

PROSTEN

PROSTEN TECHNOLOGY HOLDINGS LIMITED

長達科技控股有限公司*

(incorporated in the Cayman Islands with limited liability)



* For identification purpose only

Interim Report | 2002

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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 six months ended 30 September 2002 amounted to approximately HK\$13.3 million, representing a decrease of approximately 77% as compared to the corresponding period in the previous financial year.
- Net loss attributable to shareholders for the six months ended 30 September 2002 amounted to approximately HK\$36.9 million.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002.

RESULTS

The Board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months and three months ended 30 September 2002 together with the unaudited comparative figures for the corresponding periods in 2001 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 September		Three months ended 30 September	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
TURNOVER	2	13,346	58,134	7,956	21,031
Cost of sales		(8,787)	(54,685)	(5,523)	(19,979)
Gross profit		4,559	3,449	2,433	1,052
Other revenue	2	1,068	2,769	574	1,708
Selling and distribution costs		(11,874)	(13,256)	(5,617)	(5,027)
General and administrative expenses		(27,690)	(39,801)	(15,557)	(17,081)
Other operating expenses		(2,869)	(3,275)	(1,488)	(1,666)
LOSS FROM OPERATING ACTIVITIES	4	(36,806)	(50,114)	(19,655)	(21,014)
Finance costs		(41)	(15)	(5)	(15)
LOSS BEFORE TAX		(36,847)	(50,129)	(19,660)	(21,029)
Tax	5	(6)	(150)	(3)	(60)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(36,853)	(50,279)	(19,663)	(21,089)
LOSS PER SHARE	6				
Basic		(HK7.2 cents)	(HK9.8 cents)	(HK3.8 cents)	(HK4.1 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	7	8,811	11,173
Deferred development costs	8	1,820	2,175
Intangible asset	9	43,594	44,359
Deposits and club debenture		1,335	2,272
Long term investment	10	10,372	10,372
		65,932	70,351
CURRENT ASSETS			
Inventories		12,566	12,609
Trade receivables	11	19,146	26,628
Prepayments, deposits and other receivables		7,818	6,739
Short term investments		3,193	7,158
Pledged bank deposits		2,109	6,814
Cash and cash equivalents		108,883	127,096
		153,715	187,044
CURRENT LIABILITIES			
Trade payables	12	16,917	16,058
Tax payable		2,203	2,197
Accrued liabilities, deposits received and other payables		7,718	7,121
Interest-bearing borrowings, secured	13	–	1,886
		26,838	27,262
NET CURRENT ASSETS		126,877	159,782
TOTAL ASSETS LESS CURRENT LIABILITIES		192,809	230,133
NON-CURRENT LIABILITIES			
Interest-bearing borrowings, secured	13	–	471
		192,809	229,662
CAPITAL AND RESERVES			
Share capital	14	51,125	51,125
Reserves		141,684	178,537
		192,809	229,662

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Exchange fluctuation reserve	Retained profits/ losses (accumulated)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001 (Audited)	51,125	339,275	129	4,606	395,135
Net loss for the year	-	-	-	(165,439)	(165,439)
Exchange differences arising on consolidation of overseas subsidiaries	-	-	(34)	-	(34)
At 31 March 2002 (Audited)	51,125	339,275	95	(160,833)	229,662
Net loss for the period	-	-	-	(17,190)	(17,190)
Exchange difference arising on consolidation of overseas subsidiaries	-	-	(14)	-	(14)
At 30 June 2002 (Unaudited)	51,125	339,275	81	(178,023)	212,458
Net loss for the period	-	-	-	(19,663)	(19,663)
Exchange differences arising on consolidation of overseas subsidiaries	-	-	14	-	14
At 30 September 2002 (Unaudited)	51,125	339,275	95	(197,686)	192,809

