



**PROSTEN TECHNOLOGY HOLDINGS LIMITED**  
(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

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

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### EXECUTIVE DIRECTORS

Mr. Yip Seng Mun (*Chairman*)  
Mr. Yip Heon Ping  
Mr. Yip Heon Wai  
Mr. Yip Heon Keung  
Ms. Chan Fu Kuen, Gladys  
Mr. Chiu Wai Ki  
Dr. Clement Lau

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. James T. Siano  
Mr. Au Shing Kwok

### COMPANY SECRETARY

Ms. Chan Yim Kum Kim, *ICSA, HKICS*

### QUALIFIED ACCOUNTANT

Ms. Wong Ching Ngor, *FCCA, AHKSA*

### REGISTERED OFFICE

Zephyr House  
Mary Street  
George Town  
Grand Cayman  
British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Dah Sing Financial Centre  
108 Gloucester Road  
Hong Kong

### COMPANY HOMEPAGE/WEBSITE

<http://www.prosten.com>

### COMPLIANCE OFFICER

Mr. Yip Heon Keung

### AUTHORISED REPRESENTATIVES

Mr. Yip Heon Keung  
Ms. Chan Fu Kuen, Gladys

### PRINCIPAL BANKER

CITIC Ka Wah Bank Limited  
40th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

### AUDITORS

Ernst & Young  
*Certified Public Accountants*  
15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

### LEGAL ADVISERS

*as to Hong Kong law:*  
Chiu & Partners  
41st Floor, Jardine House  
1 Connaught Place  
Hong Kong

*as to PRC law:*  
Guangzhou Foreign Economic Law Office  
15th Floor, Chengyue Plaza  
448 Dongfeng Zhong Road  
Guangzhou  
The PRC

*as to Cayman Islands law:*  
Conyers Dill & Pearman, Cayman  
Zephyr House  
Mary Sheet  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited  
Butterfield House, Fort Street  
P.O. Box 705, George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited  
Room 1601, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

### SPONSOR

DBS Asia Capital Limited  
16th Floor, Man Yee Building  
Central  
Hong Kong



EYE ON THE WORLD

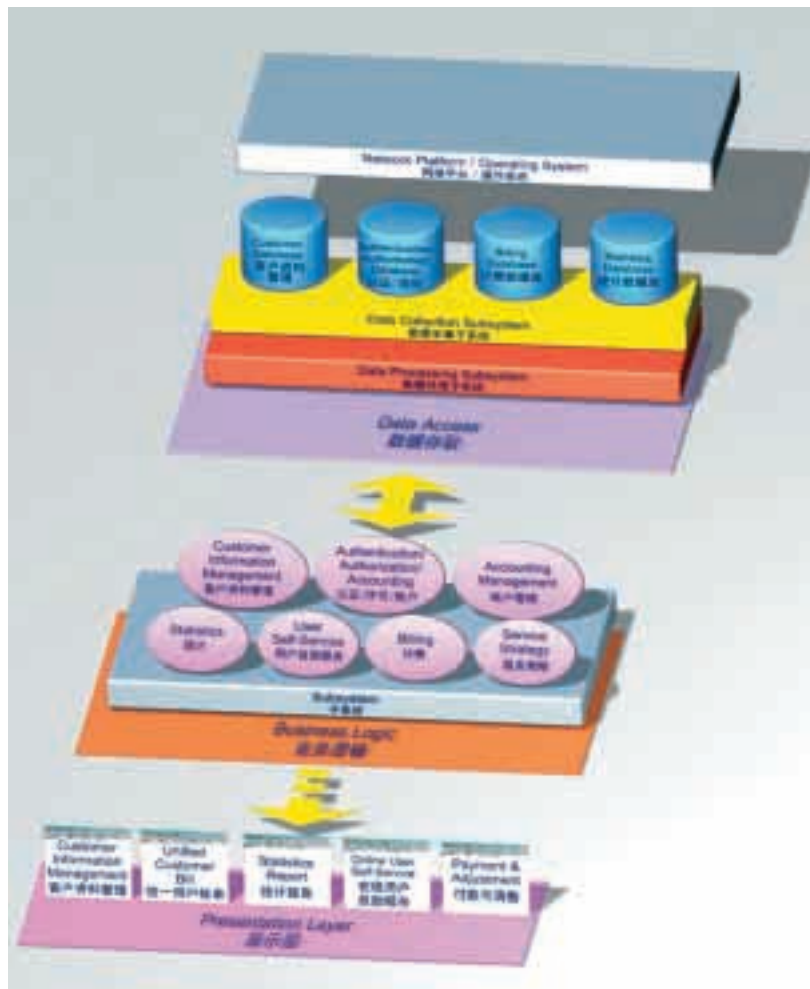


Prosten is a premier network and infrastructure application solution provider. The Group also plays an important role in China's network infrastructure construction, mission-critical system software, e-commerce enabling solutions and related IT services. Over the years, it has become an integrated shop for end-to-end solutions.

Prosten offers a wide range of products and services to seamlessly fulfill every customer's unique requirement. In financial year 2001, the Company successfully launched kiNETic series of products, services, related solutions and various white paper on IDC services and application solutions related to consultancy. Our major products and services include:

