Interim Report 2008

Stock Code: 8055

乾坤燭® PROSTICKS®

ProSticks International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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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 six months and three months ended 30 June 2008, together with the comparative unaudited figures of the corresponding period in 2007, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	Note	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Turnover	3	**27,660**	2,077	**20,233**	602
Cost of sales		**(4,705)**	(1,869)	**(4,037)**	(542)
Gross profit		**22,955**	208	**16,196**	60
Other income	3	**136**	16	**12**	14
Administrative expenses		**(8,260)**	(1,600)	**(5,254)**	(773)
Profit/(loss) from operation		**14,831**	(1,376)	**10,954**	(699)
Finance costs		**–**	–	**–**	–
Profit/(loss) before taxation	5	**14,831**	(1,376)	**10,954**	(699)
Taxation	6	**(3,834)**	–	**(2,863)**	–
Profit/(loss) for the period		**10,997**	(1,376)	**8,091**	(699)
Dividend	7	**–**	–	**–**	–
Basic profit/(loss) per share	8	**1.52 cents**	(0.91) cents	**0.92 cents**	(0.45) cents
Diluted profit/(loss) per share	8	**0.35 cents**	N/A	**0.19 cents**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) 30 June 2008 HK$'000	(Audited) 31 December 2007 HK$'000
Non-current assets			
Plant and equipment		**7,117**	46
Intangible assets		**40,093**	—
Goodwill		**797,264**	—
		844,474	46
Current assets			
Inventories		**17**	—
Trade and other receivables	9	**13,989**	13
Cash and bank balances		**25,000**	22,567
		39,006	22,580
Current liabilities			
Trade and other payables	10	**(3,089)**	(997)
Tax payables		**(2,725)**	—
Amounts due to directors		**—**	(80)
Amounts due to former shareholder		**(50,000)**	—
		(55,814)	(1,077)
Net current (liabilities)/assets		**(16,808)**	21,503
Non-current liabilities			
Convertible note payable		**(676,000)**	—
		(676,000)	—
NET ASSETS		**151,666**	21,549
CAPITAL AND RESERVE			
Share capital	11	**97,364**	25,364
Reserves		**54,302**	(3,815)
TOTAL EQUITY		**151,666**	21,549

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	(Unaudited)	(Unaudited)
	for the six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Net cash inflow/(outflow) from operating activities	**51,643**	(1,618)
Net cash (outflow)/inflow from investing activities	**(168,330)**	14
Net cash inflow from financing activities	**117,025**	10,087
Increase in cash and cash equivalents	**338**	8,483
Cash and cash equivalents at the beginning of period	**22,567**	239
Effect of exchange rate changes	**2,095**	—
Cash and cash equivalents at the end of period	**25,000**	8,722
Analysis of the balance of cash and cash equivalents:		
Cash and bank balances	**25,000**	8,722

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Share capital	Share premium	Share-Based payment reserve	Capital reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As of 1 January 2007	14,677	26,831	292	24,415	–	(67,475)	**(1,260)**
Loss for the period	–	–	–	–	–	(1,376)	**(1,376)**
Issue of new shares	2,958	7,544	–	–	–	–	**10,502**
Share issue expenses	–	(301)	–	–	–	–	**(301)**
Share issue under share option scheme	457	731	(226)	–	–	–	**962**
Forfeited share options expensed off to accumulated loss	–	–	(5)	–	–	5	**–**
As of 30 June 2007	**18,092**	**34,805**	**61**	**24,415**	**–**	**(68,846)**	**8,527**
As of 1 January 2008	25,364	41,562	5	24,415	–	(69,797)	**21,549**
Profit for the period	–	–	–	–	–	10,997	**10,997**
Issue of placing shares	50,000	25,000	–	–	–	–	**75,000**
Share issue expenses	–	(1,975)	–	–	–	–	**(1,975)**
Share issue upon conversion of Convertible Notes	22,000	22,000	–	–	–	–	**44,000**
Exchange differences on translation of the financial statements of PRC subsidiaries	–	–	–	–	2,095	–	**2,095**
As of 30 June 2008	**97,364**	**86,587**	**5**	**24,415**	**2,095**	**(58,800)**	**151,666**

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 Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements as set out in Chapter 18 of the GEM Listing Rules.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared under the historical cost convention and the accounting policies used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

The adoption of the new standards, amendments and interpretations which become effective for accounting periods beginning on or after 1 January 2008 have had no material impact on the Group's results of operations and financial position.