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(24,051)	(21,864)
Net cash inflow/(outflow) from investing activities	8,195	(21,156)
Net cash inflow/(outflow) from financing activities	(2,357)	1,410
Net cash decrease in cash and cash equivalents	(18,213)	(41,610)
Cash and cash equivalents at beginning of period	127,096	164,713
Cash and cash equivalents at end of period	108,883	123,103

Notes:

1. BASIS OF PREPARATION

The unaudited condensed interim financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 March 2002, except as described below:

The Group has adopted, for the first time for the current period’s unaudited condensed interim financial statements, a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by HKSA as follows:

SSAP 1 (Revised)	:	“Presentation of financial statements”
SSAP 11 (Revised)	:	“Foreign currency translation”
SSAP 15 (Revised)	:	“Cash flow statements”
SSAP 34	:	“Employee benefits”

The adoption of the new and revised SSAPs has had no material impact on the Group’s unaudited condensed interim financial statements.

The unaudited condensed interim financial statements are unaudited but have been reviewed by the audit committee of the Company.

2. TURNOVER AND REVENUE

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

An analysis of the Group’s turnover and revenue is as follows:

	Six months ended 30 September		Three months ended 30 September	
	2002 HK\$’000 (Unaudited)	2001 HK\$’000 (Unaudited)	2002 HK\$’000 (Unaudited)	2001 HK\$’000 (Unaudited)
Turnover:				
Sale of goods	11,477	55,626	6,520	19,240
Services rendered	1,869	2,508	1,436	1,791
	13,346	58,134	7,956	21,031
Other revenue:				
Interest income	938	2,327	472	1,501
Investment income	50	433	22	198
Others	80	9	80	9
	1,068	2,769	574	1,708
Total revenue	14,414	60,903	8,530	22,739

3. SEGMENT INFORMATION

The Group's operating businesses are organised and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) Provision of broadband data networks and Internet backbone solutions;
- (b) Provision of applications software; and
- (c) Provision of e-commerce solutions and related IT consultancy services.

An analysis of the Group's unaudited revenue and results for the six months ended 30 September 2002 and 2001 by business segment is as follows:

	Provision of broadband data networks and Internet backbone solutions		Provision of applications software		Provision of e-commerce solutions and related IT consultancy services		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>9,901</u>	55,626	<u>3,114</u>	1,326	<u>331</u>	1,182	<u>13,346</u>	58,134
Segment results	<u>(12,741)</u>	(21,715)	<u>(5,865)</u>	(10,090)	<u>(4,942)</u>	(6,973)	<u>(23,548)</u>	(38,778)
Unallocated expenses							<u>(14,326)</u>	(14,105)
Other revenue							<u>1,068</u>	2,769
Loss from operating activities							<u>(36,806)</u>	(50,114)
Finance costs							<u>(41)</u>	(15)
Loss before tax							<u>(36,847)</u>	(50,129)
Tax							<u>(6)</u>	(150)
Net loss from ordinary activities attributable to shareholders							<u>(36,853)</u>	(50,279)

4. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Six months ended 30 September		Three months ended 30 September	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Cost of inventories sold	6,182	52,023	4,615	18,631
Cost of services provided	2,605	2,662	908	1,348
Depreciation	2,813	3,905	1,390	2,285
Minimum lease payments under operating leases:				
Land and buildings	3,896	3,995	2,420	1,998
Staff costs (including directors' remuneration):				
Wages and salaries	20,097	22,480	10,769	10,148
Pension scheme contributions	1,129	1,149	672	519
Amortisation of an intangible asset	765	765	382	382
Research and development costs:				
Current period expenditure	2,869	3,275	1,488	1,666
Amortisation of deferred development costs	355	709	177	355
Loss on disposal of fixed assets	24	21	24	-

5. TAX

	Six months ended 30 September		Three months ended 30 September	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Current period provision:				
Hong Kong	-	-	-	-
Elsewhere	6	150	3	60
Tax charge for the period	6	150	3	60

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the six months and three months ended 30 September 2002 (2001: Nil). 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.