**Business Operating Support System (BOSS)**

- *kiNETic BillCare*



Structure of kiNETic BillCare 3.0

IP Based Messaging applications

- *kiNETic Messenger*

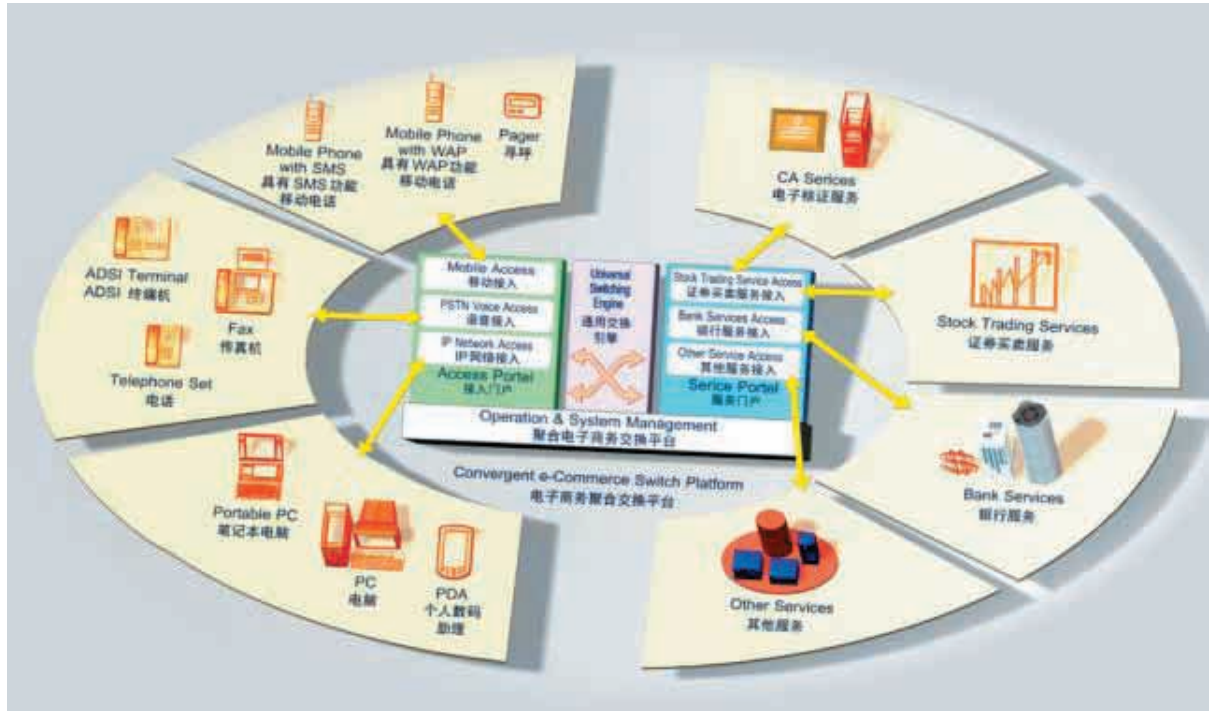


kiNETic Messenger Architecture

- E-mail
- Wireless Messaging and alerts

E-Commerce Infrastructure Platform

- *kiNETic Switcher*



Features of *kiNETic Switcher*

### Internet Data Centre (IDC)

- Virtual Private Network (VPN)
- Application Service Provider (ASP)
- Global Server Load Balancing (GSLB)

### Network Infrastructure Solutions & Services

- Network architecture
- Implementation of IP, ATM/Frame Relay networks
- Network operation management & consulting

Since being founded in Hong Kong in 1990, Prosten has become a dominant player in its chosen markets and enjoyed a successful track record in providing large scaled network and application solutions to carrier and enterprise customers.

Prosten Technology Holdings Ltd is listed on the Growth Enterprise Market in Hong Kong. It comprises a team of professionals from the leading telecommunications, technology, consulting and financial services firms, with technical expertise, capabilities, and strategic relationships across the Greater China.





### *“Our vision is to achieve Business Excellence and Market Excellence through our Members Strength.”*

The financial year 2001 witnessed many achievements by our Group. The Group's effort on upgrading its existing applications and developing new mission-critical software for carrier-class telecommunications operators has become fruitful with the introduction of *kiNETic* series of products. Our Company has realigned the strategy to focus more on technical competence and financial resources to pursue cautiously for revenue and profit with an emphasis on value generation and quality fulfilment. In view of our technical and financial capability, we are optimistic about our future.

#### BUSINESS REVIEW

For the financial year ended 31 March 2001, the Group achieved a turnover HK\$186 million and an operating profit HK\$11 million, against a backdrop of keen competition in the broadband data networks market in the PRC. Despite the drop in both sales and operating profit, the Group managed to improve its gross profit from 31.7% to 37.5%. This is attributable to the successful launch of the Group's proprietary software products to the data communication market in the PRC.

During the financial year under review, the Group's application software business contributed HK\$54 million to our total revenue, increasing by almost 10 times from HK\$5 million in the previous year. It has become a major source of our revenue and profit, accounting for 29% and 273% respectively of the Group's turnover and operating profit.

Meanwhile, the Group's E-commerce infrastructure solutions and related IT consultancy business enjoyed satisfactory growth. It accounted for 38% of the total turnover and 72% of the total operating profit during the year under review.

The Group's traditional equipment-related network business, however, experienced a difficult year. Its turnover decreased by 68% to HK\$61 million as compared to HK\$194 million of the previous year. While it still contributed about 33% of the Group's total revenue, it incurred an operating loss of HK\$28 million.

Despite the challenges in China's telecommunications network industry, the Group managed to focus its business in terms of technology and customers. The Group was able to enter into new technology areas such as IP and wireless data network projects.

#### **Provision of broadband data networks and Internet backbone solutions**

The network solution market for telecommunication networks in the PRC underwent substantial change last year. On one hand, the emergence of new telecommunication carriers helped expand the business volume of network solution projects. However, on the other hand, the proliferation of a number of provincial and regional network services companies led to keener competition, resulting in a squeeze in profit margins for most players in the industry. The Group, which has so far adopted a cautiously stance in project selection, therefore saw a substantial decline in its business volume.

### Provision of Network Application Software

In a bid to achieve sustainable competitive advantage, the Group has put substantial effort and resources to developing its own proprietary software products to meet the demand of the growing PRC telecommunication market. We believe that with network related application software; the Group can differentiate itself from other traditional competitors in the PRC market. During the financial year, the Group finalized the first stage of the product development process and started to launch its new software products under its own brand name "kiNETic". They are *kiNETic Messenger*, *kiNETic Switcher* and *kiNETic BillCare*. The *kiNETic Messenger* is a carrier-grade unified messaging engine that gives users global access to their e-mail, voice-mail, fax, pager and video messages. It can be configured to closely integrate with its e-business platform *kiNETic Switcher*, which provides the basic infrastructure for service providers integrating telecommunications network resources in providing high demand value added service.