The Group has not early applied the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that have been issued but are not yet effective, in this interim financial report. The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the Group's financial statements:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK (IFRIC) — Interpretation 13	Customer Loyalty Programmes[2]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2008

3. TURNOVER AND OTHER INCOME

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 and other income recognized by category are as follows:

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Turnover				
System services and maintenance income	**77**	2,077	**—**	602
Online professional training and multi media education products income	**27,583**	—	**20,233**	—
	27,660	2,077	**20,233**	602
Other income				
Interest income	**136**	14	**12**	13
Exchange gain	**—**	2	**—**	1
	136	16	**12**	14

4. SEGMENT INFORMATION

(a) Primary reporting format — business segments

The Group was principally engaged in the business segment of financial instruments analysis software and operational software application products.

After the acquisition of the New Beida Business StudyNet Group Limited and its subsidiaries on 27 February 2008, the Group has been engaged in a new business segment of online professional training business and multi-media education products.

The segment information is presented below:

	Operational software application productions for the six months ended 30 June		Online professional training and multi-media education products for the six months ended 30 June		Consolidated for the six months ended 30 June	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue						
Segment revenue	**77**	2,077	**27,583**	–	**27,660**	2,077
Result						
Segment result	**(3)**	195	**18,653**	–	**18,650**	195
Unallocated operating Income and expenses					**(3,819)**	(1,571)
Profit/(loss) from operations					**14,831**	(1,376)
Profit/(loss) before taxation					**14,831**	(1,376)
Taxation					**(3,834)**	–
Net profit/(loss) attributable to shareholders					**10,997**	(1,376)

(b) Secondary reporting format — geographical segments

The Group's business segment of financial instruments analysis software and operational software application products are principally located in Hong Kong.

For the new business segment of online professional training business and multi-media education products, it is operated in the People's Republic of China ("PRC").

Therefore, the geographical segments analysis is the same as the business segments analysis.

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(Loss) before taxation has been arrived at after charging/(crediting):

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Depreciation of plant and equipment	**153**	10	**136**	5
Staff costs (including directors' emoluments)	**2,644**	1,179	**1,969**	487

6. TAXATION

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

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 25% is applicable 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 six months ended 30 June		**(Unaudited) For the three months ended 30 June**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
PRC enterprise income tax	**3,834**	—	**2,863**	—

7. DIVIDEND

The Directors do not recommend payment of interim dividend for the six months ended 30 June 2008. (2007: nil).

8. 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 six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unaudited profit/(loss) for the period for the purpose of basic and diluted profit/(loss) per share	**10,997**	(1,376)	**8,091**	(699)

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
Number of shares	**2008**	2007	**2008**	2007
Weighted average number of ordinary shares for the purpose of basic profit/(loss) per share	**722,762,729**	150,666,149	**884,191,301**	154,519,484
Weighted average number of ordinary shares for the purpose of diluted profit/(loss) per share	**3,130,015,476**	N/A	**4,353,641,850**	N/A

Diluted profit/(loss) per share for the six months and three months ended 30 June 2007 are not presented because the exercise of the Company's outstanding options would have an anti-dilutive impact.

9. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2008 HK$'000	(Audited) 31 December 2007 HK$'000
Trade receivables	**5,596**	—
Other receivables		
Deposits, prepayments and other receivables	**8,393**	13
	13,989	13

The aging analysis of trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	(Unaudited) 30 June 2008 HK$'000	(Audited) 31 December 2007 HK$'000
Within 30 days	**5,593**	—
Between 31 days and 60 days	**3**	—
	5,596	—

The carrying amounts of the trade and other receivables approximate their fair values.

10. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2008 HK$'000	(Audited) 31 December 2007 HK$'000
Trade payable	**834**	89
Other payables		
Receipts in advance	**49**	73
Accrued charges and other creditors	**2,206**	835
	3,089	997

The aging analysis of trade payable as at the balance sheet date is as follows:

	(Unaudited) 30 June 2008 HK$'000	(Audited) 31 December 2007 HK$'000
Within 30 days	**2**	62
Between 31 days and 60 days	**775**	27
Over 180 days	**57**	—
	834	89

The carrying amounts of the trade and other payables approximate their fair values.

11. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary share of HK$0.1 each		
Authorised		
At 1 January 2008	800,000,000	80,000
Increase in authorised share capital (Note 1)	9,200,000,000	920,000
At 30 June 2008	10,000,000,000	1,000,000
Issued and fully paid		
At 1 January 2008	253,641,850	25,364,185
Issue of placing shares (Note 2)	500,000,000	50,000,000
Issue of new shares upon conversion of Convertible Notes (Note 3)	220,000,000	22,000,000
At 30 June 2008	973,641,850	97,364,185

Notes:

(1) Pursuant to an ordinary resolution passed at the extraordinary general meeting held on 14 February 2008, the authorized share capital of the Company was increased from HK$80,000,000 divided into 800,000,000 shares of HK$0.10 each (the "Shares") to HK$1,000,000,000 divided into 10,000,000,000 Shares by creation of an additional 9,200,000,000 Shares.

(2) On 5 February 2008, the placing of new Shares was completed and 500,000,000 new Shares were issued and allotted at placing price of HK$0.15 per Share. The gross proceeds from placing of new Shares before issue expenses amounted to approximately HK$73 million. Details of the placing are set out in the Company's announcement and circular dated 24 October 2007 and 1 November 2007 respectively.

(3) On 28 April 2008, 20,000,000 Shares were issued upon conversion of the Convertible Notes (as defined below) in a principal amount of HK$4,000,000 and on 9 May 2008, 200,000,000 Shares were issued upon conversion of Convertible Notes in a principal amount of HK$40,000,000. These convertible notes ("Convertible Notes") were issued as part of the consideration payable by Wise Gate Investments Limited, a wholly-owned subsidiary of the Company, as purchaser under the acquisition agreement dated 16 October 2007. Details of the acquisition are set out in the Company's announcement and circular dated 24 October 2007 and 21 January 2008 respectively.

12. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2008 (31 December 2007: Nil).

13. COMMITMENTS

(a) At 30 June 2008, the Group had the following commitments in respect of operating leases of rented premises and office equipment:

	(Unaudited) 30 June 2008 HK$'000	(Audited) 31 December 2007 HK$'000
Within one year	**5,231**	—
In second to fifth year inclusive	**15,406**	—
	20,637	—

(b) On 12 June 2008, Best Boom Enterprises Limited ("Best Boom"), being a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Multico Holdings Limited to purchase 61.27% of issued share capital of IIN Medical (BVI) Group Limited ("IIN Medical (BVI)") at a consideration of up to RMB24,508,000 (or its equivalent, HK$27,694,040) and 0.000033% of the issued share capital of IIN Medical Group Limited at a consideration of RMB13.33 (or its equivalent, HK$15.06), with the total consideration up to RMB24,508,013.33 (or its equivalent, HK$27,694,055.06) (the "Consideration A"). On the same day and as part of the acquisition, Best Boom also entered into another acquisition agreement with the minority investors of IIN Medical (BVI) to acquire 38.73% of the issued share capital of IIN Medical (BVI) at a consideration of up to RMB15,492,000 (or its equivalent, HK$17,505,960) (the “Consideration B”).

The Consideration A of up to RMB24,508,013.33 (or its equivalent, HK$27,694,055.06) shall be satisfied in the following manner:

(i) HK$3,390,000 in cash to be deposited with an escrow agent, which (including interest) shall be payable on or before the completion of the acquisition (“the Completion”);

(ii) HK$13,226,439.06 in cash to be payable upon the Completion;

(iii) HK$6,923,510 by the issue of convertible notes upon the Completion; and

(iv) HK$4,154,106 in cash to be payable within 10 business days:

(a) upon Hunan IIN Medical Network Technology Development Co., Ltd. (“Hunan IIN Medical Network”) having entered into the Renewal of the Joint Construction Agreement with Beijing University of Chinese Medicine; or

(b) from the expiry of the Joint Construction Agreement which is 1 August 2010, where, notwithstanding the Joint Construction Agreement having been terminated early, having yet to be Renewed or having not been Renewed, Distance Education College of Beijing University of Chinese Medicine will be able to receive tuition fees (in whatever amount) payable by the students thereof after the expiry of the Joint Construction Agreement; or

(c) from the early termination or the expiry of the Joint Construction Agreement which is 1 August 2010 (whichever is earlier), where owing to any breach thereof on the part of Hunan IIN Medical Network, the Joint Construction Agreement having been terminated or having not been Renewed or where Distance Education College will not be able to receive tuition fees by legitimate means as it currently does pursuant to the Joint Construction Agreement.