6. LOSS PER SHARE

The calculation of basic loss per share for the six months and three months ended 30 September 2002 are based on the unaudited net loss attributable to shareholders of HK\$36,853,000 (six months ended 30 September 2001: net loss of HK\$50,279,000) and HK\$19,663,000 (three months ended 30 September 2001: net loss of HK\$21,089,000), respectively, and on the weighted average number of 511,250,000 ordinary shares (both for the six months and the three months ended 30 September 2001: 511,250,000 ordinary shares) in issue throughout the periods.

Diluted loss per share for the six months and three months ended 30 September 2002 and 2001 have not been shown as the share options and warrants outstanding had an anti-dilutive effect on the basic loss per share for the periods.

7. FIXED ASSETS

The movements of fixed assets of the Group were:

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
Net book value, beginning of period/year	11,173	18,813
Additions	484	5,578
Disposals	(33)	(342)
Depreciation	(2,813)	(6,905)
Impairment recognised in the profit and loss account	-	(5,984)
Exchange adjustments	-	13
	<u>8,811</u>	<u>11,173</u>

8. DEFERRED DEVELOPMENT COSTS

Deferred development costs of the Group comprised:

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
Net book value, beginning of period/year	2,175	5,542
Additions	-	371
Amortisation	(355)	(1,419)
Impairment recognised in the profit and loss account	-	(2,324)
Exchange adjustments	-	5
	<u>1,820</u>	<u>2,175</u>

9. INTANGIBLE ASSET

Intangible asset of the Group comprised:

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
Net book value, beginning of the period/year	44,359	45,889
Amortisation	(765)	(1,530)
	<u>43,594</u>	<u>44,359</u>

10. LONG TERM INVESTMENT

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
Unlisted equity investment, at cost	49,920	49,920
Provision for impairment	(39,548)	(39,548)
	<u>10,372</u>	<u>10,372</u>

The unlisted equity investment represents the Group's 16% equity interest in a Sino-foreign jointly-controlled entity in the People's Republic of China (the "Investment"). The consideration for the acquisition was determined by reference to a valuation carried out by American Appraisal Hongkong Limited, an independent firm of professional valuers, on the Investment at 30 April 2001. The Sino-foreign jointly-controlled entity is involved in the high-technology industry in the PRC. In the opinion of the Directors, the Group does not have any significant influence over the financial and operating policies of the Investment and accordingly, it has been carried at cost less any impairment losses.

As at 31 March 2002, a provision for impairment loss of HK\$39,548,000 was set aside by the Group as the fair value of the Investment declined below the original cost according to a valuation carried out by Grant Sherman Appraisal Limited, an independent firm of professional valuers. In the opinion of the Directors, such decline was not temporary in nature.

11. TRADE RECEIVABLES

Trade receivables, which generally have credit terms pursuant to the provisions of the relevant contracts, are recognised and carried at original invoice amount, and an estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

An aged analysis of the Group's trade receivables, net of provisions, is as follows:

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
0 – 90 days	7,591	7,805
91 – 180 days	830	7,076
181 – 365 days	1,617	17
Over 365 days	<u>9,108</u>	<u>11,730</u>
	<u>19,146</u>	<u>26,628</u>

12. TRADE PAYABLES

An aged analysis of the Group's trade payables is as follows:

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
0 – 90 days	5,375	4,521
91 – 180 days	263	25
181 – 365 days	2	1,997
Over 365 days	<u>11,277</u>	<u>9,515</u>
	<u>16,917</u>	<u>16,058</u>

13. INTEREST-BEARING BORROWINGS, SECURED

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
Bank loans, secured	—	2,357
Bank loans payable:		
Within one year	—	1,886
In the second year	—	471
	—	2,357
Portion classified as current liabilities	—	(1,886)
Non-current portion	—	471

14. SHARE CAPITAL

Shares

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
Authorised:		
2,500,000,000 ordinary shares of HK\$0.10 each	250,000	250,000
Issued and fully paid:		
511,250,000 ordinary shares of HK\$0.10 each	51,125	51,125

15. BANKING FACILITIES

As at 30 September 2002, the Group's banking facilities were secured by bank deposits in the aggregate amount of HK\$2,109,000 (31 March 2002: HK\$6,814,000) and corporate guarantees executed by the Company and certain subsidiaries of the Company.