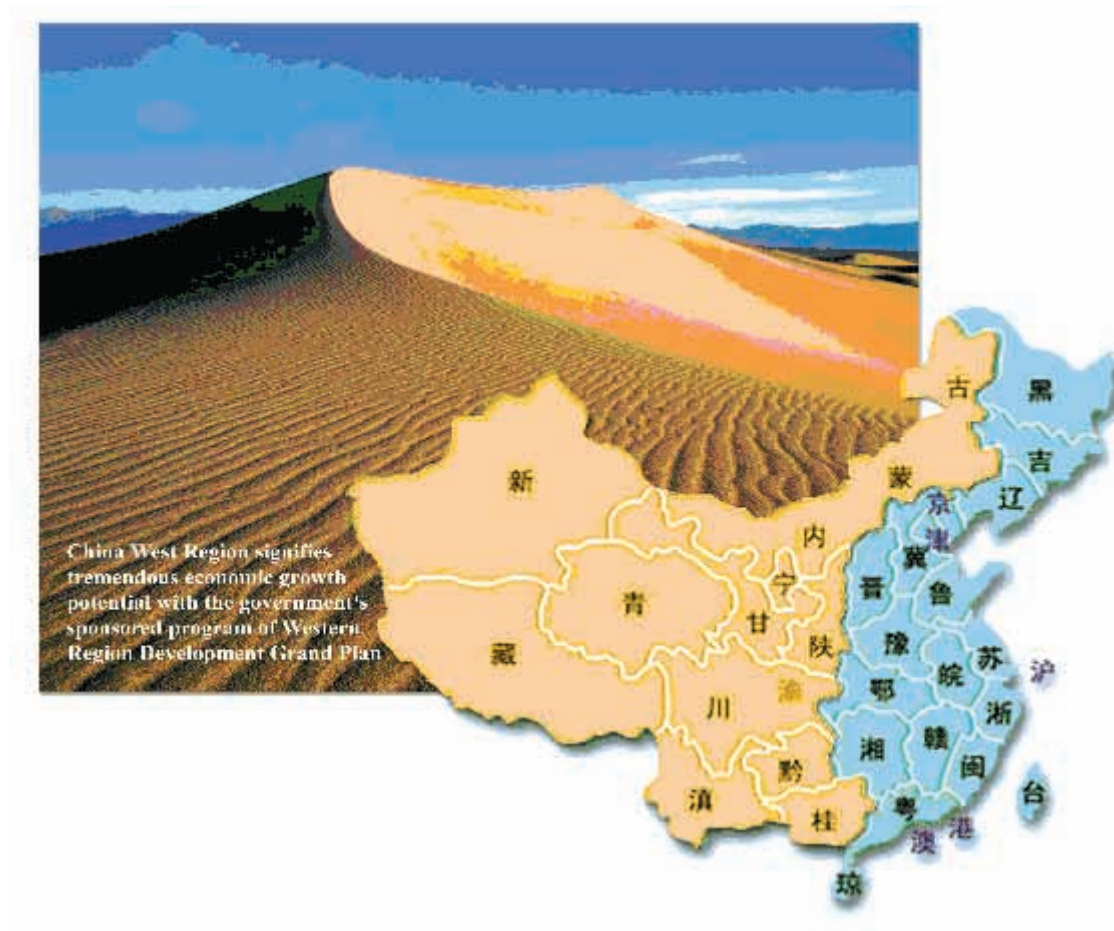
*kiNETic BillCare* is full featured BOSS with IP based billing and customer management system designed specifically for carrier-class service provider. Since their launch, the Group has received encouraging response from customers and orders obtained have been satisfactory. The provision of applications software became a major contributor to the Group's turnover and operating profit in the year under review.

### Provision of network solutions and related IT consultancy services

In the new era of information, customers not only need solution providers to design and deliver solutions and communication systems, but also need advice on their service strategy which forms an important part of their corporate strategy and business decision making process. Well prepared for this new role, the Group maintains a strong team of experienced specialists, who can provide our customers with network solutions for practical strategy and establishing effective network architectures. Our foresighted team always keeps our customers ahead of their competition.

### Continuous Expansion of Customer Base

The Group has a customer base of over 150 customers located in China, including 12 provincial and 3 municipal cities. The Group is positioned as the complete broadband data network designer for service providers, also known as network operators segment in PRC. The Group has been able to start new business relationships with China Unicom, China Mobile, China Telecom and New Service Providers in China. As China's investment is directed more to the western China, the Company has successfully entered a contract to provide broadband network solution for major regional backbone with China Telecom Ningxia Autonomous Region in the west.



In year 2001, the Chinese Government is launching the development initiative for China West region. The Company's success in securing the data network backbone contract with China Telecom Ningxia region facilitate the development and constructing of the high speed communication infrastructure for economic development of the Northwestern part of China.

**Dynamic Business Model**

In view of the changing customers' needs, the Group is flexible and well planned to optimize its resources in building up a Dynamic Business Model. The Group is driving for an improved strategic position in maximizing its profit with profitable quality products and viable cost model. The Group expects that major contribution to profit will shift from network hardware activities to more of network oriented application software solutions as represented by our *kiNETic* series of products.



### PRODUCT DEVELOPMENT

We are continually looking for new opportunities of providing innovative products and enhanced value-added services to customers. The Group has set up a development center in Shenzhen to engage in development and enhancement of our own products. The Group is always seeking for quality software partner for the innovative products.

In December 2000, the Peking University Department of Computer Science/Prosten E-Commerce Co-laboratory has successfully launched its first product, the SinoFinder (an adaptive search engine designed for PRC websites), an agent based intelligent Chinese search engine.



Projects with Peking University Department of Computer Science/Prosten E-Commerce Co-laboratory

### PROSPECTS

Worldwide slowdown in the network operator segment will slowly impact the expenditure pattern in China. Chinese network operators are beginning to explore the enhanced value-added services that can fully utilise the infrastructure networks. Of the emerging next-generation software-based solutions, we have seen more aggressive rollouts of IP telephony, interactive voice response, single number service and unified messaging service. The Group will continue to promote the *kiNETic* series of products, solution and service in line with the technology pace to meet the business needs and goals. Streamlining in operating flow is our aims to maintain lowest cost of operation and product development.

With the strong cash position of cash and cash equivalents as at 31 March 2001 of about HK\$203 million, the Group will cautiously set its strategy for organic growth and focus to expand its revenues from its *kiNETic* series. It will also consolidate its market position as the key network infrastructure solution provider not only in China but moving gradually to other parts of Asia in the future.

We are confident that the Business Excellence and Market Excellence through our Members Strength are achievable.

## CHAIRMAN'S STATEMENT

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### DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year.

### APPRECIATION

On behalf of the Board, I would like to thank the Group management and staff for their loyal services and dedication to the business vision of the Group. I would also like to express our sincere appreciation to the bankers, suppliers, customers and shareholders for their continued support to the Group during the year.

**Yip Seng Mun**

*Chairman*

Hong Kong, 26 June 2001

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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### A. OPERATING RESULTS

#### Revenue and Gross Margin

The Group's total turnover was down by 10% to HK\$186 million as compared to HK\$207 million of previous year. Contributions mainly came from three principal activities, comprised of Application Software HK\$54 million (2000: HK\$5 million), E-commerce Solutions and related IT consultancy services HK\$71 million (2000: HK\$8 million), and Broadband data networks and Internet backbone solutions HK\$61 million (2000: HK\$194 million). The three activities represented 29%, 38% and 33% of the Group's turnover respectively for the year ended 31 March 2001 (2000: 3%, 4%, 93%).

Notwithstanding the decrease in turnover, the Group managed to increase its overall gross profit to HK\$70 million (2000: HK\$65m). Its gross profit margins also improved to 37.5% as compared to 31.7% in the previous year. This overall improvement in gross profit margin was primarily attributable to the launch of proprietary software products under our own brand "kiNETic". However, owing to keen competition and margin pressure on the network equipment business, the Group's overall performance was negatively affected.

#### Profit Attributable to Shareholders

The Group's profit before interest and tax (EBIT) was HK\$11 million in this financial year (2000: HK\$35 million), which was 6% of net sales (2000: 17%). Operating profit decreased to HK\$18m after adjusting for the depreciation and amortization (2000: HK\$36 million). EBITDA was 10% of net sales (2000: 17%).

Net profit attributable to shareholders was HK\$14 million (2000: HK\$32 million), being 7.5% of net sales (2000: 15.6%). During the financial year under review, the Group received a tax refund, and has written back tax provision that was over-provided in previous year.