The Consideration B of up to RMB15,492,000 (or its equivalent, HK$17,505,960) shall be satisfied in the following manner:

(i) HK$2,260,000 in cash to be deposited with an escrow agent, which shall be payable upon the Completion;

(ii) HK$8,243,576 in cash to be payable upon the Completion;

(iii) HK$4,376,490 by the issue of convertible notes upon the Completion; and

(iv) HK$2,625,894 in cash to be payable:

(a) as to HK$1,173,618 to Mr. Zhu Rong and Mr. Sun Guang Rong within 10 business days upon Hunan IIN Medical Network having entered into the Renewal of the Joint Construction Agreement with Beijing University of Chinese Medicine with the profit sharing percentage under the Renewed Joint Construction Agreement to which Hunan IIN Medical Network is entitled is no less than 51% and other terms and conditions thereunder are no less favourable than those in the Joint Construction Agreement; and

(b) as to HK$1,452,276 to the vendors (excluding Mr. Zhu and Mr. Sun) within 10 business days upon (1) Hunan IIN Medical Network having entered into the Renewal of the Joint Construction Agreement with Beijing University of Chinese Medicine with the profit sharing percentage under the Renewed Joint Construction Agreement to which Hunan IIN Medical Network is entitled is no less than 51% and other terms and conditions thereunder are no less favourable than those in the existing Joint Construction Agreement; or (2) where, notwithstanding the Joint Construction Agreement having not been Renewed, Hunan IIN Medical Network will be able to receive the tuition fees payable by the students thereof up to year 2013 after 1 August 2010.

14. VERY SUBSTANTIAL ACQUISITION

On 12 June 2008, Best Boom, being a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Multico Holdings Limited to purchase 61.27% of issued share capital of IIN Medical (BVI) at a consideration of up to RMB24,508,000 (or its equivalent, HK$27,694,040) and 0.000033% of the issued share capital of IIN Medical Group Limited at a consideration of RMB13.33 (or its equivalent, HK$15.06), with the total consideration up to RMB24,508,013.33 (or its equivalent, HK$27,694,055.06). On the same day and as part of the acquisition, Best Boom also entered into another acquisition agreement with the minority investors of the IIN Medical (BVI) to acquire 38.73% of the issued share capital of IIN Medical (BVI) at a consideration of up to RMB15,492,000 (or its equivalent, HK$17,505,960). Upon the completion of the acquisition, Best Boom will be beneficially interested in the entire share capital of IIN Medical (BVI) and IIN Medical Group Limited.

On 5 August 2008, the Company has applied to the Stock Exchange for a waiver from the strict compliance with the Rule 19.38 of the GEM Listing Rules by extending the despatch date of circular in relation to the very substantial acquisition from 5 August 2008 to a date falling on or before 19 September 2008.

15. POST BALANCE SHEET EVENTS

On 4 July 2008, the Board proposed to change the name of the Company from "ProSticks International Holdings Limited" to "China E-Learning Group Limited 中國網絡教育集團有限公司" and the existing Chinese name of the Company, being "乾坤燭國際控股有限公司" (which was adopted for identification purpose only), will no longer be used. The Board was of the opinion that the proposed change of the name of the Company can better reflect the principal activities of the Group after completion of the acquisition relating to the online professional training business and multi-media education products (the details of which are set out in the Company's circular dated 21 January 2008).

The proposed change of the Company's name is conditional upon, among other conditions, the shareholders approving it at the extraordinary general meeting of the Company to be held on 29 August 2008.

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 Bedia 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 acquisition was completed on 27 February 2008. Since then, the following four months' operational results of New Beida and its subsidiaries (the "New Beida Group") was incorporated into the results of the Group.

Subsequent to the completion of the acquisition of the New Beida Group by the Group during the first quarter of the year, the management has deployed the distance professional learning and multi-media education products which have substantial growth potential as the main businesses in future. During the first half of the year, the businesses including, among others, entrepreneurial management training, academic education and technical advancement achieved sales revenue of approximately HK$27,583,000.

