

PROSTEN

Prosten Technology Holdings Limited (長達科技控股有限公司)

(incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)



Third Quarterly Result 第三季度業績

For the three months ended 31st December, 2000

截至二零零零年十二月三十一日止三個月

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This report, for which the directors of Prosten Technology Holdings Limited 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 of Hong Kong Limited for the purpose of giving information with regard to Prosten Technology Holdings Limited. 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.

HIGHLIGHTS

- Turnover for the nine months ended 31 December 2000 increased by approximately 24%.
- Net profit for the nine months ended 31 December 2000 amounted to approximately HK\$17,059,000, down by 38.2% from the same period of the last financial year.
- The Board does not recommend the payment of second interim dividend for the nine months ended 31 December 2000.

BUSINESS REVIEW AND OUTLOOK

For the nine months ended 31 December 2000, Prosten Technology Holdings Limited and its subsidiaries (“the Group”) achieved a turnover of HK\$183.4 million, a 24% increase from HK\$147.9 million for the same period in the previous year. Despite of the increase in turnover, the Group reported a 38.2% decrease in net profit to HK\$17,059,000 for the nine months ended 31 December 2000 compared with the same period in the last financial year.

The Group’s effort on upgrading its existing applications and developing new mission-critical software for carrier-class telecommunications operators has become fruitful. During the period under review, it has finalised the product development process and started to launch its new software products under its own brand “kiNETic”. At present, the Group has three major software products using the brand name. They are kiNETic Billcare 3.0 (an IP based billing and customer management system designed specifically for carrier-class service provider), kiNETic Messenger (a carrier-grade unified messaging engine that gives users global access to their e-mail, voice-mail, fax, pager and video messages) and kiNETic Switcher (an advanced e-Commerce switching platform that provides the basic infrastructure for service providers and integrates telecommunications network resources in providing e-Commerce services). Since their launch, the Group has received encouraging response from customers and orders obtained have been satisfactory. A sales and marketing team is being built in a bid to capture more business for these kiNETic software products in both the Hong Kong and the PRC market. In December 2000, the Peking University Dept.CS-Prosten E-biz Co-laboratory has successfully launched its first product, the SinoFinder (a search engine designed for PRC websites). These software products are expected to start contributing to the Group’s bottom line in the short term, and should help improve its profit margins in the future.

In the same period, the Group has managed to diversify its business in terms of technology and customers. On the technology front, by teaming up with more vendors and technical partners, the Group has been able to enter into new businesses such as IP and wireless telecommunication network projects. In terms of customers, apart from its traditional customers in the China Telecom group, the Group has begun to do business with newly emerged carriers and service providers. During the same period, the Group has consolidated all research and development staff into one single office in Shenzhen. The move will not only improve communication among staff members and increase productivity of the R&D team, it will also help speed up the Group’s response to any change in product or service demand in the market. In addition, the Group has reorganized its sales team in the PRC in response to changes in market structure and competition in the telecommunication industry. The reorganisation should also help facilitate the marketing of its kiNETic software products in the future.

With the introduction of new software products and a more diversified customer base, and following its restructuring of R&D and sales teams, the management is confident that the Group is well-positioned to take up any growth opportunities in the telecommunication industry in Hong Kong and the PRC in the future. As at 31 December 2000, the Group had a balance of cash and cash equivalents of approximately HK\$272 million on hand. With its strong cash position, the Group will continue to look for good acquisition opportunities in order to expand its revenues and software development capability in the future.

RESULTS

The board of directors of Prosten Technology Holdings Limited (the "Board") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the nine months and three months ended 31 December 2000 together with comparative unaudited pro forma combined results for the corresponding periods in 1999 as follows:

		Consolidated	Pro forma combined	Consolidated	Pro forma Combined
		Nine months ended 31 December 2000		Three months ended 31 December 2000	
	Notes	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
TURNOVER	2	183,432	147,931	29,793	46,615
Cost of sales		(119,636)	(95,052)	(6,488)	(24,951)
Gross profit		63,796	52,879	23,305	21,664
Other revenue		13,912	556	4,157	102
Distribution costs		(8,961)	(2,558)	(3,321)	(821)
Administrative expenses		(52,869)	(20,933)	(23,888)	(7,415)
PROFIT FROM OPERATING ACTIVITIES		15,878	29,944	253	13,530
Finance costs		(316)	(974)	(145)	(266)
PROFIT BEFORE TAX		15,562	28,970	108	13,264
Tax	3	1,497	(1,343)	(453)	-
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		17,059	27,627	(345)	13,264
DIVIDENDS	4	12,781	20,000	-	-
EARNINGS/(LOSS) PER SHARE	5				
Basic		HK3.34cents	HK6.50cents	(HK0.07cent)	HK3.12cents

