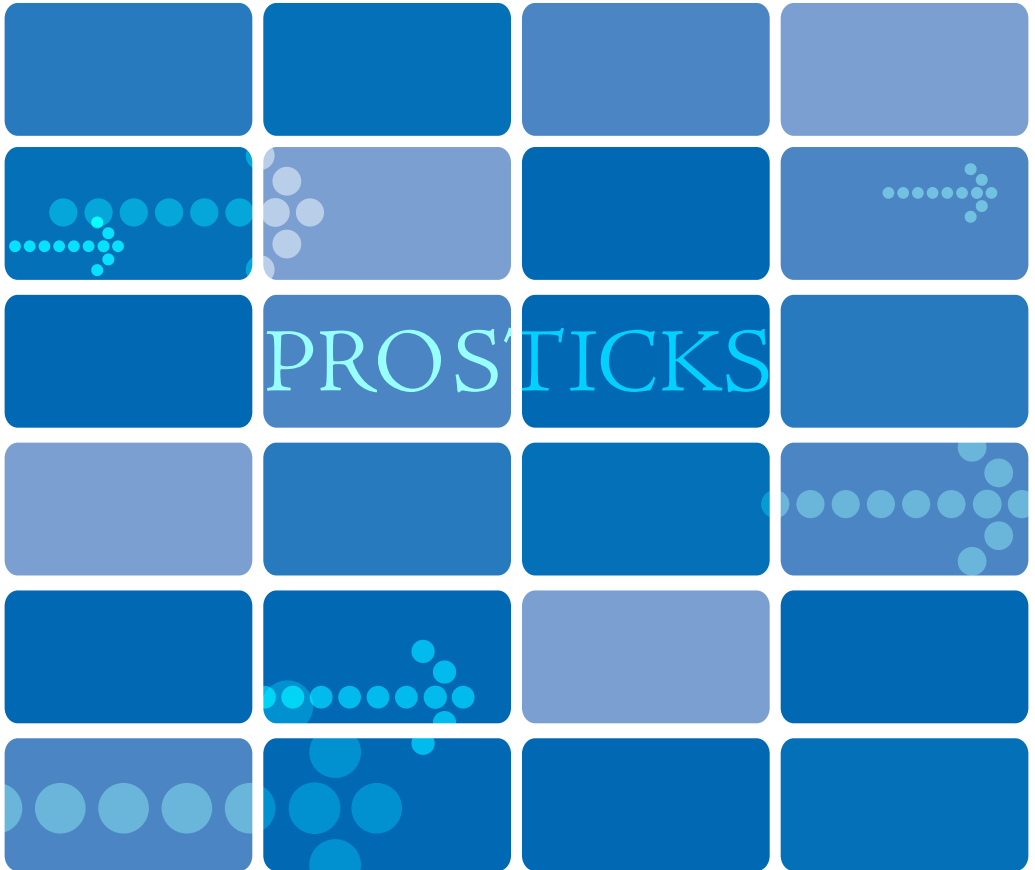


乾坤燭[®] PROSTICKS[®]

ProSticks International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)



2006
3rd Quarterly Report

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 Exchange. 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 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.

RESULTS

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

	<i>Notes</i>	(Unaudited)		(Unaudited)	
		For the nine months		For the three months	
		ended 30 September		ended 30 September	
		2006	2005	2006	2005
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing Operations					
Turnover	2	4,193	7,104	1,409	1,391
Cost of sales		(1,790)	(340)	(1,372)	(90)
Gross profit		2,403	6,764	37	1,301
Other revenue	3	281	183	27	197
Administrative expenses		(4,957)	(7,677)	(1,212)	(2,601)
Loss from operations		(2,273)	(730)	(1,148)	(1,103)
Finance costs		(563)	(345)	(169)	(137)
Gain on novation of loan	4	3,000	—	—	—
Profit/(loss) before taxation		164	(1,075)	(1,317)	(1,240)
Taxation	5	—	—	—	—

	Notes	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit/(loss) for the period from continuing operations		164	(1,075)	(1,317)	(1,240)
<i>Discontinued Operations</i>					
Profit/(loss) for the period from discontinued operations	6	53	(2,210)	(49)	(670)
Profit/(loss) for the period from attributable to shareholders		217	(3,285)	(1,366)	(1,910)
Basic Earnings/(Loss) Per Share	7				
— from continuing operations		0.04 cents	(0.16 cents)	(0.91 cents)	(0.19 cents)
— from discontinued operations		0.01 cents	(0.34 cents)	(0.03 cents)	(0.10 cents)
		0.05 cents	(0.50 cents)	(0.94 cents)	(0.29 cents)
Diluted Earnings Per Share	7				
— from continuing operations		0.03 cents	N/A	N/A	N/A
— from discontinued operations		0.01 cents	N/A	N/A	N/A
		0.04 cents	N/A	N/A	N/A
Dividend	8	—	—	—	—

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 financial statements are prepared under the historical cost convention and the basis of preparation and accounting policies adopted therein are consistent with those followed in the Company's annual financial statements for the year ended 31 December 2005.