The decline in profit was principally due to additional expenditure incurred in business development against the background of harsh market conditions. In the coming year, the Group will continue its policy to look for high margin projects, and at the same time minimize operating costs internally by streamlining operation flow and exercising close budgetary control.

#### Operating Expenses

Total operating expenses in this year was HK\$75 million (2000: HK\$31 million). The increase was the result of a rapid expansion of the Group's operations, hence leading to an overall increase in the expenditure of staff costs, depreciation and amortization, rent, traveling and entertainment, and the provision for bad debts.

The increase in staff costs by 100% was principally due to the increase in size of our direct sales force, as well as related marketing, support and technical team for product development. As demand for good IT professionals was strong in both the PRC and Hong Kong, salary level for our technical team was boosted up considerably during the year. The Group believes that the addition of personnel in our senior management including sales, technical and finance will bring in new pool of experiences for service provider business as well as inspiration in moving our technology focus to IP.



With the continuous slow down in Internet Sector, we see a more availability of good IT management resources in the market. We will pay more attention on recruitment and retention process of the HR function. It will set up a compensation committee to manage employee benefit and option distribution to enhance our competitiveness at pursuit for excellence, quality and high inspiration.

Depreciation charge increased substantially to HK\$6 million (2000: HK\$0.6 million). The increase was the result of the capital expenditure spent on the setting up of our Internet Data Center (IDC) in Hong Kong, and improvement of new offices in PRC, particularly in Guangzhou, Shenzhen, Shanghai and Beijing.

With the set up of the IDC, not only it can provide reliable Internet connection at highway-speed bandwidth, but also it can offer high capacity for real-time voice, data and video transmission in the current technology-driven market.

The Shenzhen office was mainly set up to centralize the research and development team of the infrastructure software so as to optimize the use of resources. The new offices in Southern China helped to create market presence in extending our coverage of customer base. They also served as the human resources and technical support of our new projects in Southern China such as the e-commerce infrastructure platform project with China Telecom Fujian in Fuzhou.

The expenditure incurred in our software development was capitalized and deferred in this financial year. This development cost were amortized, using the straight-line method, over the expected useful life of three years, commencing from the date when the products were put into commercial production. The R&D costs in this year also included the expenditure incurred in the Peking University Dept. of Computer Science/Prosten E-Commerce Co-laboratory. The total R&D costs charged to profit and loss account in this year was HK\$1.4 million whereas no such charge was booked in the previous year. We believe the value generation program in our effort of productization of *kiNETic* series software application is the catalyst to lead our next phase growth curve.

### ***Selling and marketing expenses***

Selling and marketing expenses in this year were HK\$24 million (2000: HK\$9 million). These expenses, as a percentage of net sales, increased to 13% in this year as compared with 4.5% in previous year. This increase was mainly due to increased staff costs in the direct sales force and technical and marketing personnels for our software product as aforesaid. Other expenditure such as promotion, traveling, and entertainment also increased for the initial set up, promotion and exhibition of new products line. The increase also reflected our efforts in certain key areas such as expansion of customer base & market coverage and introduction of *kiNETic* series of products in order to be better positioned to catch growth of emerging market opportunities.

### ***General and administration expenses***

General and administration expenses were HK\$45 million (2000: HK\$22 million). These expenses, as a percentage of net sales, increased to 24% in this year as compared with 11% in previous year. This increase was primarily related to the staff costs, rent, depreciation and amortization as mentioned above. It is the Group management's top priority to keep the G&A expenses to a minimum level by using close budgetary control, and focus on the management control on productivity for individual branches by computerized accounting reporting system.

### *Other operating expenses*

Other operating expenses included HK\$6 million as the provision for bad and doubtful debts. While no such provision was made in previous year, the Group adopted a more prudent view this year to make provision for long outstanding debts.

### **Capital Expenditure**

In addition to the IDC set-up, the Group acquired an intangible asset during the year. With the acquisition of this asset, the Group can enhance its value-added services in its "kiNETic" product series. An independent professional valuer has conducted an appraisal on the asset and it is estimated to have a fair market value not lower than the cost acquired and recorded in the financial statement. This intangible asset acquired has not been put into commercial production and accordingly, no amortization has been provided in this financial year. The costs will be amortized over the expected useful life of three years commencing from the date when the products are put into commercial production in the coming future.

### **Financial Position**

The Group had a healthy liquidity position with a current ratio of 8.3 at the end of 31st March 2001 (2000: 6.4). The Group has consistently adopted an indent sales model for the equipment sales as in the past. The increase in the inventory balances of HK\$17 million was primarily due to the stocking up of hardware platform for sales orders received before year end. This inventory was subsequently transferred to customers after year end at market value not lower than the cost. For the year ended 31st March 2001, the Group has a strong cash position of cash and cash equivalents of HK\$203 million.

Launch of *kiNETic* series of products in the exhibition recently held in Shanghai



### B. BUSINESS DEVELOPMENT

In line with the Group's focus on its own brand name products, business development focused on building up its sales and marketing team as well as acquiring new partners to help promote the *kiNETic* series of products and services.

Several key areas of business development were explored during this fiscal year. Among these were the Call Center market, wireless messaging market and the SE Asia market. Strategic partnerships were discussed with major players in all of these sectors.

Work was started to obtain Ministry of Information Industry (MII) certification as a Class I services. At the same time, completion of the 24 hour Technical Assistance Center (TAC) in Shanghai was one of the items required to apply for Cisco's Silver Partner status. Both of these certifications enhance the Group's status in being a full solutions provider.



### C. SALES AND MARKETING ACTIVITIES

Marketing activities were focused on promotion of the *kiNETic* family of products. An official product launch was carried out in Hong Kong, Shanghai, Beijing and Guangzhou respectively. Press attendance was strong in all cases with good reactions overall.

Establishment of the Product Marketing group in Shenzhen delivered both

printed and multimedia sales tools/advertisements as well as direction for product development plans. Product Marketing was also heavily involved in training the Group's sales staff to ensure that they could be successful in selling the Prosten solutions.

### D. RESEARCH AND DEVELOPMENT

To ensure that the Group continues to provide its customers with leading edge technology solutions, there continues to be a significant investment in research and development. Areas of research were targeted towards personalization of services already provided by the current set of *kiNETic* products.

For better leverage of the Group's talents, a Research and Development Center was established in Shenzhen. Unlike the Group's geographically distributed research efforts in the past, this centralised research and development team allows for greater communication between the different development teams leading to new ideas that would have been much harder to develop otherwise. These ideas lead to enhanced features or better integration of the *kiNETic* family of products which in turn delivers a more attractive service package for the customer.



