

乾坤燭[®] PROSTICKS[®]

ProSticks International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)



1st Quarterly Report 2008

Stock Code: 8055

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.

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 three months ended 31 March 2008, together with the comparative unaudited figures of the corresponding period in 2007, as follows :

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(Unaudited) For the three months ended 31 March	
		2008 HK\$'000	2007 HK\$'000
Turnover	2	7,427	1,475
Cost of sales		(668)	(1,327)
Gross profit		6,759	148
Other income	3	125	3
Administrative expenses		(3,006)	(827)
Profit/(loss) from operation		3,878	(676)
Finance costs		—	—
Profit/(loss) before taxation		3,878	(676)
Taxation	4	(971)	—
Profit/(loss) for the period		2,907	(676)
Dividend	6	—	—
Basic profit/(loss) per share	5	0.52 cents	(0.46) cents
Diluted profit/(loss) per share	5	0.15 cents	N/A

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated 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, the accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on GEM.

The basis of preparation and accounting policies adopted in the preparation of the quarterly financial statements are consistent with those followed in the Company's annual financial statements for the year ended 31 December 2007.

The unaudited condensed consolidated financial statements for the three months ended 31 March 2008 have not been audited by the Company's auditor but have been reviewed by the audit committee of the Company.

2. TURNOVER

Turnover represents revenue of the Group from the operation of development and provision of operational software application products, and the provision of occupational education, industry certification course, skills training and education consultation. Turnover comprises the following:

	(Unaudited) For the three months ended 31 March	
	2008	2007
	HK\$'000	HK\$'000
System services and maintenance income	77	1,475
Online professional training and multi-media education products income	7,350	—
	7,427	1,475

3. OTHER INCOME

Other income represents interest income.

4. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the both periods.

Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), the statutory enterprise income tax rate of 25% is applied to the group companies which operated in the PRC.

The amount of taxation charged to the unaudited condensed consolidated profit and loss account represents:

	(Unaudited)	
	For the three months	
	ended 31 March	
	2008	2007
	HK\$'000	HK\$'000
PRC enterprise income tax	971	—

5. PROFIT/(LOSS) PER SHARE

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

	(Unaudited) For the three months ended 31 March	
	2008	2007
	HK\$'000	HK\$'000
Unaudited profit/(loss) for the period for the purposes of basic and diluted profit/(loss) per share	2,907	(676)
Weighted average number of ordinary shares for the purpose of basic profit/(loss) per share	561,334,158	146,700,000
Weighted average number of ordinary shares for the purpose of diluted profit/(loss) per share	1,906,877,624	N/A

Diluted loss per share for three months ended 31 March 2007 was not presented because the exercise of the Company's outstanding options would have an anti-dilutive impact.

6. DIVIDEND

The Directors do not recommend payment of any dividend for the three months ended 31 March 2008. (2007: nil).

7. MOVEMENT OF RESERVES (UNAUDITED)

	Share-based		Capital reserve	Exchange Reserve	Accumulated losses	Total
	Share Premium	payment reserve				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As of 1 January 2007	26,831	292	24,415	—	(67,475)	(15,937)
Net loss for the period	—	—	—	—	(676)	(676)
As of 31 March 2007	26,831	292	24,415	—	(68,151)	(16,613)
As of 1 January 2008	41,562	5	24,415	—	(69,797)	(3,815)
Profit for the period	—	—	—	—	2,907	2,907
Issue of new shares	25,000	—	—	—	—	25,000
Share issue expenses	(1,975)	—	—	—	—	(1,975)
Exchange differences on translation of the financial statements of PRC subsidiaries	—	—	—	2,049	—	2,049
As of 31 March 2008	64,587	5	24,415	2,049	(66,890)	24,166

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Online professional training business

On 16 October 2007, the Group entered into an acquisition agreement with a vendor to acquire the entire issued share capital of New Beida Business StudyNet Group Limited (the “New Beida”) at a consideration of HK\$800,000,000. The consideration of HK\$800,000,000 consisted of (i) HK\$80,000,000 in cash ; and (ii) the remaining balance of HK\$720,000,000 by the issue of Convertible Notes at a conversion price of HK\$0.20 per Conversion Share.

The vendor and the guarantors to the acquisition agreement jointly and severally undertake to the purchaser, a wholly-owned subsidiary of the Company that the profits after tax shown in the audited consolidated accounts of the New Beida in accordance with the financial reporting standards and accounting principles generally accepted in Hong Kong for the financial year ending 31 December 2008 shall not be less than HK\$150 million and will compensate the Company on a dollar-for-dollar basis for any shortfall between the guaranteed profit and the actual profit after tax shown in the audited consolidated accounts of the New Beida in accordance with the financial reporting standards and accounting principles generally accepted in Hong Kong for the financial year ending 31 December 2008.

The New Beida is an investment holding company incorporated in the British Virgin Islands with its subsidiaries principally engaged in the occupational education, industry certificate course, skill training and educational consultation in the PRC. The acquisition was completed on 27 February 2008. Since then, the following one month’s operational result of New Beida and its subsidiaries (the “New Beida Group”) was incorporated into the results of the Group.

