

乾坤燭® PROSTICKS®

ProSticks International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8055

3rd Quarterly Report 2007

ProSticks

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

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This report, for which the directors of ProSticks International Holdings Limited (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 (“Directors”) of ProSticks International Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the nine months and three months ended 30 September 2007, together with the comparative unaudited figures of the corresponding periods in 2006, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Continuing Operations					
Turnover	2	2,497	4,193	420	1,409
Cost of sales		(2,247)	(1,790)	(378)	(1,372)
Gross profit		250	2,403	42	37
Other revenue	3	83	281	67	27
Administrative expenses		(2,145)	(4,957)	(545)	(1,212)
Loss from operations		(1,812)	(2,273)	(436)	(1,148)
Finance costs		—	(563)	—	(169)
Gain on novation of loan		—	3,000	—	—
(Loss)/Profit before taxation		(1,812)	164	(436)	(1,317)
Taxation	4	—	—	—	—

	Note	(Unaudited)		(Unaudited)	
		For the nine months ended 30 September		For the three months ended 30 September	
		2007	2006	2007	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/Profit for the period from continuing operations		(1,812)	164	(436)	(1,317)
Discontinued Operation					
Profit for the period from discontinued operation	5	—	53	—	(49)
(Loss)/Profit for the period attributable to shareholders		(1,812)	217	(436)	(1,366)
Dividend	6	—	—	—	—
Basic (loss)/earnings per share	7				
— from continuing operations		(1.02) cents	0.04 cents	(0.19) cents	(0.91) cents
— from discontinued operation		—	0.01 cents	—	(0.03) cents
		(1.02) cents	0.05 cents	(0.19) cents	(0.94) cents
Diluted earnings per share	7				
— from continuing operations		N/A	0.03 cents	N/A	N/A
— from discontinued operation		N/A	0.01 cents	N/A	N/A
		N/A	0.04 cents	N/A	N/A

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which include all applicable Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the accounting principles generally accepted in Hong Kong.

The basis of preparation and accounting policies adopted in the preparation of the third quarterly financial statements are consistent with those followed in the Company's annual financial statements for the year ended 31 December 2006.

The unaudited condensed consolidated financial statements for the three months ended 30 September 2007 have not been audited by the Company's auditor but have been reviewed by the audit committee of the Company.

2. REVENUE

The revenue of the Group for the period under review was wholly generated from the operation of development and provision of operational software application products.

3. OTHER REVENUE

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	81	62	66	42
Exchange gain/(loss)	2	209	1	(15)
Others	—	10	—	—
	83	281	67	27

4. TAXATION

Hong Kong Profits Tax has not been provided as the Group has no assessable profit for the period (2006: nil).

5. DISCONTINUED OPERATIONS

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

	(Unaudited)		(Unaudited)	
	For the nine months ended 30 September		For the three months ended 30 September	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss on operation for the period	—	(1,101)	—	(49)
Gain on disposal of a subsidiary	—	1,154	—	—
	—	53	—	(49)

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

	(Unaudited)		(Unaudited)	
	For the nine months ended 30 September		For the three months ended 30 September	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	—	1,221	—	15
Cost of sales	—	(727)	—	(11)
Other revenue	—	10	—	4
Advertising & promotion expenses	—	(65)	—	—
Administrative expenses	—	(1,540)	—	(57)
Loss before taxation	—	(1,101)	—	(49)
Taxation	—	—	—	—
Loss for the period	—	(1,101)	—	(49)

6. DIVIDEND

The Directors do not recommend payment of dividend for the nine months ended 30 September 2007 (2006: nil).

7. (LOSS)/EARNINGS PER SHARE

(a) From continuing operations

The calculation of the basic and diluted (loss)/earnings 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	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
(Loss)/Profit from continuing operations for the purposes of basic and diluted (loss)/earnings per share	(1,812)	164	(436)	(1,317)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	177,031,299	394,869,927	228,901,865	145,170,000
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	N/A	536,854,301	N/A	N/A

Diluted loss per share from continuing operations for the nine months and three months ended 30 September 2007 are not presented because the exercise of the Company's outstanding options would have an anti-dilutive impact.