As at 30 September 2002, the banking facilities utilised by the Group amounted to approximately HK\$2,109,000 (31 March 2002: HK\$4,466,000).

16. COMMITMENTS**(i) Operating lease commitments**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

As at 30 September 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
Within one year	8,179	7,020
In the second to fifth years, inclusive	640	2,274
	<u>8,819</u>	<u>9,294</u>

(ii) Capital commitments contracted for

	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
Acquisition of fixed assets	<u>14</u>	<u>111</u>

- (iii) As at 30 September 2002, the Group had outstanding commitments to provide funding amounting to HK\$1,311,000 (31 March 2002: HK\$1,311,000) for certain research and development projects undertaken by an independent third party in respect of the Group's products.

The Company had no commitments at the balance sheet date.

17. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

The Company has given corporate guarantees in favour of certain banks to the extent of HK\$33,309,000 (31 March 2002: HK\$99,214,000) in respect of banking facilities granted to certain subsidiaries of the Company.

As at 30 September 2002, the bank facilities granted to the subsidiaries subject to these guarantees given to the banks by the Company were utilised to the extent of approximately HK\$2,109,000 (31 March 2002: HK\$4,466,000).

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2002, the turnover of the Group amounted to HK\$13.3 million (30 September 2001: HK\$58.1 million), representing a decrease of approximately 77% as compared to the corresponding period of 2001. This is mainly attributed to the decrease in broadband data networks and internet backbone solutions by 82.2% during the period. On the other hand, the overall revenue of applications software and e-commerce solutions and related IT consultancy services was increased by 37.4% for the corresponding period of last year. The overall drop in turnover was mainly due to the slack economic climate and the Group is still under significant economic pressure.

During the period under review, the net loss attributable to shareholders of the Group amounted to HK\$36.9 million (30 September 2001: HK\$50.3 million), representing a decrease of 26.6% of loss as compared with the corresponding period of 2001. It is mainly due to the Group's continuation in tightening control on operating expenses and debts collection. The net loss attributable to shareholders for the three months ended 30 September 2002 was HK\$19.7 million.

The gross profit margin of the Group was 34.2% for the six months under review compared with the gross profit margin of 5.9% for the corresponding period of 2001. The higher gross profit margin of the Group was attributable to the increase in software and services contracts which have a higher profit margin, when compared to the sale of hardware in the same period of last year. The Group will continue to put more efforts in the high margin software and service contracts and also develop its new market segment in order to diversify the customer base in the PRC.

The Group succeeded in reducing its selling and distribution costs, general and administrative expenses and other operating expenses for the interim period by 24.7% compared to the same period of last year through tightening its cost control. The management of the Group has implemented a new cost control system through monthly budget controlling system. To further improve the cost control, the Group will speed up its restructuring process, simplify the organization structure, downsize the management team, and lower the overall operating expenses. The Group will see further improvement and a better management of its resources in greater efficiency in near future.

Liquidity and Financial Resources

As at 30 September 2002, the Group's total shareholders' funds amounted to HK\$193 million as compared to HK\$230 million as at 31 March 2002. The Group has net current assets of HK\$127 million as compared to net current assets of HK\$160 million as at 31 March 2002. The Group's liquidity remains sound with a current ratio of 5.7 as at 30 September 2002 (31 March 2002: 6.9). The Group's gearing ratio, as a ratio of total borrowings to shareholders' fund as at 30 September 2002 was 0% (31 March 2002: 1%).