### E. EMPLOYEE AND REMUNERATION POLICY

At Prosten, people make the difference. Our success depends on a combination of talent, technical expertise, large-scaled network infrastructure experience and a very unique collaborative culture that enables our professional teams to provide the best solutions and services for the customer. The Group consistently applies the award and bonus scheme to the well-performed staff. It also encourages employee to have the relevant technical and management training locally and overseas. Through participation in several salary surveys, the Group believes that the employee remuneration packages currently offered are competitive with other companies in the same market space. The Group is fully compliant with MPF regulations in Hong Kong.

### BUSINESS OBJECTIVES AND FUTURE PLANS AND PROSPECTS

### ACTUAL RESULTS

#### Broadband data networks and Internet backbone solutions

- |    |   |                                      |
|----|---|--------------------------------------|
| 1. | Final testing of Phase II of the Zhe Jiang ATM/FR broadband network project   | Final acceptance testing in progress |
| 2. | Final testing of the Hainan China Telecom's project of merging the "163" and "169" Internet infrastructures   | Completed                            |
| 3. | Bid for the tender for development of e-commerce site under the "179" project later known as China Telecom Fujian Information Contact Switching Network from a provincial PTA under MII | Tender awarded                       |
| 4. | Awarded Hainan China Telecom's 163/169 Internet infrastructure expansion project  | Commenced                            |

### Applications software development

- |    |  |                                      |
|----|--|--------------------------------------|
| 1. | Enhancement of IMS to a BOSS system KiNETic Billcare targeted for Broadband ISPS and VOLP services | Version 3.0 completed work completed |
| 2. | Final delivery of IMS 2.2 to Hainan China Telecom  | Completed                            |
| 3. | Unified Messaging System development and deployment  | 1st phase completed and launched     |
| 4. | KiNETic Billcare 3.0 & 4.0 development and deployment  | 3.0 completed/4.0 in progress        |
| 5. | KiNETic Switcher development and deployment  | 1st phase completed and launched     |
| 6. | Comparative search engine (SINOFINDER) development and deployment                                  | 1st phase completed and launched     |

### e-commerce solutions and related IT consultancy services

- |    |  |                     |
|----|--|---------------------|
| 1. | Integration of Billcare with 3.0 Switcher for Fujian 179 project | 1st phase completed |
| 2. | Feasibility study on the integration of SINOFINDER to Switcher   | In progress         |

### Broadband ISP

- |    |                                       |           |
|----|---------------------------------------|-----------|
| 1. | HKATV website hosting                 | Completed |
| 2. | WT Cyber UM service production launch | Completed |

### Resources employment and administration

- |   |             |
|---|-------------|
| 1. Set up additional technical staff team in Shenzhen office for developing software products.  | Completed   |
| 2. Recruit additional professionals to carry out marketing and sales functions.   | In progress |
| 3. Organise training programme for the Group's marketing and technical staff  | Completed   |
| 4. Review and strengthen quality control system to ensure timeliness and quality of the Group's customer support services.                            | Completed   |
| 5. Formulate performance indicators applicable to the Group's support services to make it more responsive to operating costs and quality of services. | Completed   |

### USE OF PROCEEDS

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

	HK\$ million
For expanding broadband data networks and Internet backbone solution operations in the Greater China region	50.4
For the development of applications software for network operations	54.8
For the development of e-commerce platforms and related applications software for ASP	3.9
For the acquisition of hardware and software for setting up a broadband ISP in Hong Kong and for related marketing and operational costs	19.9
For advertising and promotional expenses for expanding broadband data networks solution operations in the Greater China region	2.0
For deployment of human resources, setting up representative offices in target regions and related administration	2.0
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# GREAT MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT



## DIRECTORS AND SENIOR MANAGEMENT

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### EXECUTIVE DIRECTORS

Mr. Yip Seng Mun, aged 70, is a founder and the Chairman of the Group. He is responsible for formulating the overall business strategy and plans of the Group. Mr. Yip worked for Cable & Wireless HKT for about 20 years and was one of the senior executives in its PRC operations. Mr. Yip is the father of Mr. Yip Heon Ping, Mr. Yip Heon Wai and Mr. Yip Heon Keung.

Mr. Yip Heon Ping, aged 43, is an executive Director and the General Manager of the Group in charge of the Group's overall management function. He holds a bachelor's degree in electrical engineering from Iowa State University, USA. He worked for Hewlett Packard for more than 10 years before joining the Group in December 1992. Mr. Yip is a son of Mr. Yip Seng Mun and a brother of Mr. Yip Heon Wai and Mr. Yip Heon Keung.

Mr. Yip Heon Wai, aged 40, is a founder and the Managing Director of the Group in charge of the overall corporate strategies and business development of the Group. He holds a bachelor's degree in applied computer science from Illinois State University, USA. He joined the Group in 1990 and has more than 13 years of experience in the information technology industry. Mr. Yip is a son of Mr. Yip Seng Mun, the spouse of Ms. Chan Fu Kuen, Gladys and a brother of Mr. Yip Heon Ping and Mr. Yip Heon Keung.

Mr. Yip Heon Keung, aged 32, is an executive Director of the Group in charge of strategic alliances with vendors and business partners. He holds a bachelor's degree in electrical engineering from the University Wisconsin-Madison, USA. Before joining the Group, he worked in a software-consulting firm as a consultant in the USA. He has more than 8 years' experience in the information technology industry and he has been with the Group since October 1996. Mr. Yip is a son of Mr. Yip Seng Mun and a brother of Mr. Yip Heon Ping and Mr. Yip Heon Wai.

Ms. Chan Fu Kuen, Gladys, aged 38, is an executive Director of the Company in charge of finance and administration. She holds a bachelor's degree in science and a master degree in business administration, both from Illinois State University, US. She has more than 6 years' experience in systems development in the banking and telecommunications industry and 7 years of experience in finance and administration. She has been with the Group since June 1993. Ms. Chan is the spouse of Mr. Yip Heon Wai.

Mr. Chiu Wai Ki, aged 40, is the Chief Financial Officer of the Group and is in charge of the Group's overall financial matters. Jacky holds a master's degree in business from the United Kingdom and a master's degree in finance from Australia. He has been in the securities and investment banking industry for 14 years and holds senior positions in a locally-listed company and international investment banks.

Dr. Clement Lau, aged 42, is the Vice President of the company responsible for e-commerce solutions. Dr. Lau holds a Ph.D. from Canada and has had over 11 years' experience in the IT industry. Dr. Lau has over 9 years' experience in the Asia market having worked for Cray Research and Platform Computing before joining the Group in May 2000.

## DIRECTORS AND SENIOR MANAGEMENT

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### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. James T. Siano was appointed as a non-executive Director in March 2000. He holds a master's degree in business administration from Pace University located in the US. He is the president and the chief executive officer of Montblanc Pacific Distributors Ltd. which is the Asia Pacific regional headquarters for the Montblanc brand. Previously, Mr. Siano was the managing director of Swatch Group of Switzerland (Hong Kong) Ltd. Mr. Siano has 19 of years' experience in sales, marketing and finance, including nine years in Hong Kong.