Notes:

1. Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands on 22 November 1999 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme to rationalize the structure of the Group in preparation for the public listing of its shares in March 2000, the Company became the holding company of the companies now comprising the Group on 7 March 2000. The Company's shares began trading on the GEM of the Stock Exchange on 28 March 2000.

The Group's results are presented using the following bases:

- a. The unaudited consolidated profit and loss account includes the results of the Company and its subsidiaries for the nine months and three months ended 31 December 2000.
- b. For information purposes, the unaudited pro forma combined profit and loss account includes the results of the Company's subsidiaries for the nine months and three months ended 31 December 1999 on a combined basis as if the current Group structure had been in existence throughout the nine months ended 31 December 1999.

Although the reorganised Group structure did not legally exist until 7 March 2000, the Directors consider that it is appropriate to present the unaudited pro forma combined profit and loss account for the nine months and three months ended 31 December 1999 on the bases as set out in (b) above since the principal activities of the Group were carried out by those subsidiaries prior to and after the completion of the Reorganisation.

2. Turnover

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts, business tax, where applicable, and services rendered. All significant intra-Group transactions have been eliminated on consolidation.

3. Tax

	Pro forma		Pro forma	
	Consolidated	combined	Consolidated	combined
	Nine months ended 31 December 2000		Three months ended 31 December 2000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	(1,950)	947	-	-
Elsewhere	453	396	453	-
	<u>(1,497)</u>	<u>1,343</u>	<u>453</u>	<u>-</u>

No Hong Kong profits tax has been provided for the nine months ended 31 December 2000 as there was no assessable profit arising in Hong Kong during the period. During the nine months ended 31 December 2000, the Group received a tax refund of HK\$1,950,000 from Hong Kong Inland Revenue Department.

Hong Kong profits taxes were provided at the rate of 16% on the assessable profits arising in Hong Kong during the nine months ended 31 December 1999.

Taxes on profits assessable elsewhere for the nine months and three months ended 31 December 2000 and nine months ended 31 December 1999 were calculated at the rates of tax prevailing in the countries in which the Group operated, based on existing legislation, interpretations and practices in respect thereof.

The representative offices of the Group established in the PRC are subject to corporate income tax calculated at the applicable tax rate, currently 33%, with reference to the total expenditure incurred by these representative offices during the periods.

The Group did not have any significant unprovided deferred taxation in respect of each of the periods.

4. Dividends

The first interim dividend of 2.5 cents per share was paid on 12 December 2000. The Board does not recommend the payment of second interim dividend for the nine months ended 31 December 2000. During the nine months ended 31 December 1999, dividends of HK\$20,000,000 were paid by a Company's subsidiary to its then shareholders.

5. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share for the nine months and three months ended 31 December 2000 are based on the unaudited net profit/(loss) attributable to shareholders for the respective periods of HK\$17,059,000 and HK\$345,000 and on the weighted average of 511,250,000 ordinary shares in issue during the periods. The calculation of basic pro forma earnings per share for the nine months and three months ended 31 December 1999 are based on the unaudited pro forma combined profit attributable to shareholders for the respective periods of HK\$27,627,000 and HK\$13,264,000 and on the pro forma weighted average of 425,000,000 ordinary shares in issue during the periods.

Diluted earnings per share for the nine months and three months ended 31 December 2000 have not been shown as the exercise prices of the Company's share options were higher than the average market prices of shares during the periods.