The Group continues to maintain a healthy financial position during the period. Total cash and cash equivalents plus other liquid funds amounted to HK\$111 million as at 30 September 2002 (31 March 2002: HK\$134 million). The Directors believe that the Group has adequate financial resources to support its business objectives in the coming year. As at 30 September 2002, the Group was debt free (31 March 2002: HK\$2.4 million), it was due to the full repayment of bank loans during the period under review.

As at 30 September 2002, the total amount of bank facilities was HK\$33.3 million (31 March 2002: HK\$68 million) from several banks for overdraft, loans and other financing, of which HK\$2.1 million (31 March 2002: HK\$4.5 million) was used. Such facilities were secured by pledges of the Group's bank deposits of HK\$2.1 million (31 March 2002: HK\$6.8 million) and guaranteed by the Company. The Group did not have any significant contingent liabilities as at 30 September 2002.

As at 30 September 2002, the Group has outstanding commitments of HK\$1.3 million (31 March 2002: HK\$1.4 million) in respect of provide funding for certain research and development projects and the acquisition of fixed assets.

Capital Structure

The shares of the Company were listed on GEM on 28 March 2000. There has not been any change to the capital structure of the Company since that date.

Significant Investments and Composition of the Group

The Group has no plans for material investments or capital assets other than those set out in the prospectus of the Company issued on 21 March 2000.

As at the report date, the Group is in negotiation with an independent third party to dispose of a subsidiary that holds a 16% equity interest in a Sino-foreign jointly-controlled entity in the PRC. Such negotiation may or may not result in any agreement. For this reason, the Group has not included the financial impact in respect of the said jointly-controlled entity in the unaudited condensed interim financial statements.

Save as disclosed above, there is no acquisition and disposals of subsidiaries and affiliated companies by the Company during the six months ended 30 September 2002 and 2001.

Foreign Currency Exchange Exposure

The Group's monetary assets are principally denominated in Hong Kong dollars and United States dollars, the Directors believe that the Group's exposure to exchange rate risk is not material due to the currency peg of Hong Kong dollars and United States dollars.

Treasury Policies

As at 30 September 2002, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

Employee Information

As at 30 September 2002, the Group has a total of 136 employees. Employees are remunerated according to their performance and work experience. In addition to salaries, employee benefits included medical scheme, pension contributions and share option schemes.

Business Review and Outlook

Focus on high margin business

The Group is focusing on high-margin service revenue generation and fulfillment process by prioritizing internal resources to ensure an improvement on productivity in the first half of the financial year. The service revenue streams are generated from our software related solution implementation specifically tailored for customers' needs based on our current powerful products suits of kiNETic™ platform solutions. Other sources of revenue include our network services related project management. The Group has improved its turnaround time which results in early completion of the projects. A major project like Unicom VOIP backbone phase II expansion project, world's largest VOIP network project in capacity, turnaround time of which was cut by 30% with timely generated invoices and receipt of payment. The Group's service strategy by forming a fully-owned subsidiary is well executed in Shanghai with recorded size of revenue inflow and major endorsements from some major equipment suppliers' pre-service certification. In view of the increasing demand on storage solution in the information technology market, the subsidiary also entered into a nationwide service contract with an US Company, EMC Corporation, as the latter's appointed service provider partner in China.

New market segment

The Group experienced a slow revenue generation in the second quarter of the financial year due to weak seasonality and the restructuring of the service provider segment as a result of spinning off part of China Telecom to form China Netcom Corp. The result reflects tremendous downfall in revenue in the China Telecom sector which coincides with the global slowdown in telecom spending and global economic uncertainty.

