



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

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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 nine months ended 31 December 2002 amounted to approximately HK\$28.3 million, representing a decrease of approximately 70.3% as compared to the corresponding period in the previous financial year.
- Net loss attributable to shareholders for the nine months ended 31 December 2002 amounted to approximately HK\$52.9 million, representing a decrease of approximately 34.9% as compared with the same period of 2001.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2002.

UNAUDITED CONSOLIDATED 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 nine months and three months ended 31 December 2002 together with the unaudited comparative figures for the corresponding periods in 2001 as follows:

	Notes	Nine months ended 31 December		Three months ended 31 December	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
TURNOVER	2	28,303	95,137	14,957	37,003
Cost of sales		(22,434)	(84,288)	(13,647)	(29,602)
Gross profit		5,869	10,849	1,310	7,401
Other revenue		1,460	3,749	392	980
Selling and distribution costs		(15,942)	(14,189)	(4,068)	(933)
General and administrative expenses		(40,413)	(64,499)	(12,723)	(21,444)
Other operating expenses		(3,763)	(16,839)	(894)	(16,818)
LOSS FROM OPERATING ACTIVITIES		(52,789)	(80,929)	(15,983)	(30,814)
Finance costs		(45)	(123)	(4)	(108)
LOSS BEFORE TAX		(52,834)	(81,052)	(15,987)	(30,922)
Tax	3	(27)	(226)	(21)	(76)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(52,861)	(81,278)	(16,008)	(30,998)
LOSS PER SHARE					
Basic	4	(HK10.33 cents)	(HK15.90 cents)	(HK3.13 cents)	(HK6.06 cents)

Notes:

1. Basis of presentation

The Group's unaudited consolidated results have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, the accounting principles generally accepted in Hong Kong, and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The unaudited consolidated results have been reviewed by the audit committee of the Company.

2. Turnover

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.

3. Tax

	Nine months ended 31 December		Three months ended 31 December	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Current period provision:				
Hong Kong	–	–	–	–
Elsewhere	27	226	21	76
	<u>27</u>	<u>226</u>	<u>21</u>	<u>76</u>
Tax charge for the period	<u>27</u>	<u>226</u>	<u>21</u>	<u>76</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the nine months and three months ended 31 December 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.

4. Loss per share

The calculation of basic loss per share for the nine months and three months ended 31 December 2002 are based on the unaudited net loss attributable to shareholders of HK\$52,861,000 (nine months ended 31 December 2001: net loss of HK\$81,278,000) and HK\$16,008,000 (three months ended 31 December 2001: net loss of HK\$30,998,000), respectively, and on the weighted average number of 511,250,000 ordinary shares (both for the nine months and three months ended 31 December 2001: 511,250,000 ordinary shares) in issue throughout the periods.

Diluted loss per share amount for the nine months and three months ended 31 December 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.

5. Reserves

	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2001	339,275	129	4,606	344,010
Net loss for the period	–	–	(81,278)	(81,278)
Exchange differences arising on consolidation of overseas subsidiaries	–	(34)	–	(34)
	<u>339,275</u>	<u>95</u>	<u>(76,672)</u>	<u>262,698</u>
At 31 December 2001	339,275	95	(160,833)	178,537
Net loss for the period	–	–	(52,861)	(52,861)
Exchange differences arising on consolidation of overseas subsidiaries	–	(10)	–	(10)
	<u>–</u>	<u>(10)</u>	<u>–</u>	<u>(10)</u>
At 31 December 2002	<u>339,275</u>	<u>85</u>	<u>(213,694)</u>	<u>125,666</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 31 December 2002, the Group recorded a turnover of HK\$28.3 million (2001: HK\$95.1 million), representing a decrease of approximately 70.3% as compared with the same period of 2001. Turnover attributable to the provision of broadband data networks and internet backbone solutions decreased by 75.7% during the period. On the other hand, the overall turnover of applications software and e-commerce and related IT consultancy services was increased by 76.3% as compared with the corresponding period in last year. The overall drop in turnover was mainly due to difficult operating environment in the telecommunications market.

The gross profit margin of the Group was 20.7% for the nine months under review compared with the gross margin of 11.4% for the corresponding period of 2001. The higher gross profit margin of the Group was attributable to the increase in services contract that has a higher profit margin, when compared with the sale of hardware in the same period of last year. During the period under review, the net loss attributable to shareholders of the Group amounted to HK\$52.9 million (2001: HK\$81.3 million), representing a decrease of 34.9% as compared with the same period of 2001.

The Group reduced its selling and distribution costs, general and administrative expenses, other operating expenses and finance costs for the nine months ended 31 December 2002 by 37.1% as compared with the same period of last year. It is mainly due to the Group's implementation of its conservative financial control policy on its overall operating expenses.