(b) From discontinued operation

The calculation of the basic and diluted earnings 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 2007		For the three months ended 30 September 2007	
	HK\$'000	2006 HK\$'000	HK\$'000	2006 HK\$'000
Profit for the period from discontinued operation for the purposes of basic and diluted earnings per share	—	53	—	(49)
Weighted average number of ordinary shares for the purpose of basic earnings per share	177,031,299	394,869,927	228,901,865	145,170,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	536,854,301	N/A	N/A

Diluted earnings per share from discontinued operation for the nine months and three months ended 30 September 2007 are not presented because the exercise of the Company's outstanding options would have an anti-dilutive impact.

8. MOVEMENT OF RESERVES

	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	Total HK\$'000
As of 1 January 2006	26,798	530	24,415	399	(473)	(67,657)	(15,988)
Net profit for the period	—	—	—	—	—	217	217
Redemption of a convertible bond	—	—	—	(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)
As of 1 January 2007	26,831	292	24,415	—	—	(67,475)	(15,937)
Loss for the period	—	—	—	—	—	(1,812)	(1,812)
Issue of new shares	14,781	—	—	—	—	—	14,781
Share issue expenses	(817)	—	—	—	—	—	(817)
Shares issued under share option scheme	731	(226)	—	—	—	—	505
Forfeited share options expensed off to accumulated loss	—	(5)	—	—	—	5	—
As of 30 September 2007	41,526	61	24,415	—	—	(69,282)	(3,280)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 30 September 2007, the Group's total turnover decreased by approximately 70% to approximately HK\$420,000 (2006: HK\$1,409,000). All of the revenue of the Group is generated from operational software application products business.

The disposal of the discontinued operation was completed on 31 May 2006 and thus no results from discontinued operation were recorded for the period under review.

Since the Group outsourced its software development and maintenance services to a third party in June 2006, the staff costs (including directors' remuneration) and research and development expenditure decreased significantly. As a result, the total administrative expenses of the Group's continuing operations decreased by approximately 55% to HK\$545,000.

During the period under review, the finance costs decreased substantially by 100% as the outstanding loan and convertible bonds in previous periods were either repaid or cancelled. The Group recorded a loss before taxation of approximately HK\$436,000 (2006: HK\$1,366,000).

SHARE CAPITAL

On 1 August 2007, 72,367,600 ordinary shares of HK\$0.10 each in the capital of the Company were issued pursuant to an open offer on the basis of two offer shares for every five existing shares held on 29 June 2007.

Following the issue of new shares as described above, as at 30 September 2007, the issued share capital of the Company was approximately HK\$25,329,000 divided into 253,286,600 shares of HK\$0.10 each.

OPERATIONAL REVIEW

Subsequent to the outsourcing of its software development and maintenance services to a third party since June 2006, the Group will continue to improve control and cost effectiveness of the business and identify possible methods to increase new business.

OUTLOOK

The Group will strive to 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.

Subsequent to the period under review, the Group entered into the following agreements as part of the diversification strategy.

On 4 October 2007, the Company entered into a placing agreement with a placing agent to place, on a best effort basis, a maximum of 500,000,000 placing shares to independent investors at a price of HK\$0.15 per share.

On 16 October 2007, the Group entered into an acquisition agreement with a vendor to acquire a company engaged in the business of the occupational education, industry certification course, skills training and education consultation in the PRC.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2007, 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 and nature of interests			Percentage of issued share capital (Note 2)
		Shares	Share options	Total	
Tsang Wing Yee (Note 1)	Interest of a controlled corporation	80,000,000	—	80,000,000	31.58%
	Beneficial owner	—	177,625	177,625	0.07%
	Subtotal	80,000,000	177,625	80,177,625	31.65%

Notes:

1. 43,551,000 shares and 36,449,000 shares were held by Magic Key International Holdings Limited and Boyce Limited respectively. As at 30 September 2007, each of Magic Key International Holdings Limited and Boyce Limited was owned as to 46.50% by Ms. Tsang Wing Yee, 32.55% by Mr. Chan Yat Leong, 13.95% by Mr. Yuen Sun Chak and 7% by Mr. Law Tin Fan, Arthur respectively. Each of Mr. Chan Yat Leong, Mr. Yuen Sun Chak and Mr. Law Tin Fan, Arthur are former Directors who have resigned as executive Directors with effect from 23 July 2007.
2. The percentage shareholding is calculated based on the existing issued share capital of the Company as at 30 September 2007.