Mr. Au Shing Kwok was appointed as a non-executive Director in March 2000. He obtained a diploma in electrical engineering from Royal Melbourne Institute of Technology (Australia) and has been a chartered engineer since 1980. He has been a member of Institute of Engineers (Australia) since 1969. He works as a building services consulting engineer and has been involved in the design and project management of building services for a number of major buildings in Hong Kong, the PRC and overseas.

### SENIOR MANAGEMENT

Mr. Tung Man Chi, David is the Chief Technical Officer of the Group responsible for the development of Internet/Intranet based applications and products. He is also responsible for the infrastructure design and implementation of projects in the telecommunications and utilities sectors. He holds a bachelor's degree in computer science from the United Kingdom and is a chartered engineer and a member of The Institution of Electrical Engineers, United Kingdom. Prior to joining the Group in February 2000, David worked for Cable and Wireless HKT Limited for 13 years.

Mr. He Gougyu is the Vice President and is in charge of PRC Sales Department. He holds a bachelor's degree in telecommunication engineering and a master degree in micro-telecommunication. He has over 13 years' experience in telecommunication industry in PRC.

Mr. Zhang Jiakang is the Director of Finance & Operation and is in charge of the overall PRC accounting and order management departments. He has over 13 years' experience of accounting and supply chain management functions in multinational companies in PRC.

Mr. Kwok Chi Shan is the Deputy Chief Financial Officer of the Company. He holds a master of science degree in financial economics from the United Kingdom and is a fellow member of the Chartered Association of Certified Accountants and an associate member of Hong Kong Society of Accountants. He has over 12 years' experience in accounting and finance.

Ms. Wong Ching Ngor is the Qualified Accountant of the Group and is in charge of the accounting department in Hong Kong. She holds a diploma in accountancy from Hong Kong and is a fellow member of The Chartered Association of Certified Accountants and an associate member of Hong Kong Society of Accountants. She has over 12 years' experience in accounting and finance.

Ms. Chan Yim Kum, Kim is the Company Secretary of the Group and is in charge of the Group's overall company secretarial and administrative issues. She holds a bachelor's degree (honours) in business administration from the United Kingdom and is a member of the Institute of Chartered Secretaries and Administration and the Hong Kong Institute of Company Secretaries. She has more than 12 years' experience in corporate administration.

## REPORT OF THE DIRECTORS

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2001.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

### SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activities and by geographical areas for the year ended 31 March 2001 is as follows:

	Year ended 31 March 2001		Pro forma combined (For information purposes only) Year ended 31 March 2000	
	Turnover HK\$'000	Contribution to profit/(loss) from operating activities HK\$'000	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000
By principal activity:				
Provision of broadband data networks and Internet backbone solutions	61,165	(28,457)	193,726	26,036
Provision of applications software	53,721	31,620	5,160	4,327
Provision of e-commerce solutions and related IT consultancy services	71,236	8,428	7,880	4,797
	186,122	11,591	206,766	35,160
By geographical area:				
People's Republic of China ("PRC"):				
Hong Kong	9,093	(8,824)	2,717	2,957
Elsewhere	177,029	20,415	204,049	32,203
	186,122	11,591	206,766	35,160

## REPORT OF THE DIRECTORS

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### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 67.

An interim dividend of HK2.5 cents per share was paid on 12 December 2000.

The directors do not recommend the payment of a final dividend in respect of the year.

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results of the Group for each of the four years ended 31 March 2001 and the assets and liabilities of the Group as at 31 March 2001 and 31 March 2000.

#### Results

	Year ended 31 March			
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	186,122	206,766	161,133	119,018
PROFIT BEFORE TAX	11,525	34,415	17,496	8,455
Tax	2,442	(2,179)	(2,492)	(1,725)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	13,967	32,236	15,004	6,730

## REPORT OF THE DIRECTORS

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### SUMMARY FINANCIAL INFORMATION (Continued)

#### Assets and Liabilities

	31 March 2001 HK\$'000	31 March 2000 HK\$'000
Fixed assets	18,813	11,614
Deferred development costs	5,542	—
Intangible asset	45,889	—
Deposits and club debenture	3,279	—
Deposit paid for the proposed acquisition of an unlisted investment	3,114	—
Current assets	361,794	453,266
Current liabilities	(43,296)	(70,603)
Non-current liability	—	(457)
<b>Total net assets</b>	<b>395,135</b>	<b>393,820</b>
Share capital	51,125	51,125
Reserves	344,010	342,695
	<b>395,135</b>	<b>393,820</b>

#### Notes:

1. The summary of the Group's results for each of the three years ended 31 March 2000 has been prepared on a pro forma basis as if the current structure of the Group had been in existence throughout these financial years.
2. As the Company was incorporated on 22 November 1999 and became the ultimate holding company of the companies now comprising the Group on 7 March 2000, only two years' assets and liabilities of the Group are presented.

#### FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 11 to the financial statements.

#### DEFERRED DEVELOPMENT COSTS

Details of movements in the deferred development costs of the Group during the year are set out in note 12 to the financial statements.

#### INTANGIBLE ASSET

Details of movements in the intangible asset of the Group during the year are set out in note 13 to the financial statements.

## REPORT OF THE DIRECTORS

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### SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 16 to the financial statements.

### SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with reasons therefor, and details of the Company's share option scheme are set out in note 21 to the financial statements.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 22 to the financial statements.

### DISTRIBUTABLE RESERVES

At 31 March 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2000 Revision) of the Cayman Islands, amounted to HK\$340,959,000. This includes the Company's share premium account, in the amount of HK\$339,275,000 at 31 March 2001, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 61% of the total sales for the year and sales to the largest customer included therein amounted to 22%. Purchases from the Group's five largest suppliers accounted for 68% of the total purchases for the year and purchases from the largest supplier included therein amounted to 19%.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.



## REPORT OF THE DIRECTORS

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### DIRECTORS

The directors of the Company during the year were as follows:

**Executive directors:**

Mr. Yip Seng Mun

Mr. Yip Heon Ping

Mr. Yip Heon Wai

Mr. Yip Heon Keung

Ms. Chan Fu Kuen, Gladys

Mr. Chiu Wai Ki (appointed on 21 August 2000)

Dr. Clement Lau (appointed on 21 August 2000)

Mr. Jonathan Wu (resigned on 1 August 2000)

**Independent non-executive directors:**

Mr. James T. Siano

Mr. Au Shing Kwok

In accordance with articles 111 and 112 of the Company's articles of association, all directors will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

### DIRECTORS' SERVICE CONTRACTS

Except for Mr. Chiu Wai Ki and Dr. Clement Lau, each of the executive directors has entered into service contracts with the Company for an initial term of three years commencing from 1 March 2000 which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Such notice shall not expire until after the fixed term.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## REPORT OF THE DIRECTORS

### DIRECTORS' REMUNERATION

Details of the aggregate directors' remuneration are as follows:

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
Fees:			
Executive directors	—	—	—
Independent non-executive directors	—	—	—
Other emoluments:			
Basic salaries, other allowances and benefits in kind	6,254	335	2,098
Discretionary bonus	—	—	310
Pension contributions	87	—	—
	<b>6,341</b>	335	2,408

There were eight executive directors receiving individual emoluments of HK\$1,480,000 (2000: HK\$961,000), HK\$720,000 (2000: HK\$329,000), HK\$731,000 (2000: HK\$333,000), HK\$731,000 (2000: HK\$331,000), HK\$183,000 (2000: HK\$50,000), HK\$864,000 (2000: Nil), HK\$1,011,000 (2000: Nil) and HK\$621,000 (2000: HK\$404,000), respectively, for the year ended 31 March 2001.

