

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 of the Stock Exchange 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 announcements 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 of Hong Kong Limited (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 (the “Directors”) of Prosten Technology 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 of Hong Kong Limited (the “GEM Listing Rules”) 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.

HIGHLIGHTS

- Turnover of the Group for the nine months ended 31 December 2001 amounted to approximately HK\$95.1 million, representing a decrease of approximately 48.1 per cent. as compared to the same period in previous year.
- Net loss of the Group for the nine months ended 31 December 2001 amounted to approximately HK\$81,278,000.
- The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2001.

BUSINESS REVIEW AND OUTLOOK

The following is a review of the performance of the Company and its subsidiaries (together, the “Group”) during the quarter ended 31 December 2001. Continuing developments in the Group’s kiNETic products, including successful deployment of the Group’s broadband solutions, were the main business focus of the Group in the quarter under review. Shandong Province’s China Unicom successfully launched the services that deployed the Group’s kiNETic Publisher. Broadband solutions provided by the Group are being considered by several provincial operators and major Internet service providers in the People’s Republic of China (the “PRC”). The Group’s kiNETic Billcare has received much attention from prospective customers, particularly cable television operators offering broadband communication services. The Directors foresee that the Group’s kiNETic Billcare will gain increasing acceptance as the market awareness of such product increases.

The research and development resources of the Group have shown increased productivity to produce products, such as kiNETic Publisher and the SMS Tower, providing enhancements to its kiNETic BillCare. During the recent APEC conference hosted in Shanghai, the Group’s kiNETic BillCare was used in providing wireless Internet access for the conference attendees. The Group’s kiNETic Publisher was launched and has been deployed in Shandong Province by a subsidiary of China Unicom, which is being used to distribute local information, such as daily price fluctuations of household goods at the local supermarkets, to subscribers. This kind of information has proven helpful in the everyday life of subscribers.

On the sales front, the sales teams of the Group continued to gain breakthrough by penetrating strategic accounts, such as China Unicom and China Mobile. The third phase of China Unicom’s Voice Over IP (VoIP) network came to fruition in the quarter under review and is expected to be fully implemented on or ahead of schedule. Follow-on sales orders have already been received by the Group. Provincial telecommunication operators continue to operate the Group’s kiNETic Messenger products on a trial basis while a major deployment is expected to take place in the final quarter of this fiscal year. New initiative was made for developing new sales channels, and these are expected to help

the Group to broaden its customer base through enhanced coverage of “non-traditional” target customers. The Directors expect that new channel partners will come on board by next quarter.

The trend in cautious spending by the telecommunication operators in the PRC continued during the quarter under review. Coupled with fierce competition from growing number of local companies, there resulted in price pressure in the industry in which the Group operates which had an adverse impact on the profit margin of the business of the Group. As a result, the Group was very selective in choosing appropriate projects so as to ensure that the efforts of the Group would be rewarded. To respond to these adverse market conditions, the Group has made appropriate measures to control its operating cost.

As a result of the above factors, the gross profit margin of the Group for the nine months ended 31 December 2001 was approximately 11.4 per cent. as compared with approximately 5.9 per cent. for the six months ended 30 September 2001.

RESULTS OF THE GROUP

The board (the “Board”) of Directors announces the unaudited consolidated results of the Group for the nine months and for the three months ended 31 December 2001 together with comparative results for the corresponding periods in 2000 as follows:

	<i>Notes</i>	Nine months ended 31 December		Three months ended 31 December	
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
TURNOVER	2	95,137	183,432	37,003	29,793
Cost of sales		<u>(84,288)</u>	<u>(119,636)</u>	<u>(29,602)</u>	<u>(6,488)</u>
Gross profit		<u>10,849</u>	<u>63,796</u>	<u>7,401</u>	<u>23,305</u>
Other revenue		3,749	13,912	980	4,157
Selling and distribution costs		(14,189)	(8,961)	(933)	(3,321)
Administrative expenses		(64,499)	(52,869)	(21,444)	(23,888)
Other operating expenses		<u>(16,839)</u>	<u>—</u>	<u>(16,818)</u>	<u>—</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		(80,929)	15,878	(30,814)	253
Finance costs		<u>(123)</u>	<u>(316)</u>	<u>(108)</u>	<u>(145)</u>
PROFIT/(LOSS) BEFORE TAX		(81,052)	15,562	(30,922)	108
Tax	3	<u>(226)</u>	<u>1,497</u>	<u>(76)</u>	<u>(453)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(81,278)</u>	<u>17,059</u>	<u>(30,998)</u>	<u>(345)</u>
DIVIDENDS	4	<u>—</u>	<u>12,781</u>	<u>—</u>	<u>—</u>
EARNINGS/(LOSS) PER SHARE	5				
Basic		<u>(HK15.90 cents)</u>	<u>HK3.34 cents</u>	<u>(HK6.06 cents)</u>	<u>(HK0.07 cents)</u>

Notes:

1. Basis of presentation

The principal accounting policies adopted in preparing the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants.

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

	Nine months ended 31 December		Three months ended 31 December	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	—	(1,950)	—	—
Elsewhere	<u>226</u>	<u>453</u>	<u>76</u>	<u>453</u>
	<u><u>226</u></u>	<u><u>(1,497)</u></u>	<u><u>76</u></u>	<u><u>453</u></u>

Hong Kong profits tax has not been provided for the nine months ended 31 December 2001 as the Group did not generate any assessable profits 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 the Hong Kong Inland Revenue Department.

Taxes on profits assessable elsewhere have been 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.

4. Dividends

The Board does not recommend the payment of any interim dividend for the nine months ended 31 December 2001. During the nine months ended 31 December 2000, the Board recommended the payment of an interim dividend of 2.5 cents per share, which was paid on 12 December 2000 to the shareholders of the Company.

5. Loss per share

The calculation of basic loss per share for the nine months and for the three months ended 31 December 2001 are based on the unaudited net loss attributable to shareholders for the respective periods of HK\$81,278,000 (2000: net profit of HK\$17,059,000) and HK\$30,998,000 (2000: net loss of HK\$345,000) and on the weighted average of 511,250,000 (2000: 511,250,000) ordinary shares in issue throughout the periods.

Diluted loss per share for the nine months and for the three months ended 31 December 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 nine months and for the three months ended 31 December 2000 has not been shown as no dilutive potential ordinary shares existed during the period.

6. Reserves

There was no movement to or from reserves during the nine months and the three months ended 31 December 2001 (2000: Nil).

USE OF PROCEEDS

The Company obtained net proceeds, after deducting relating expenses, of approximately HK\$363 million from the new issue of shares by way of placing in March 2000. During the period from 28 March 2000 (date of listing of the Company's shares on GEM) to 31 December 2001, the Group applied the net proceeds as follows:

	<i>HK\$ million</i>
For expanding broadband data networks and Internet backbone solution operations in the Greater China region	86.9
For the development of applications software for network operations, and acquisition of investment	100.1
For development of e-commerce platforms and related applications software for application service providers	4.6
For the acquisition of hardware and software for setting up a broadband ISP in Hong Kong and for related marketing and operational costs	28.2
For advertising and promotional expenses for expanding broadband data networks solution operations in the Greater China region	3.9
For deployment of human resources, setting up representative offices in target regions and related administration	<u>3.0</u>
	<u><u>226.7</u></u>

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow. As at 31 December 2001, the Group had cash and bank balances amounting to a total of approximately HK\$122.9 million and a bank loan of approximately HK\$2.3 million. With these financial resources, the Directors believe that the Group has adequate capital resources to finance its business objectives as stated in the Company's prospectus dated 21 March 2000.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2001, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as required to be recorded in the register maintained by the Company pursuant to Section 29 of 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
Dr. Clement Lau	(3)	50,000	50,000	20,719,381	—	20,769,381

Notes:

- (1) These shares were 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 were 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 declared his interests in the share capital of the Company.
- (3) The 50,000 shares were beneficially owned by Dr. Clement Lau and his wife jointly. The 20,719,381 shares were held by First League Investments Limited, of and in which Dr. Clement Lau was a director and held 40 per cent. of its issued share capital.