6. Reserves

There was no movement to or from reserves during the nine months ended 31 December 2000.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2000, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Notes	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interest				Total
		Personal	Family	Corporate	Other	
Mr. Yip Heon Ping	(1)	-	-	-	404,280,619	404,280,619
Mr. Yip Seng Mun	(2)	-	-	-	404,280,619	404,280,619

Notes:

- (1) These shares are held by Greenford Company Limited, Century Technology Holding Limited and Bakersfield Global Corporation as trustees of The Greenford Unit Trust, The Century Unit Trust and The Bakersfield Unit Trust, respectively, all the units of which are held by HSBC International Trustee Limited as trustee of The New Millennium Trust, a discretionary family trust established with Mr. Yip Heon Ping as the discretionary object for the time being.
- (2) By virtue of the association with Mr. Yip Heon Ping, Mr. Yip Seng Mun has also declared his interests in the Company.

Save as disclosed above, at 31 December 2000, none of the directors or their associates had any personal, family, corporate or other interest in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 7 March 2000, the board of directors is authorized, at its absolute discretion, to grant options to employees, including executive directors of the Company or any of its subsidiaries, to subscribe for shares in the Company. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 28 March 2000. The following share options were offered to and accepted by executive directors and certain employees of the Group under the Scheme. A summary of the terms of the three categories of option granted are set out below:-

Date granted	Option category	No. of employees entitled	Aggregate no. of shares accepted	Exercise period
29 May 2000 (at subscription price: HK\$1.52/share)	1	56	3,725,000	29 May 2001 - 28 May 2010
	2	2	1,400,000	29 May 2000 - 28 May 2010
	3	5	14,200,000	29 May 2000 - 28 May 2010
28 August 2000 (at subscription price: HK\$1.43/share)	1	2	1,300,000	28 August 2001 - 27 August 2010
	2	1	1,000,000	28 August 2000 - 27 August 2010
13 October 2000 (at subscription price : HK\$1.22/share)	1	18	1,590,000	13 October 2001 - 12 October 2010
	2	3	2,800,000	13 October 2000 - 12 October 2010
	3	5	13,000,000	13 October 2000 - 12 October 2010

As at 31 December 2000, none of the Company's directors/employees exercised any share option and no allotment or issue of share was made pursuant to the Scheme. The total number of shares underlying Options granted remains 39,015,000 shares.

Directors' entitlement (Option 2 & 3) in share options at 31 December 2000 were as follows:

Name of director	Number of share options
Mr. Yip Seng Mun	6,000,000
Mr. Yip Heon Ping	6,300,000
Mr. Yip Heon Wai	5,300,000
Mr. Yip Heon Keung	5,300,000
Ms. Chan Fu Kuen, Gladys	4,300,000
Mr. Chiu Wai Ki	2,000,000
Dr. Clement Lau	1,600,000

Apart from the foregoing, at no time during the nine months ended 31 December 2000 was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares
Greenford Company Limited	155,931,035
Century Technology Holding Limited	155,931,035
Bakersfield Global Corporation	92,418,549
HSBC International Trustee Limited (<i>Notes 1 and 2</i>)	404,660,619

Notes:

- (1) Out of the 404,660,619 shares, an aggregate of 404,280,619 shares are held through Greenford Company Limited, Century Technology Holding Limited and Bakersfield Global Corporation as trustees of The Greenford Unit Trust, The Century Unit Trust and The Bakersfield Unit Trust, respectively, all the units of which are held by HSBC International Trustee Limited as trustee of The New Millennium Trust, a discretionary trust established with Mr. Yip Heon Ping as the discretionary object for the time being.
- (2) HSBC International Trustee Limited is a wholly owned subsidiary within the HSBC Group in which HSBC Investment Bank Holdings B.V., HSBC Holdings B.V., HSBC Finance (Netherlands) and HSBC Holdings plc are members and have reported their deemed interests in the shares as disclosed by HSBC International Trustee Limited.

Save as disclosed above, no persons, other than the directors of the Company, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

COMPETING INTERESTS

None of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, DBS Asia Capital Limited ("DBS"), as at 31 December 2000, neither DBS nor its directors nor employees nor any of their associates had any interest in the share capital of the Company.

Pursuant to the agreement dated 21 March 2000 entered with the Company, DBS received, and will receive, fees for acting as the Company's retained sponsor for the period from 1 April 2000 to 31 March 2002.

AUDIT COMMITTEE

The Company set up an Audit Committee (the “Committee”) on 7 March 2000 with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 31 December 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

By order of the Board
PROSTEN TECHNOLOGY HOLDINGS LIMITED

Chiu Wai Ki
Director

Hong Kong, 13 February 2001

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