During the year, no emoluments were paid by the Group to the independent non-executive directors.

## REPORT OF THE DIRECTORS

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### DIRECTORS' REMUNERATION (Continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Year ended 31 March 2001	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000	Pro forma combined (For information purposes only) year ended 31 March 2000
Nil to HK\$1,000,000	8	8	8
HK\$1,000,001–HK\$1,500,000	2	—	—

In addition to the directors' remuneration above, a total of 32,000,000 share options to subscribe for ordinary shares in the Company were granted to certain directors of the Company during the year. 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 these share options. Accordingly, no value has been included in the directors' remuneration in respect thereof.

The directors' remuneration shown above does not include the monetary rental value of staff quarters leased by the Group and provided rent free to certain executive directors of the Company. The Group incurred costs of HK\$2,347,000 relating to such accommodation for the year ended 31 March 2001.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included four directors (2000: three) during the year, whose remuneration are set out above.

The emoluments and designated band of the remaining one (2000: two) highest paid, non-director employee during the year are as follows:

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
Basic salaries, other allowances and benefits in kind	960	118	899
Pension contributions	16	—	—
	<b>976</b>	118	899

The remuneration of the highest paid, non-director employee during the year fell within the nil to HK\$1,000,000 band.

In addition to the remuneration above, a total of 1,600,000 share options to subscribe for ordinary shares in the Company were granted to the highest paid, non-director employee during the year. 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 these share options. Accordingly, no value has been included in the remuneration of the highest paid, non-director employee in respect thereof.

PENSION COSTS

Details of the Group's pension scheme is disclosed in note 2 to the financial statements.

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 March 2001.

### DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 March 2001, the interests of the directors of the Company and their associates 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 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 interests				Total
		Personal	Family	Corporate	Other	
Mr. Yip Heon Ping	(1)	—	—	—	404,280,619	404,280,619
Mr. Yip Seng Mun	(2)	—	—	—	404,280,619	404,280,619

Notes:

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

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 31 March 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.

## REPORT OF THE DIRECTORS

### 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 authorised, 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. Further details of the Option Scheme are set out in note 21 to the financial statements. The Option Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock 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 during the year are as follows:

Name of director	Number of share options outstanding as at 1 April 2000	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Number of share options outstanding as at 31 March 2001	Exercise price of share options	Exercise period of share options
Mr. Yip Seng Mun	—	3,000,000	—	—	3,000,000	HK\$1.52	29 May 2000 to 28 May 2010
	—	3,000,000	—	—	3,000,000	HK\$1.22	13 October 2000 to 12 October 2010
Mr. Yip Heon Ping	—	2,800,000	—	—	2,800,000	HK\$1.52	29 May 2000 to 28 May 2010
	—	3,500,000	—	—	3,500,000	HK\$1.22	13 October 2000 to 12 October 2010
Mr. Yip Heon Wai	—	2,800,000	—	—	2,800,000	HK\$1.52	29 May 2000 to 28 May 2010
	—	2,500,000	—	—	2,500,000	HK\$1.22	13 October 2000 to 12 October 2010
Mr. Yip Heon Keung	—	2,800,000	—	—	2,800,000	HK\$1.52	29 May 2000 to 28 May 2010
	—	2,500,000	—	—	2,500,000	HK\$1.22	13 October 2000 to 12 October 2010
Ms. Chan Fu Kuen, Gladys	—	2,800,000	—	—	2,800,000	HK\$1.52	29 May 2000 to 28 May 2010
	—	1,500,000	—	—	1,500,000	HK\$1.22	13 October 2000 to 12 October 2010
Mr. Chiu Wai Ki	—	1,000,000	—	—	1,000,000	HK\$1.43	28 August 2000 to 27 August 2010
	—	1,000,000	—	—	1,000,000	HK\$1.22	13 October 2000 to 12 October 2010



## REPORT OF THE DIRECTORS

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

Name of director	Number of share options outstanding as at 1 April 2000	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Number of share options outstanding as at 31 March 2001	Exercise price of share options	Exercise period of share options
Dr. Clement Lau	—	600,000	—	—	600,000	HK\$1.52	29 May 2000 to 28 May 2010
	—	1,000,000	—	—	1,000,000	HK\$1.22	13 October 2000 to 12 October 2010
Mr. Jonathan Wu (Note)	—	1,200,000	—	(1,200,000)	—	HK\$1.52	29 May 2000 to 28 May 2010

(Note) The share options held by Mr. Jonathan Wu lapsed following his resignation from the Group on 1 August 2000.

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.

Apart from the foregoing, at no time during the year 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.

### SUBSTANTIAL SHAREHOLDERS

At 31 March 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:

Name	Percentage of holding	Number of ordinary shares
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 (notes 1 and 2)	79.1%	404,660,619

## REPORT OF THE DIRECTORS

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### SUBSTANTIAL SHAREHOLDERS *(Continued)*

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 trustee 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.

### SPONSORS' INTERESTS

As at 31 March 2001 and as at the date of this report, 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 of the financial reporting process and internal control of the Group. The Committee comprises the two independent non-executive directors, Mr. James T. Siano and Mr. Au Shing Kwok. The Group's financial statements for the year ended 31 March 2001 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the listing rules of the Stock Exchange and legal requirements, and that adequate disclosures had been made.