On 28 November 2002, a wholly owned subsidiary, Broadband Internet Company Limited ("Broadband"), entered into an agreement with an independent third party to dispose of its long term investment. Pursuant to the agreement, Broadband agreed to sell and the independent third party agreed to acquire a 16% equity interest in a Sino-foreign jointly-controlled entity in the PRC in an aggregate consideration of approximately HK\$9.1M.

Liquidity and Financial Resources

As at 31 December 2002, the Group's total shareholders' funds amounted to HK\$176.8 million as compared with HK\$313.8 million at 31 December 2001. The Group has net current assets of HK\$117.8 million as compared with net current assets of HK\$219.7 million at 31 December 2001. The Group's liquidity remains sound with a current ratio of 5.3 as at 31 December 2002 (2001: 7.6). The Group's gearing ratio, as a ratio of total borrowings to shareholders' fund as at 31 December 2002 was 0% (31 December 2001: 0.73%).

The Group generally finances its business with internally generated cash flows. Total cash and cash equivalents plus other liquid funds amounted to HK\$97 million as at 31 December 2002 (31 December 2001: HK\$122.9 million). The Directors believe that the Group has maintained sufficient working capital for its operation. As at 31 December 2002, the Group was debt free (31 December 2001: HK\$2.3 million), it was due to the full repayment of bank loans during the period under review.

Business Review and Outlook

The Group has continued to focus on high-margin revenue projects and lowering of its cost base. For the nine months ended December 2002, the Group achieved a gross profit margin

of 20.7%, as compared with 11.4% for the corresponding period in 2001. The Group's general and administrative expenses for the nine months dropped 37.3% as compared with the amounts recorded in the same period of 2001. Consequently, the Group successfully cut down its net loss from ordinary activities attributable to shareholders by 34.9% compared to the last year nine-month results. As at 31 December 2002, the Group still maintained a healthy cash position with cash and bank balances of approximately HK\$97 million and current ratio of 5.3.

The Group's networking service unit is gradually building up its brand name in the IT Service industry. Recently, it has been selected to provide remote and onsite network maintenance services based on SLA (Service Level Agreement) to Henan Telecom and Hebei China Netcom Corporation. It has also been awarded China Unicom's VOIP backbone phase IV expansion project (IVR).

The Group has acquired new customer base by leveraging its extensive know-how in wireless communication and solutions. Due to the past success in providing wireless billing solution to the Asia-Pacific Economic Cooperation Conference and the Boao Forum For Asia Conference, the Group has won Wireless LAN projects for Jiangxi Mobile and Hebei Mobile. To capture the fast expanding Wi-Fi market in China, the Group has signed a letter of intent with prominent Chinese partners to form a joint venture in China. The Group's contribution to the joint venture will be in the form of intangible asset from one of its kiNETic software product series.

The revenue sharing cooperation with Shandong Unicom has been fruitful since it has started to generate recurring revenue monthly by using the platform solution – kiNETic Publisher developed by the Group. It has brought in significant growth in data volume for Shandong Unicom in the form of short messaging. The Directors believe that the revenue model with Shandong Unicom will eventually grow in much larger volume due to the developing and introducing of more value added applications (e.g. Multimedia Messaging System) for the mobile phone subscribers.

The Group has started to market its new security software products and solutions which are specially tailored for financial institutions, brokerage firms and large enterprises. In addition, an alliance agreement with Anritsu Company has also been concluded to provide testing and measurement instruments for the Telecom market in China.

The Directors believe the Group's current focus and strategies which quickly adapt to the changing market demands will lead the Group to the right path of bringing positive cash flows and eventually to a profitable position.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 31 December 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 31 December 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 31 December 2002.

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 31 December 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

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"), ordinary resolutions to approve the termination of the Old Scheme and the adoption of a new share option scheme (the "New Scheme") were duly passed by the shareholders. 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 in the Company.

The following Directors were granted share options under the Old Scheme to subscribe for shares of the Company, details of which are as follows:

Name of Director	Number of options re-granted on 22 August 2001 at exercise price of HK\$0.40 per share	Number of share options outstanding as at 31 December 2002	Exercise period of share options
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

The following Director was granted share options under the New Scheme to subscribe for shares of the Company, details of which are as follows:

Name of Director	Number of options granted on 22 May 2002 at exercise price of HK\$0.26 per share	Number of share options outstanding as at 31 December 2002	Exercise period of share options
Mr. Au Shing Kwok	500,000	500,000	22 May 2002 to 21 May 2012

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 nine months ended 31 December 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 share option schemes.

Apart from the foregoing, at no time during the nine months ended 31 December 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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)	404,280,619	79.1

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.

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

During the nine months ended 31 December 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.

MISCELLANEOUS

As mentioned in the Company's interim report for the six months ended 30 September 2002, some labour tribunal proceedings were brought by Dr. Clement Lau, the non-executive director of the Company, regarding certain remuneration matters. Up to 31 December 2002, there was no major progress in the proceedings.

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, 10 February 2003