The unaudited condensed consolidated financial statements for the nine months and three months ended 30 September 2006 have not been audited by external auditors, but have been reviewed by the Company's audit committee.

2. TURNOVER

The turnover of the Group for the period under review was wholly generated from the operation of development and production of software products.

3. OTHER REVENUE

	Unaudited For the nine months ended 30 September		Unaudited For the three months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest income	62	2	42	2
Exchange gain/(loss)	209	130	(15)	189
Others	10	51	—	6
	281	183	27	197

4. 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.

5. TAXATION

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

6. DISCONTINUED OPERATIONS

The Group ceased its operation of production and distribution of financial instruments analysis software completely in August 2006. The profit/(loss) for the nine months and three months ended 30 September 2006 for the discontinued operations are analyzed as follows:

	Unaudited For the nine months ended 30 September		Unaudited For the three months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Loss on operation for the period	(1,101)	(2,210)	(49)	(670)
Gain on disposal of a subsidiary	1,154	—	—	—
	53	(2,210)	(49)	(670)

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	Unaudited For the nine months ended 30 September		Unaudited For the three months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue	1,221	1,221	15	432
Cost of sales	(727)	(1,685)	(11)	(480)
Other revenue	10	9	4	3
Advertising & promotion expenses	(65)	(185)	—	(68)
Administrative expenses	(1,540)	(1,570)	(57)	(557)
Loss before tax	(1,101)	(2,210)	(49)	(670)
Taxation	—	—	—	—
Loss for the period	(1,101)	(2,210)	(49)	(670)

7. 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 nine months ended 30 September		For the three months ended 30 September	
	2006	2005	2006	2005
Profit/(loss) from continuing operations for the purposes of basic and diluted earnings/(loss) per share	HK\$164,000	(HK\$1,075,000)	(HK\$1,317,000)	(HK\$1,240,000)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	394,869,927	651,700,000	145,170,000	651,700,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	536,854,301	N/A	N/A	N/A

Diluted loss per share from continuing operations for the three months ended 30 September 2006 and for the three months and nine months ended 30 September 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 nine months ended 30 September		For the three months ended 30 September	
	2006	2005	2006	2005
Profit/(Loss) for the period from discontinued operation for the purposes of basic and diluted earnings/(loss) per share	HK\$53,000	(HK\$2,210,000)	(HK\$49,000)	(HK\$670,000)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	394,869,927	651,700,000	145,170,000	651,700,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	536,854,301	N/A	N/A	N/A

Diluted loss per share from discontinued operations for the three months ended 30 September 2006 and for the three months and nine months ended 30 September 2005 are not presented because the exercise of the Company's outstanding convertible bonds and options would have an anti-dilutive impact.

8. DIVIDEND

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2006 (2005: nil).

9. MOVEMENTS OF RESERVES

	Share premium	Share-based payment reserve	Capital reserve	Convertible bonds - equity component	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As of 1 January 2005							
(restated)	26,798	873	24,415	481	(359)	(64,107)	(11,899)
Net loss for the period	—	—	—	—	—	(3,285)	(3,285)
Issue of a convertible bond	—	—	—	81	—	—	81
Redemption of a convertible bond	—	—	—	(163)	—	—	(163)
Exchange differences on translation of the financial statements of an overseas subsidiary	—	—	—	—	(133)	—	(133)
As of 30 September 2005	26,798	873	24,415	399	(492)	(67,392)	(15,399)
As of 1 January 2006							
(restated)	26,798	530	24,415	399	(473)	(67,657)	(15,988)
Net profit for the period	—	—	—	—	—	217	217
Redemption of convertible bonds	—	—	—	(399)	—	399	—
Forfeited share options expensed off to accumulated losses	—	(294)	—	—	—	294	—
Exchange differences on translation of the financial statements of an overseas subsidiary	—	—	—	—	(205)	—	(205)
As of 30 September 2006	26,798	236	24,415	—	(678)	(66,747)	(15,976)

10. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 30 September 2006, the Group's total turnover from continuing operation decreased slightly by approximately 1.3% to approximately HK\$1,409,000 (2005: HK\$1,391,000). The turnover from continuing operations for the period were wholly generated from the business of operational software application products as the Group ceased its business of financial instruments analysis software products completely after the disposal of ProSticks.com Limited in May 2006 and the cessation of business of ProSticks Financial Solutions Limited in August 2006.