Despite of the slowdown, the Group is repositioning itself with a view to be more competitive by leveraging its strength in technical knowledge to enter into the financial market segment in marketing its kiNETic™ platform solutions for state banks to increase its overall productivity. Several Chinese commercial banks in the coastal area of PRC have endorsed the Group's business model and engaged the Group in launching new services such as wireless banking to expand its customer reach. The Group is expecting its effort on financial segment to offset its reliance on the telecom segment and to increase its long-term recurring revenue size with desirable margin. The first agreement with Hainan's China Construction Bank to provide kiNETic™ Publisher platform with kiNETic™ customer care services was signed in the second quarter of the financial year as a pilot project in the Hainan province. This agreement makes the Group the exclusive facilitator to serve the bank's largest corporate clients in the Hainan province with full leverage of China Mobile Corp, China Unicom and China Telecom's existing infrastructure to provide the latest banking information services geared specifically for the bank's wireless client base. As such, the Group's effort to realign its strategy with entry to new market segment to achieve major differentiation in its drive for profit in the competitive market place has proven fruitful initially.

Lower cost base

In the first half of the financial year, the Group is determined to execute its localization program with more delegation of accountability to local management team and gradually reduce its number of operation sites by consolidation. Such efforts gained momentum and further reduced the Group's general and administrative expenses by 30.4% in comparison with the same period of last financial year. The restructuring increased the Group's overall competitiveness without compromising its product and services delivery to customers by keeping overall employee number steady.

The Directors firmly believe the Group's strategy for organic structural growth will generate long-term values. Its product development strategy will be more geared towards customers' needs and requirements as a major drive before allocating any R&D budget to protect the Group's return on investment. The Group is implementing TQM process in the first half of the financial year to align its execution with strict metrics measurement for the investment in product development.

Financial strength preservation

On the financial side, the Group is renegotiating its credit arrangement with major business partners like Cisco and IBM to achieve more effective leverage. The Group's current ratio of 5.7 remains high and requires the Group to be more effective in use of capital and generate returns. As at 30 September 2002, the Company is generating a solid size of project reserve with promising conversion to revenue in the future. The Group maintained a very healthy working capital with cash and bank balance of HK\$110,992,000 as at 30 September 2002.

Alliance formation

The Group's business development effort completes with formation of alliance at working level with China Unicom's Internet System Group to pilot the Group's kiNETic™ Publisher product at Unicom's headquarters to conduct content delivering and editing for its wireless client base by utilizing the Group's proprietary short message gateway product standard. The Group has been re-certified by Cisco as its silver partner and been working with IBM on IT services provision to financial institutions by implementing the Group's network service capability in PRC. The Group entered into an agreement with Openwave Inc. as a partner to provide localized services for its wireless platform. Numerous pilot sites with China's mobile operators in trial of the KJava platform to support next generation of MMS services are in progress in Beijing. To enhance the capability in the financial sector, the Group is partnering a reputable banking solutions provider in US. An alliance agreement is expected to enter in the third quarter of the financial year.

The Directors believe the Group's strategic alliance program will enhance its competitiveness while shortening its solution development path to enable the Group to be more client driven and responsive to rapid market change. With the WTO era in China, the Group has been positioning itself to capture the opportunity with cautious drive by focusing on its sales, marketing and support program with heightened awareness on strategy execution and performance delivery. This effort is supported by the Group's commitment to ISO 9001 compliance. New ISO 9001: 2000 certificates have been awarded to the Group's services subsidiary, Unison Networking Services (Shanghai) Co., Ltd., for the provisioning of network maintenance services. In addition, the Group's Beijing office has obtained ISO 9001: 2000 certificate for the provisioning of system integration services, internet data center operations and software development. It has signature of high quality management and best practice adhere to the international standard.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 30 September 2002, the interests of the Directors of the Company and their associates in the issued share capital and warrants of the Company and 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:

Ordinary shares of the Company

Name of Director	Notes	Number of shares held and nature of interest			
		Personal	Family	Corporate	Other
Mr. Yip Heon Ping	(1)	-	-	-	404,280,619
Mr. Yip Seng Mun	(2)	-	-	-	248,349,584
Dr. Clement Lau	(3)	-	-	20,719,381	-

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 Cititrust (Cayman) 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) These shares were held by Century Technology Holding Limited and Bakersfield Global Corporation and were beneficially owned by Mr. Yip Seng Mun.
- (3) The 20,719,381 shares were held by First League Investments Limited, a company of which Dr. Clement Lau was a director and held 40% of its equity interest.