With respect to the entrepreneurial management training, training courses including "The Processes of Rational Managerial Thinking", "Staffs Relationship Management", "Seven Habits towards Successful Career" and "Seven Disciplines for Highly Effective People" are developed in addition to the existing businesses and are highly appraised by the corporate customers.

Operational software application products

The segment revenue of operational software application products for the six months ended 30 June 2008 was HK$77,000 (2007: HK$2,077,000), representing a reduction of approximately 96% compared with that of previous period. Reduction in segment revenue was recorded as the management identified fierce competition in the market of operational application software and the increasing operational costs. The Group therefore shifted its focus to developing the online professional training business and multi-media education products.

FINANCIAL REVIEW

During the six months ended 30 June 2008, the Group recorded turnover of approximately HK$27,660,000, representing an increase of 1,232% compared with approximately HK$2,077,000 in last corresponding period.

During the six months ended 30 June 2008, the Group has recorded a segment turnover of approximately HK$27,583,000 accounting for approximately 99% of the Group's turnover, which mainly arose from online professional training business and multi-media education products.

The Group's net profit attributable to equity holders of the Company was approximately HK$10,997,000 in contrast to net loss of approximately HK$1,376,000 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.

Liquidity and financial resources

During the period under review, net proceeds of approximately HK$97 million was received by the Group by issuance of new shares. As a result, the Group's financial position was significantly improved. Net assets of approximately HK$152 million was recorded as at 30 June 2008 as compared to net assets of approximately HK$22 million as at 31 December 2007.

During the period under review, the Group kept most of its cash in Hong Kong dollars and Renminbi and placed most of them in banks for interest. As at 30 June 2008, the Group had current assets of approximately HK$39 million including cash and bank balances of approximately HK$25 million. As at 30 June 2008, the Group did not have any other borrowings. The Group had total assets of approximately HK$883 million and total liabilities of approximately HK$732 million, representing a gearing ratio (expressed as total liabilities to total assets) of approximately 82.9% as at 30 June 2008 as compared with approximately 4.8% as at 31 December 2007.

Share capital

As at 1 April 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.

On 28 April 2008, 20,000,000 shares were issued upon conversion of the Convertible Notes in a principal amount of HK$4,000,000 and on 9 May 2008, 200,000,000 shares were issued upon conversion of Convertible Notes in a principal amount of HK$40,000,000.

As at 30 June 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$97,364,185 divided into 973,641,850 shares of HK$0.10 each.

Convertible Notes

On 17 October 2007, pursuant to the acquisition of 100% interest in New Beida, the Company issued convertible notes ("Convertible Notes") as partial settlement of the acquisition consideration. The principal terms of the Convertible Notes are as followings:

Date of issue:	27 February 2008
Aggregate principal amount:	HK$720,000,000
Interest rate per annum:	The Note does not bear any interest
Conversion price applicable:	HK$0.20 per share, subject to adjustments
Maturity date:	36 months from the date of issue

As at 30 June 2008, the aggregate outstanding principal amount of the Convertible Notes was HK$676,000,000. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes would result in the issue and allotment of 3,380,000,000 new Shares in the Company.

Foreign exchange exposure

Most of the sales and expenditures of the Group were denominated in Hong Kong dollars and Renminbi. As the exchange rate between Hong Kong dollars and Renminbi is relatively stable and the expenditure in PRC was covered by the sales in PRC, the management considers that the Group has no significant foreign exchange exposures. As at 30 June 2008, the Group did not use any financial instrument for hedging the foreign exchange risk.

Significant investments

During the six months ended 30 June 2008, save for the acquisition of New Beida, no significant investments were made by the Group.

Charges on the Group's assets

There were no material charges on the Group's assets as at 30 June 2008.

Employees Information

As at 30 June 2008, the Group had 8 employees in Hong Kong and 95 employees in the PRC. During the period under review, the total staff costs amount to approximately HK$2,644,000 (2007: HK$1,179,000), representing an increase of 124% as compared to the prior period. The increase is mainly due to the acquisition of New Beida in the first quarter of 2008.

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 contribution to the mandatory provident fund and share options. During the six months ended 30 June 2008, no share options were granted to employees of the Group.

OUTLOOK

The strategies of the Group for the next half of the year include consolidation of the existing projects and expansion into new profit growth bases.