In addition to the above, certain Directors had non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Company solely for the purpose of complying with the requirement on the minimum number of shareholders.

Save as disclosed above, as at 31 December 2001, none of the Directors 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 is authorised, at its absolute discretion, to grant options to employees of the Group, including executive Directors and the directors of any of the Company's subsidiaries, to subscribe for shares in the Company. The Option Scheme became effective upon the listing of the Company's shares on GEM on 28 March 2000. On 29 June 2001, the Company issued a circular to its shareholders in

which a proposed cancellation of the share options granted under the Option Scheme prior to that date to the Directors and the 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 such proposed cancellation of share options and such 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. Details of the share options granted under the Option Scheme to the Directors are as follows:

Name of Director	As at 1 April 2001	Movement during the period			Number of share options outstanding as at 31 December 2001	Exercise price of share options	Exercise period of share options
		Cancelled	Re-granted	Exercised			
Mr. Yip Seng Mun	6,000,000	6,000,000	6,000,000	—	6,000,000	HK\$0.40	22 August 2001 to 21 August 2011
Mr. Yip Heon Ping	6,300,000	6,300,000	6,300,000	—	6,300,000	HK\$0.40	22 August 2001 to 21 August 2011
Mr. Yip Heon Wai	5,300,000	5,300,000	5,300,000	—	5,300,000	HK\$0.40	22 August 2001 to 21 August 2011
Mr. Yip Heon Keung	5,300,000	5,300,000	5,300,000	—	5,300,000	HK\$0.40	22 August 2001 to 21 August 2011
Ms. Chan Fu Kuen, Gladys	4,300,000	4,300,000	4,300,000	—	4,300,000	HK\$0.40	22 August 2001 to 21 August 2011
Dr. Clement Lau	1,600,000	1,600,000	1,600,000	—	1,600,000	HK\$0.40	22 August 2001 to 21 August 2011

In accordance with the terms of the Option Scheme, the share options are exercisable within a period of not more than 10 years from the respective date when the share options are granted. During the nine months ended 31 December 2001, none of the Directors exercised any share option and no allotment or issue of any share of the Company was made pursuant to the Option Scheme.

Apart from the foregoing, at no time during the nine months ended 31 December 2001 was the Company or any of its subsidiaries a party to any arrangement to enable the 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.

In January 2001, a bonus issue of 2004 warrants was implemented whereby holders of the warrants were entitled to subscribe in units of HK\$1.43 each in cash for a fully paid share for the period from 9 January 2001 up to 18 January 2004. As at 31 December 2001, First League Investments Limited held 9,983,750 units of warrants amounting to HK\$14,276,762.5. Dr. Clement Lau was interested in such warrants by virtue of his

interest in 40 per cent. of the issued share capital in First League Investments Limited. Dr. Clement Lau and his wife were also joint beneficial owners of 23,850 units of such warrants as at 31 December 2001.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following persons or corporations which were interested of 10 per cent. or more in the issued share capital of the Company were recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Percentage of share holdings	Number of ordinary shares held
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 were 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 were 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 the Directors are not aware of any other person having an interest in shares representing 10 per cent. or more of the issued share of the Company.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (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

Pursuant to a sponsor agreement dated 21 March 2000 entered into between the Company and DBS Asia Capital Limited (“DBS Asia”), DBS Asia received, and will receive, fees for acting as the Company’s retained sponsor for the period from 1 April 2000 to 31 March 2002.

Save as disclosed above, as at 31 December 2001 and the date of this announcement, DBS Asia, 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.

AUDIT COMMITTEE

The Board set up an audit committee (the “Committee”) on 7 March 2000 with written terms of reference based on the guidelines set out in “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants for the purpose of reviewing and providing supervision over the financial reporting process and internal control procedures of the Group. The Committee comprises two independent non-executive Directors, namely, Mr. James T. Siano and Mr. Au Shing Kwok. This quarterly result report was reviewed and approved by the Committee and the Compliance Officer of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 31 December 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, 5 February 2002

This report will remain on the GEM website with the domain name of www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the day of its posting.

* *For identification only*