During the period under review, the gross profit margin decreased substantially from approximately HK\$1,301,000 to HK\$37,000. The plunge in profit margin was mainly attributable to the rise in subcontracting fee as the software development and maintenance works have been outsourced to a third party. However, the savings in administrative costs resulted from the outsourcing outweighed the increase in subcontracting fee. The total administrative expenses for the three months ended 30 September 2006 reduced by approximately 53.4% from approximately HK\$2,601,000 to HK\$1,212,000.

When compared with the last corresponding period, the finance costs for the three months ended 30 September 2006 upsurged by approximately 23.4% from approximately HK\$137,000 to HK\$169,000 as the interest rate of the convertible bonds of the Company increased in line with the increase in Hong Kong prime lending rate during the period.

The net loss for the three months ended 30 September 2006 amounted to approximately HK\$1,366,000 (2005: HK\$1,910,000), representing a reduction of approximately 28.5% when compared with the results of 2005.

Operational Review

The outsourcing of the software development and maintenance services has resulted in an improvement in the Group's performance for the period under review. Therefore, the Group will maintain such business strategy and focus on the sales and quality assurance functions in the foreseeable future.

Outlook

In view of the undiminished end-user demand for ever-greater amounts of network bandwidth, the management of the Company is optimistic about the future development of the communication network solution market, especially with respect to optical networks. The Company is earnestly exploring investment opportunities in such market while maintaining its operational software application products as the core 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 nine months ended 30 September 2006.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2006, 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 and underlying shares of the Company

Name of Directors	Capacity	Number of shares or underlying shares held and nature of interests			Percentage of issued share capital
		Shares	Underlying shares	Total	
Tsang Wing Yee <i>(Note 1)</i>	Family interest	80,000,000	—	80,000,000	55.11%
Chan Yat Leong <i>(Note 1)</i>	Interest of a controlled corporation	80,000,000	—	80,000,000	55.11%
Chan Lai Yin Simon <i>(Note 1)</i>	Interest of a controlled corporation	80,000,000	—	80,000,000	55.11%

Notes:

- 43,551,000 shares and 36,449,000 shares of the Company 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.
- Nominee shares in subsidiaries were held by a Director in trust for the Group.

Save as disclosed above, as at 30 September 2006, 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 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 September 2006, 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 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	Share options	Total	
Magic Key International Holdings Limited	Beneficial owner	43,551,000	—	43,551,000	30.00%
Boyce Limited	Beneficial owner	36,449,000	—	36,449,000	25.11%
Investec Bank (UK) Limited	Beneficial owner	18,340,000	—	18,340,000	12.63%
Great Power Associates Limited (<i>Note 1</i>)	Beneficial owner	9,047,924	—	9,047,924	6.23%
Li Ching Ping Vincent (<i>Note 1</i>)	Interest of a controlled corporation	9,047,924	—	9,047,924	6.23%
	Beneficial owner	—	2,400,000	2,400,000	1.65%
		9,047,924	2,400,000	11,447,924	7.88%
Frankie Dominion International Limited (<i>Note 2</i>)	Beneficial owner	7,526,098	—	7,526,098	5.18%
Mr. Lam Po Kwai (<i>Note 2</i>)	Interest of a controlled corporation	7,526,098	—	7,526,098	5.18%

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.

Save as disclosed above, as at 30 September 2006, the Directors were not aware of any other persons (other than the Directors and 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.

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.

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, during the period from 1 June 2006 to 31 August 2006, the Board had only two independent non-executive Directors and the audit committee comprised only two members. Therefore, the Company was unable to strictly comply with the relevant requirements of the GEM Listing Rules during the aforementioned period. The situation was rectified on 1 September 2006 after the appointment of an additional independent non-executive director and a member of the audit committee.

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.

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 September 2006, the committee comprised three independent non-executive Directors, namely Mr. Lau Wing, Mr. Ho Ho Yee Alexandra and Professor Lin Chinlon.

The audit committee has reviewed the financial statements of the Group for the three months and nine months ended 30 September 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, 3 November 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 and Mr. Law Tin Fan Arthur as executive Directors, and Professor Lin Chinlon, Mr. Lau Wing and Mr. Ho Ho Yee Alexandra as independent non-executive Directors.