Warrants of the Company (“2004 Warrants”)

Name of Director	Note	Number of 2004 Warrants held and nature of interest			
		Personal	Family	Corporate	Other
Dr. Clement Lau	(1)	–	23,850	9,983,750	–

Note:

- (1) On 5 January 2001, a bonus issue of 2004 Warrants was implemented whereby each of the 2004 Warrants will entitle the registered holder to subscribe for one share of the Company at a subscription price of HK\$1.43 per share, payable in cash and subject to adjustment, during the period from 9 January 2001 to 8 January 2004.

As at 30 September 2002, 9,983,750 units of the 2004 Warrants were held by First League Investments Limited, a company of which Dr. Clement Lau was a director and held 40% of its equity interest. In addition, Dr. Clement Lau and his wife also held an aggregate of 23,850 units of the 2004 Warrants as at 30 September 2002.

The interests of the Directors in the share options of the Company are separately disclosed in the section “Share option scheme” below.

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

Save as disclosed above, as at 30 September 2002, none of the Directors of the Company or their associates had any personal, family, corporate or other interests in the issued share capital and warrants of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from that as disclosed under the sections "Directors' interests in shares and warrants" above and "Share option scheme" below, at no time during the six months ended 30 September 2002 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the Company's directors and employees of the Group. Under the terms of the share option scheme adopted by the Company on 7 March 2000, the board was authorised, at its absolute discretion, to grant options to the Company's directors and employees of the Group, to take up options to subscribe for shares of the Company. The share option scheme became effective for a period of 10 years commencing on the listing of the Company's shares on the GEM of the Exchange on 28 March 2000 (the "Old Scheme").

Pursuant to the annual general meeting held on 27 July 2001, ordinary resolutions were passed by the shareholders to approve the cancellation and the re-grant of the share options under the Old Scheme.

At the extraordinary general meeting of the Company held on 9 April 2002 (the "EGM"), a new share option scheme (the "New Scheme") was adopted and approved in substitution of the Old Scheme. Upon termination of the Old Scheme, no further options will be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The New Scheme became effective for a period of 10 years commencing on 23 April 2002. Under the New Scheme, the Directors may, at their sole discretion, grant to any eligible participants under the New Scheme options to subscribe for shares of the Company at the higher of (i) the closing price of shares of the Company on the GEM as stated in the Exchange's daily quotation sheet on the date of the offer of grant; or (ii) the average closing price of the shares of the Company on the GEM as stated in the Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share of the Company. The offer of a grant of options may be accepted within such time as may be specified in the offer (which may not be later than 21 days from the date of the offer). A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

The maximum number of securities to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company in issue from time to time.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the New Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the EGM.

On 22 May 2002, a total number of 20,630,000 share options were granted under the New Scheme with an exercise price of HK\$0.26 per share. Out of the 20,630,000 options granted, 500,000 options and 20,130,000 options were granted to the Directors and employees of the Group, respectively, to subscribe for shares of the Company.

(1) Options to subscribe for shares of the Company under the Old Scheme

Details of the outstanding share options during the six-month period are as follows:

Name or category of participant	Share Options re-granted on 22 August 2001 at exercise price of HK\$0.40 per share			Exercise period of share options
	Balance as at 1 April 2002	Lapsed during the period	Balance as at 30 September 2002	
Directors				
Mr. Yip Seng Mun	6,000,000	–	6,000,000	22 August 2001 to 21 August 2011
Mr. Yip Heon Ping	6,300,000	–	6,300,000	22 August 2001 to 21 August 2011
Mr. Yip Heon Wai	5,300,000	–	5,300,000	22 August 2001 to 21 August 2011
Mr. Yip Heon Keung	5,300,000	–	5,300,000	22 August 2001 to 21 August 2011
Dr. Clement Lau	1,600,000	–	1,600,000	22 August 2001 to 21 August 2011
[†] Ms. Chan Fu Kuen, Gladys	4,300,000	–	–	22 August 2001 to 21 August 2011
	<u>28,800,000</u>	<u>–</u>	<u>24,500,000</u>	
Other employees of the Group				
In aggregate	3,525,000	(100,000)	*7,725,000	22 August 2001 to 21 August 2011
	<u>32,325,000</u>	<u>(100,000)</u>	<u>32,225,000</u>	