First of all, the Group will conduct market research on entrepreneurial management training and develop new multi-media educational products that are favored by enterprises while on the other hand will devote more efforts to conduct research on big companies and maximizing the relevant sales.

The Group will also strive to complete the acquisition of the distance education college of a Chinese medicine university, to achieve the leading position in the field of Chinese medicine distance learning across the country and to expand its overseas markets, in particular the Eastern Asia and Southeastern Asia regions.

Besides, the Group will prepare for the startup of embedded education, such as launching foreign languages training courses and other professional training courses in universities and the pre-university programs prepared for overseas studies upon completing their high school studies. The prospect of the project is considered to be promising.

The management considers that the tertiary education and recognized occupational training for different industries have huge demands in the PRC and, with the formulation and implementation of appropriate marketing strategies, will hold out enormous potential as growth drivers of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2008, the Directors and chief executive of the Company did not have any interests or short positions in the Shares, underlying Shares or 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 Rules 5.46 to 5.47 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 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 or 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)
Chen Xiaoming (Note 1)	Beneficial owner	510,000,000	52.38%
Atlantis Investment Management Ltd	Beneficial owner	100,000,000	10.27%
GE Asset Management Incorporated	Beneficial owner	96,744,000	9.94%
Chu Yuet Wah (Notes 2 and 4)	Interest of controlled corporations	116,449,000	11.96%
Kingston Finance Limited (Note 3)	Security interest	80,000,000	8.21%
Ma Siu Fong (Note 4)	Interest of a controlled corporation	80,000,000	8.21%
Sino Tactic Group Limited (Note 5)	Beneficial owner	1,770,000,000	181.79%
Cui Meng (Note 6)	Beneficial owner	300,000,000	30.81%
Mo Fei (Note 6)	Beneficial owner	300,000,000	30.81%
Zhu Jing Jing (Note 6)	Beneficial owner	300,000,000	30.81%
林美良 (Note 7)	Beneficial owner	100,000,000	10.27%

Notes:

1. Interests in 510,000,000 Shares or underlying shares comprise interest in 200,000,000 Shares and interest in 310,000,000 underlying shares representing the conversion rights attached to the convertible notes in the principal amount of HK$62,000,000.

2. Interests in 116,449,000 Shares or underlying shares comprise interest in 36,449,000 Shares held by Boyce Limited and security interest of an aggregate of 80,000,000 Shares of Kingston Finance Limited. Boyce Limited is wholly owned by Rony Limited which is in turn wholly owned by Mrs. Chu Yuet Wah. Kingston Finance Limited has a security interest of an aggregate of 80,000,000 Shares, of which 43,551,000 Shares were held by Magic Key International Holdings Limited and 36,449,000 Shares were held by Boyce Limited.

3. Kingston Finance Limited has a security interest of an aggregate of 80,000,000 Shares, of which 43,551,000 Shares were held by Magic Key International Holdings Limited and 36,449,000 Shares were held by Boyce Limited.

4. 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.

5. Interests in the underlying shares represent the conversion rights attached to the convertible notes of a principal amount of HK$354,000,000.

6. Interests in the underlying shares represent the conversion rights attached to the convertible notes of a principal amount of HK$60,000,000.

7. Interests in the underlying shares represent 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 issued share capital of the Company as at 30 June 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	4.47%
Boyce Limited (Note 1)	Beneficial owner	36,449,000	3.74%

Notes:

1. As at 30 June 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 wholly owned by State Finance Group Holdings Limited which is in turn wholly owned by Mr. So Chi Ming. Boyce Limited is wholly owned by Rony Limited which is in turn wholly owned by Mrs. Chu Yuet Wah. 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 issued share capital of the Company as at 30 June 2008.

Save as disclosed above, as at 30 June 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 Rules 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 Alexendra 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, the management shareholders of the Company and their respective associates had any interest in any business that directly or indirectly competes 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 2008.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code") on terms no less exacting 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 the "Code" 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 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 six months ended 30 June 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 resigned as Chairman of the Board and executive Director and Ms. Chan Siu Mun 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 and Ms. Liang Juan has been appointed as executive Director. On 10 July 2008, Ms. Wang Hui has been appointed as executive Director.

By order of the Board
ProSticks International Holdings Limited
Chen Hong
Chairman

Hong Kong, 12 August 2008