Operational software application products

The segment revenue of operational software application products for the three months ended 31 March 2008 was HK\$77,000 (2007: HK\$1,475,000), representing a reduction of approximately 95% compared with that of previous period. Since the fierce competition in the market of operational application software and the increasing operational costs continue to pressure its performance, the management mainly focused on completing the contracts on hands, less efforts and resources were placed on soliciting new contracts during the period.

FINANCIAL REVIEW

During the three months ended 31 March 2008, the Group recorded turnover of HK\$7,427,000, up 404% compared with approximately HK\$1,475,000 in last corresponding period.

During the three months ended 31 March 2008, the Group has recorded a segment turnover of HK\$7,350,000 accounting for approximately 99% of the Group's turnover, which mainly arose from online professional training business and multi-media education products.

The segment turnover of operational software application products for the three months ended 31 March 2008 was HK\$77,000, accounting for approximately 1% of the Group's turnover.

The Group's net profit attributable to equity holders of the Company was HK\$2,907,000 in contrast to net loss of approximately HK\$676,000 in last corresponding period.

The increase in net profit reflects the contribution from the newly acquired online professional training business and multi-media education products, which has high profit margin and ample profit growth potential.

Share capital

As at 1 January 2008, 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\$25,364,185 divided into 253,641,850 shares of HK\$0.10 each.

On 5 February 2008, 500,000,000 ordinary shares of HK\$0.10 each in the capital of the Company were issued and allotted pursuant to a placing agreement dated 4 October 2007.

On 14 February 2008, an ordinary resolution was passed in the extraordinary general meeting to approve the increase of authorized share capital of the Company from HK\$80,000,000 divided into 800,000,000 shares of HK\$0.10 each to HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each by the creation of additional 9,200,000,000 shares in order to accommodate future expansion and growth of the Company.

As at 31 March 2008, the authorized share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each and the issued share capital of the Company was HK\$75,364,185 divided into 753,641,850 shares of HK\$0.10 each.

Convertible Notes

As at 31 March 2008, the aggregate outstanding principal amount of the Convertible Notes was HK\$720,000,000. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes would result in the issue and allotment of 3,600,000,000 new Shares in the Company.

OUTLOOK

Given the downward trend in the business of distribution of operational software application products, the management will focus more resources on the online professional training business and multi-media education products, which is of high-growth potential in the future.

In view of the current economic development in the PRC, the management is of the opinion that it is a general trend for the unified qualification certification in all industries to embody industry self-requirement and community needs of higher standard of professionalism, expertise, qualifications of practitioners in all industries. Therefore there is a trend for the industry certification and continuing professional development to become mandatory by relevant government and regulatory bodies in different industries to boost and maintain the industrial competency standards. It is inevitable for the vocational certification an continuous education and training market to become an economic focus in the future. Furthermore, when considering the popularity of computer and internet usage, it is expected that the market scale of e-platform education and training will increase significantly in the future. Therefore the management considers there will be huge market potential for higher education and professional certification training needs in the PRC core industries such as banking, Chinese medical, property management, which in turn become the revenue and profit driver of the Group in the future.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2008, 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 Director	Capacity	Number of shares or underlying shares held			Approximate 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	10.62%
	Beneficial owner	—	177,625	177,625	0.02%
	Subtotal	80,000,000	177,625	80,177,625	10.64%

Notes:

- As at 31 March 2008, 43,551,000 shares and 36,449,000 shares were held by Magic Key International Holdings Limited and Boyce Limited respectively. Magic Key International Holdings Limited is owned as to 46.50% by Ms. Tsang Wing Yee and 32.55% by Mr. Chan Yat Leong, spouse of Ms. Tsang Wing Yee. Boyce Limited is owned as to 67.45% by Ms. Tsang Wing Yee, 32.55% by Mr. Chan Yat Leong respectively. Ms. Tsang Wing Yee has resigned as Chairman of the Board and executive director of the Company with effect from 1 April 2008.
- The percentage shareholding is calculated based on the existing issued share capital of the Company as at 31 March 2008.

Short positions in shares of the Company

Name of Director	Capacity	Ordinary shares	Approximate percentage of issued share capital (Note 2)
Tsang Wing Yee (Note 1)	Interest of a controlled corporation	80,000,000	10.62%

Notes:

1. As at 31 March 2008, 43,551,000 shares and 36,449,000 shares were held by Magic Key International Holdings Limited and Boyce Limited respectively. Magic Key International Holdings Limited is owned as to 46.50% by Ms. Tsang Wing Yee and 32.55% by Mr. Chan Yat Leong, spouse of Ms. Tsang Wing Yee. Boyce Limited is owned as to 67.45% by Ms. Tsang Wing Yee, 32.55% by Mr. Chan Yat Leong respectively. 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 31 March 2008.