[†] Ms. Chan Fu Kuen, Gladys resigned as a Director but remained as a joint general manager of the Company with effect from 8 August 2002. Pursuant to the Old Scheme, Ms. Chan is still entitled to her share options to subscribe for 4,300,000 shares in her capacity as an employee of the Company.

* Out of the 7,725,000 options granted to employees of the Group and outstanding as at 30 September 2002, 4,300,000 options were held by Ms. Chan Fu Kuen, Gladys, a former Director of the Company.

(2) Options to subscribe for shares of the Company under the New Scheme

Details of the outstanding share options during the six-month period are as follows:

Name or category of participant	Balance as at 1 April 2002	Share Options granted on 22 May 2002 at exercise price of HK\$0.26 per share			Exercise period of share options
		Granted on 22 May 2002	Lapsed during the period	Balance as at 30 September 2002	
Director					
Mr. Au Shing Kwok	-	500,000	-	500,000	22 May 2002 to 21 May 2012
Other employees of the Group					
In aggregate	-	20,130,000	(3,100,000)	17,030,000	22 May 2002 to 21 May 2012
	-	<u>20,630,000</u>	<u>(3,100,000)</u>	<u>17,530,000</u>	

In accordance with the terms of the relevant share option schemes, the exercise period of the options granted is determinable by the Directors, and subject to a certain vesting period and ends in any event not later than 10 years from the respective date when the share options are granted. During the six months ended 30 September 2002, none of the Directors exercised any share options and no allotment or issue of any share of the Company was made pursuant to the option schemes.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding share options.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the reporting period to the Directors and employees, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the Directors were unable to arrive at an accurate assessment of the value of the share options.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, 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:

Name	Number of ordinary shares	Percentage of holding
Greenford Company Limited	155,931,035	30.5
Century Technology Holding Limited	155,931,035	30.5
Bakersfield Global Corporation	92,418,549	18.1
Cititrust (Cayman) Limited (Notes 1 and 2)	<u>404,280,619</u>	<u>79.1</u>

Notes:

- (1) 404,280,619 shares were held through Greenford Company Limited, Century Technology Holding Limited and Bakersfield Global Corporation as trustee of The Greenford Unit Trust, The Century Unit Trust and The Bakersfield Unit Trust, respectively, all of the units of which were held by Cititrust (Cayman) 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) Cititrust (Cayman) Limited is a wholly-owned subsidiary of Citibank Overseas Investment Corporation which in turn is owned by Citibank N.A.

Save as disclosed above, no persons, other than the Directors of the Company, whose interests are set out under the section "Directors' interests in shares and warrants" above, had registered an interest in the issued 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 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.

CHANGE OF POSITION

The position of Dr. Clement Lau in the Company was changed from executive Director to non-executive Director of the Company with effect from 30 July 2002. His employment to work in the capacity as Vice President with Prosten Technology Co. Limited, a wholly-owned subsidiary of the Company, was terminated on 16 July 2002. Labour Tribunal Proceedings has been commenced by Dr. Lau for some remuneration matters since 28 September 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the reporting period.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 7 March 2000 with written terms of reference in compliance with the GEM Listing Rules. The Committee comprises two independent non-executive Directors of the Company, namely Messrs. James T. Siano and Au Shing Kwok. The primary duties of the Committee are to review and supervise the financial reporting process and internal controls of the Group. The Committee has reviewed the draft of this report and has provided advice and comments thereon.

By Order of the Board

Yip Seng Mun

Chairman

Hong Kong, 11 November 2002