



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

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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.*



**PROSTEN TECHNOLOGY HOLDINGS LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*

**HIGHLIGHTS**

- Turnover decreased by 13%.
- Net loss for the three months ended 30 June 2001 amounted to approximately HK\$29,190,000.
- The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2001.

**BUSINESS REVIEW AND OUTLOOK**

For the three months ended 30 June 2001, Prosten Technology Holdings Limited (the "Company") and its subsidiaries (the "Group") achieved a turnover of HK\$37.1 million, compared with HK\$42.6 million for the same period in the previous year. The sales realized during the period were mainly derived from the equipment related network business. The average gross margin of this business was squeezed to a minimum level because of keen competition and unfavorable market conditions. Also the Group was being in the transitional period of shifting its resources from traditional hardware business to the provision of own products for network application software and solutions. This resulted in an increase of overall expenditure in human resources, marketing, and depreciation & amortization of the fixed assets and software being purchased. Against this background, the Group suffered a loss of HK\$29.1 million.

This quarter witnessed increased marketing focus on the kiNETic family of products following the official launch in March 2001. The Company attended the 10th ELE/EXPO COMM SHANGHAI 2001 Exposition in June. ELE/EXPO COMM SHANGHAI 2001 is co-sponsored by the United Nations, United Nations Development Programme (UNDP), Shanghai Municipal Government, the Ministry of Information Industry and the Chinese Academy of Sciences. This was one of the most prestigious exhibitions of the Communication and IT industry to be held in China this year. On exhibit at the Company's exhibition booth were live demonstrations of applications for wireless stock trading utilizing the Fujian 179 Switcher platform, Unified Messaging using the BBICity UMS service hosted in Hong Kong and IP NETWORK BOSS SYSTEM for MAN operators and value add SPS. As a direct result of the Company's participation in this important event many sales leads were generated and several sales will be concluded.

Consolidation of the Group's Research and Development resources into one Development Center has borne exceptional gains in productivity. This has enhanced the ability for the Company to implement new features into multiple products in a short period of time. An example of this being the introduction of wireless access to both the Switcher platform as well as the Unified Messaging platform.

On the sales front, the sales teams managed to gain breakthroughs by penetrating strategic accounts like China Unicom and China Mobile. Significant participation in the 3<sup>rd</sup> phase of Unicom's Voice Over IP (VoIP) network is expected to come to fruition in the following quarter. Sales efforts focused on Billcare (BOSS) has brought San Lian – the first regional carrier in China SHEKON CATV operator – to the Company as a Billcare customer. The business for the kiNETic family is expected to increase in the coming Quarters.

As at 30 June 2001, the Group still maintained a healthy cash position with cash and bank balances of approximately HK\$188 million.

## RESULTS

The Board (the “Board”) of Directors announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 30 June 2001 together with comparative results for the corresponding period in 2000 as follows:

		<b>Three months ended 30 June</b>	
		<b>2001</b>	<b>2000</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>TURNOVER</b>	1	37,103	42,598
Cost of sales		(34,706)	(34,592)
Gross profit		<u>2,397</u>	<u>8,006</u>
Other revenue		1,061	4,257
Selling and distribution costs		(8,229)	(3,090)
Administrative expenses		(24,308)	(8,955)
Other operating expenses		(21)	-
<b>PROFIT / (LOSS) FROM OPERATING ACTIVITIES</b>		<u>(29,100)</u>	<u>218</u>
Finance costs		-	(105)
<b>PROFIT / (LOSS) BEFORE TAX</b>		<u>(29,100)</u>	<u>113</u>
Tax	2	(90)	-
<b>NET PROFIT / (LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<u>(29,190)</u>	<u>113</u>
<b>EARNINGS / (LOSS) PER SHARE</b>	4		
Basic		(HK5.7 cents)	HK0.02 cent

## 1. 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.

## 2. Tax

	<b>Three months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	-	-
Elsewhere	90	-
	<hr/>	<hr/>
	90	-
	<hr/>	<hr/>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

## 3. Dividend

The Board does not recommend the payment of an interim dividend for the period (2000 : Nil).

## 4. Earnings / (loss) per share

The calculation of basic loss per share for the three months ended 30 June 2001 is based on the unaudited net loss attributable to shareholders for the period of HK\$29,190,000 (2000 : net profit of HK\$113,000) and on the weighted average of 511,250,000 (2000 : 511,250,000) ordinary shares in issue throughout the period.