Save as disclosed above, as at 31 March 2008, 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 DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2008, 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 or underlying shares of the Company

Name of Shareholder	Capacity	Number of shares or underlying shares held	Approximate percentage of issued share capital (Note 8)
Atlantis Investment Management Ltd	Beneficial owner	100,000,000	13.27%
GE Asset Management Incorporated	Beneficial owner	100,000,000	13.27%
Magic Key International Holdings Limited (Note 1)	Beneficial owner	43,551,000	5.78%
Boyce Limited (Note 1)	Beneficial owner	36,449,000	4.84%
Chan Yat Leong (Note 1)	Interest of a controlled corporation	80,000,000	10.62%
Kingston Finance Limited (Note 2)	Security interest	80,000,000	10.62%
Chu Yuet Wah (Note 3)	Interest of a controlled corporation	80,000,000	10.62%
Ma Siu Fong (Note 3)	Interest of a controlled corporation	80,000,000	10.62%

Name of Shareholder	Capacity	Number of shares or underlying shares held	Approximate percentage of issued share capital (Note 8)
Sino Tactic Group Limited (Note 4)	Beneficial owner	1,770,000,000	234.86%
Chen Xiaoming (Note 5)	Beneficial owner	510,000,000	67.67%
Cui Meng (Note 6)	Beneficial owner	300,000,000	39.81%
Mo Fei (Note 6)	Beneficial owner	300,000,000	39.81%
Zhu Jing Jing (Note 6)	Beneficial owner	300,000,000	39.81%
林美良 (Note 7)	Beneficial owner	100,000,000	13.27%

Notes:

1. As at 31 March 2008, 43,551,000 shares and 36,449,000 shares were held by Magic Key International Holdings Limited and Boyce Limited respectively. Magic Key International Holdings Limited is owned as to 46.50% by Ms. Tsang Wing Yee and 32.55% by Mr. Chan Yat Leong, spouse of Ms. Tsang Wing Yee. Boyce Limited is owned as to 67.45% by Ms. Tsang Wing Yee and 32.55% by Mr. Chan Yat Leong respectively.
2. 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.
3. Mrs. Chu Yuet Wah and Ms. Ma Siu Fong are controlling shareholders of Kingston Finance Limited. Both Mrs. Chu Yuet Wah and Ms. Ma Siu Fong are deemed to be interested in the underlying shares in which Kingston Finance Limited holds an interest.
4. Interests in the underlying shares representing the conversion rights attached to the convertible notes of a principal amount of HK\$354,000,000.
5. Interests in the underlying shares representing the conversion rights attached to the convertible notes of a principal amount of HK\$102,000,000.
6. Interests in the underlying shares representing the conversion rights attached to the convertible notes of a principal amount of HK\$60,000,000.

7. Interests in the underlying shares representing the conversion rights attached to the convertible notes of a principal amount of HK\$20,000,000.
8. The percentage shareholding is calculated based on the existing issued share capital of the Company as at 31 March 2008.

Short positions in shares of the Company

Name of Shareholder	Capacity	Number of shares or underlying shares held	Approximate percentage of issued share capital (Note 2)
Magic Key International Holdings Limited (Note 1)	Beneficial owner	43,551,000	5.78%
Boyce Limited (Note 1)	Beneficial owner	36,449,000	4.84%
Chan Yat Leong (Note 1)	Interest of a controlled corporation	80,000,000	10.62%

Notes:

1. As at 31 March 2008, 43,551,000 shares and 36,449,000 shares were held by Magic Key International Holdings Limited and Boyce Limited respectively. Magic Key International Holdings Limited is owned as to 46.50% by Ms. Tsang Wing Yee and 32.55% by Mr. Chan Yat Leong, spouse of Ms. Tsang Wing Yee. Boyce Limited is owned as to 67.45% by Ms. Tsang Wing Yee and 32.55% by Mr. Chan Yat Leong respectively. 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 31 March 2008.

Save as disclosed above, as at 31 March 2008, 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 three months ended 31 March 2008.

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 31 March 2008, the committee comprised two independent non-executive Directors, namely Dr. Wong Yun Kuen and Ms. Chan Hoi Ling.

The Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2008 have been reviewed by the audit committee, which were of the opinion that such statements have complied with the applicable accounting standards and that adequate disclosures have been made.

CHANGE OF EXECUTIVE DIRECTORS

On 1 April 2008, Ms. Tsang Wing Yee has resigned as Chairman of the Board and executive director of the Company and Ms. Chan Siu Mun has resigned as executive director and the authorized representative of the Company. Mr. Chen Hong has been appointed as Chairman of the Board and executive director of the Company and Ms. Liang Juan has been appointed as executive director of the Company.

By order of the Board

ProSticks International Holdings Limited

Chen Hong

Chairman

Hong Kong, 15 May 2008

The board as of the date of this report comprises Mr. Chen Hong, Ms. Liang Juan and Mr. Chan Chi Yuen as executive Directors, and Dr. Wong Yun Kuen and Ms. Chan Hoi Ling as independent non-executive Directors.