SHORT POSITIONS IN SHARES OF THE COMPANY

Name of Directors	Capacity	Ordinary shares	Percentage of issued share capital (Note 2)
Tsang Wing Yee (Note 1)	Interest of a controlled corporation	80,000,000	31.58%

Notes:

1. 43,551,000 shares and 36,449,000 shares were held by Magic Key International Holdings Limited and Boyce Limited respectively. As at 30 September 2007, each of Magic Key International Holdings Limited and Boyce Limited was owned as to 46.50% by Ms. Tsang Wing Yee, 32.55% by Mr. Chan Yat Leong, 13.95% by Mr. Yuen Sun Chak and 7% by Mr. Law Tin Fan, Arthur respectively. Each of Mr. Chan Yat Leong, Mr. Yuen Sun Chak and Mr. Law Tin Fan, Arthur are former Directors who have resigned as executive Directors with effect from 23 July 2007. Magic Key International Holdings Limited and Boyce Limited have pledged the 80,000,000 shares to secure a loan.
2. The percentage shareholding is calculated based on the existing issued share capital of the Company as at 30 September 2007.

Save as disclosed above, as at 30 September 2007, 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 2007, 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 OF THE COMPANY

Name	Capacity	Ordinary shares	Percentage of Percentage of issued share capital (Note 5)
Magic Key International Holdings Limited (Note 1)	Beneficial owner	43,551,000	17.19%
Boyce Limited (Note 1)	Beneficial owner	36,449,000	14.39%
Kingston Finance Limited (Note 2)	Security interest	80,000,000	31.58%
Chu Yuet Wah (Note 3)	Interest of a controlled corporation	80,000,000	31.58%
Ma Siu Fong (Note 3)	Interest of a controlled corporation	80,000,000	31.58%

Notes:

- As at 30 September 2007, each of Magic Key International Holdings Limited and Boyce Limited was owned as to 46.50% by Ms. Tsang Wing Yee, 32.55% by Mr. Chan Yat Leong, 13.95% by Mr. Yuen Sun Chak and 7% by Mr. Law Tin Fan, Arthur respectively. Each of Mr. Chan Yat Leong, Mr. Yuen Sun Chak and Mr. Law Tin Fan, Arthur are former Directors who have resigned as executive Directors with effect from 23 July 2007.
- Kingston Finance Limited has a security interest of an aggregate of 80,000,000 shares owned by Magic Key International Holdings Limited and Boyce Limited.
- Ms. Chu Yuet Wah and Ms. Ma Siu Fong are controlling shareholders of Kingston Finance Limited. Both Ms. Chu Yuet Wah and Ms. Ma Siu Fong are deemed to be interest in the underlying shares in which Kingston Finance Limited hold an interest.
- The percentage shareholding is calculated based on the existing issued share capital of the Company as at 30 September 2007.

Save as disclosed above, as at 30 September 2007, 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.

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 Professor Lin Chinlon, Mr. Lau Wing and Mr. Ho Ho Yee Alexandra and the appointment of Dr. Wong Yun Kuen and Ms. Chan Hoi Ling in July 2007, 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 will identify a suitable candidate for taking up the vacancy as soon as possible.

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 nine months ended 30 September 2007.

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 2007, the committee comprised two independent non-executive Directors, namely Dr. Wong Yun Kuen and Ms. Chan Hoi Ling.

The Group's condensed consolidated financial statements for the three months ended 30 September 2007 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
Chan Siu Mun
Executive Director

Hong Kong, 14 November 2007

The board as of the date of this report comprises Ms. Tsang Wing Yee, Mr. Chan Chi Yuen and Ms. Chan Siu Mun as executive Directors, and Dr. Wong Yun Kuen and Ms. Chan Hoi Ling as independent non-executive Directors.