Diluted loss per share for the three months ended 30 June 2001 has not been shown as the share options and warrants outstanding had an anti-dilutive effect on the basic loss per share for the period.

Diluted earnings per share for the three months ended 30 June 2000 has not been shown as no dilutive potential ordinary shares existed during the period.

## 5. Reserves

There was no movement to or from reserves during the period (2000 : Nil).

## **DIRECTORS' INTERESTS IN SHARE CAPITAL**

At 30 June 2001, the interests of the directors of the Company and their associates in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

**Number of issued ordinary shares of HK\$0.10 each  
in the Company held and nature of interest**

Name of director	<i>Notes</i>	Personal	Family Corporate	Other	Total
Mr. Yip Heon Ping	<i>(1)</i>	-	-	404,280,619	404,280,619
Mr. Yip Seng Mun	<i>(2)</i>	-	-	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.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, at 30 June 2001, none of the directors of the Company or their associates had any personal, family, corporate or other interests 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 "Option 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 Option Scheme became effective upon the listing of the Company's shares on the GEM of the Exchange on 28 March 2000. Details of the share options, granted at a cash consideration of HK\$1 per grantee, under the Option Scheme to the directors of the Company are as follows:

Name of director	Number of share options outstanding as at 30 June 2001	Exercise price of share options	Exercise period of share options
Mr. Yip Seng Mun	3,000,000	HK\$1.52	29 May 2000 to 28 May 2010
	3,000,000	HK\$1.22	13 October 2000 to 12 October 2010
Mr. Yip Heon Ping	2,800,000	HK\$1.52	29 May 2000 to 28 May 2010
	3,500,000	HK\$1.22	13 October 2000 to 12 October 2010
Mr. Yip Heon Wai	2,800,000	HK\$1.52	29 May 2000 to 28 May 2010
	2,500,000	HK\$1.22	13 October 2000 to 12 October 2010
Mr. Yip Heon Keung	2,800,000	HK\$1.52	29 May 2000 to 28 May 2010
	2,500,000	HK\$1.22	13 October 2000 to 12 October 2010
Ms. Chan Fu Kuen, Gladys	2,800,000	HK\$1.52	29 May 2000 to 28 May 2010
	1,500,000	HK\$1.22	13 October 2000 to 12 October 2010
Mr. Chiu Wai Ki	1,000,000	HK\$1.43	28 August 2000 to 27 August 2010
	1,000,000	HK\$1.22	13 October 2000 to 12 October 2010
Dr. Clement Lau	600,000	HK\$1.52	29 May 2000 to 28 May 2010
	1,000,000	HK\$1.22	13 October 2000 to 12 October 2010

In accordance with the terms of the Option Scheme, the share options are exercisable within a period of 10 years from the date when the share options are granted. During the three months ended 30 June 2001, none of the Company's directors exercised any share option and no allotment or issue of share was made pursuant to the Option Scheme.

Apart from the foregoing, at no time during the three months ended 30 June 2001 was the Company or any of its 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.

The Company issued a circular to the shareholders of the Company on 29 June 2001 in which a proposed cancellation of the above share options and the share options granted prior to that date to employees of the Group and a proposed increase of the maximum number of share options to be granted under the Option Scheme were made. The independent shareholders of the Company approved the proposed cancellation of share options and the proposed increase in the maximum number of share options to be granted under the Option Scheme at the annual general meeting of the Company held on 27 July 2001.

## **SUBSTANTIAL SHAREHOLDERS**

At 30 June 2001, the following interests of 10% or more in the issued share capital of the Company were recorded in the Register of Interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Percentage of holding</b>	<b>Number of ordinary shares</b>
Greenford Company Limited	30.5%	155,931,035
Century Technology Holding Limited	30.5%	155,931,035
Bakersfield Global Corporation	18.1%	92,418,549
HSBC International Trustee Limited ( <i>Notes 1 and 2</i> )	79.1%	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 at 30 June 2001, DBS Asia Capital Limited (the "Sponsor"), its directors, employees or associates, did not have any interest in the securities of the Company and any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Pursuant to the agreement dated 21 March 2000 entered into between the Company and the Sponsor, the Sponsor 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 of the Company.



## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the three months ended 30 June 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board  
**PROSTEN TECHNOLOGY HOLDINGS LIMITED**  
**Yip Seng Mun**  
*Chairman*

Hong Kong, 10 August 2001

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