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chiu Wai Ki**

*Director*

Hong Kong, 26 June 2001



To the members

**PROSTEN TECHNOLOGY HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 39 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong, 26 June 2001

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2001

	Notes	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
TURNOVER	3	186,122	13,981	206,766
Cost of sales		(116,261)	(7,983)	(141,296)
Gross profit		69,861	5,998	65,470
Other revenue		17,311	471	1,210
Selling and distribution costs		(24,106)	(244)	(9,295)
Administrative expenses		(45,306)	(2,334)	(22,225)
Other operating expenses		(6,169)	—	—
PROFIT FROM OPERATING ACTIVITIES	4	11,591	3,891	35,160
Finance costs	5	(66)	(61)	(745)
PROFIT BEFORE TAX		11,525	3,830	34,415
Tax	7	2,442	(410)	(2,179)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	8	13,967	3,420	32,236
Dividends	9	12,781	—	20,000
EARNINGS PER SHARE	10			
— Basic		HK2.7 cents	HK1.3 cents	HK7.6 cents
— Diluted		N/A	N/A	N/A

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 March 2001

	Note	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000
Exchange differences arising on consolidation of overseas subsidiaries	22	129	—
Net gains not recognised in the consolidated profit and loss account		129	—
Net profit from ordinary activities attributable to shareholders		13,967	3,420
Total recognised gains and losses		14,096	3,420

## CONSOLIDATED BALANCE SHEET

31 March 2001

	Notes	2001 HK\$'000	2000 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	11	18,813	11,614
Deferred development costs	12	5,542	—
Intangible asset	13	45,889	—
Deposits and club debenture	14	3,279	—
Deposit paid for the proposed acquisition of an unlisted investment	15	3,114	—
		<b>76,637</b>	<b>11,614</b>
<b>CURRENT ASSETS</b>			
Inventories	17	17,538	2,645
Trade receivables		116,322	60,777
Bills receivable		755	3,829
Prepayments, deposits and other receivables	18	20,992	3,974
Tax recoverable		—	27
Pledged bank deposits	24	2,544	10,766
Cash and cash equivalents	19	203,643	371,248
		<b>361,794</b>	<b>453,266</b>
<b>CURRENT LIABILITIES</b>			
Trade payables		21,473	42,101
Bills payable		10,262	16,735
Tax payable		2,188	2,569
Accrued liabilities, deposits received and other payables		9,373	9,198
		<b>43,296</b>	<b>70,603</b>
<b>NET CURRENT ASSETS</b>		<b>318,498</b>	<b>382,663</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>395,135</b>	<b>394,277</b>
<b>NON-CURRENT LIABILITY</b>			
Deferred tax	20	—	457
		<b>395,135</b>	<b>393,820</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	21	51,125	51,125
Reserves	22	344,010	342,695
		<b>395,135</b>	<b>393,820</b>

Yip Seng Mun  
Chairman

Chiu Wai Ki  
Director

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2001

		Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000
	Notes		
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>			
	23(a)	(92,962)	1,731
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		16,773	471
Interest paid		(66)	(61)
Dividends paid		(12,781)	—
<hr/>			
Net cash inflow from returns on investments and servicing of finance		3,926	410
<hr/>			
<b>TAX</b>			
Hong Kong profits tax refund		1,950	—
Overseas taxes paid		(319)	—
<hr/>			
		1,631	—
<hr/>			
<b>INVESTING ACTIVITIES</b>			
Acquisition of subsidiaries	23(c)	—	13,366
Purchases of fixed assets		(13,974)	—
Additions of deferred development costs		(6,046)	—
Purchases of intangible asset		(45,889)	—
Advances to an independent third party		(15,857)	—
Placements of bank deposits		(38,930)	—
Deposit paid for the proposed acquisition of an unlisted investment		(3,114)	—
Proceeds from disposal of fixed assets		10	—
Release/(pledge) of bank deposits		8,222	(10,766)
<hr/>			
Net cash inflow/(outflow) from investing activities		(115,578)	2,600
<hr/>			



## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2001

	Note	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		(202,983)	4,741
FINANCING ACTIVITIES			
Proceeds from issue of share capital	23(b)	—	388,125
Share issue expenses		(3,552)	(21,618)
Net cash inflow/(outflow) from financing activities		(3,552)	366,507
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(206,535)	371,248
Cash and cash equivalents at beginning of year/period		371,248	—
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		164,713	371,248
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		51,742	1,607
Bank deposits with original maturity less than three months		71,536	369,641
Other liquid funds		41,435	—
		164,713	371,248

## BALANCE SHEET

31 March 2001

	Notes	2001 HK\$'000	2000 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	16	391,796	393,899
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		1,008	—
Cash and bank balances	19	80	65
		1,088	65
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		800	3,852
<b>NET CURRENT ASSETS/(LIABILITIES)</b>			
		288	(3,787)
		392,084	390,112
<b>CAPITAL AND RESERVES</b>			
Share capital	21	51,125	51,125
Reserves	22	340,959	338,987
		392,084	390,112

**Yip Seng Man**  
*Chairman*

**Chiu Wai Ki**  
*Director*

## NOTES TO FINANCIAL STATEMENTS

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31 March 2001

### 1. CORPORATE INFORMATION

During the year, the Group was involved in the provision of broadband data networks and Internet backbone solutions, applications software, e-commerce solutions and related IT consultancy services.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Group reorganisation and basis of presentation of financial statements

The Company was incorporated in the Cayman Islands on 22 November 1999 as an exempted company with limited liability. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of its shares in March 2000 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 7 March 2000. This was accomplished by acquiring the entire issued share capital of Prosten (BVI) Limited ("Prosten (BVI)") in consideration of and in exchange for the Company's allotted and issued share capital.

The Reorganisation was accounted for in accordance with the Hong Kong Statement of Standard Accounting Practice ("HKSSAP") 27 "Accounting for group reconstructions" and the consolidated profit and loss account includes the results of the Company for the period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 and the post-acquisition results of its subsidiaries for the period from 7 March 2000 (date of completion of the Reorganisation) to 31 March 2000.

For information purposes only, the pro forma combined profit and loss account for the year ended 31 March 2000, which included the results of the Company and its subsidiaries with effect from 1 April 1999 or since their respective dates of incorporation/establishment where this is a shorter period, is presented on a combined basis as if the current Group structure had been in existence throughout the year ended 31 March 2000.

#### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

## NOTES TO FINANCIAL STATEMENTS

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31 March 2001

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

#### **Goodwill**

Goodwill arising on the consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the period of acquisition.

On the disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) installation, system development and system design service income, when the relevant services have been rendered; and
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

#### **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

## NOTES TO FINANCIAL STATEMENTS

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31 March 2001

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Fixed assets and depreciation** *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	30% or over the lease terms, whichever is shorter
Office equipment	30%
Computer equipment	30%
Furniture and fixtures	20%
Motor vehicles	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

#### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

#### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete and slow moving items. Cost is determined on a first-in, first-out basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred on disposal.

#### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Intangible asset**

Intangible asset represents the technology know-how over certain specific software products and operating platforms developed by a third party, and is stated at cost and amortised on a straight-line basis over a period of three years commencing from the date when the technology know-how is put into commercial use.

#### **Deferred development costs**

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised, using the straight-line method, over the expected useful life of the products subject to a maximum period of three years, commencing from the date when the products are put into commercial production.

The unamortised balance of development costs is reviewed at the end of each year and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is no longer likely to be recovered.

#### **Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

#### **Pension costs**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. The MPF Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme in accordance with the rules of the MPF Scheme. Prior to the MPF Scheme being effective, the Group did not have a pension scheme for either its directors or its employees in Hong Kong.

## NOTES TO FINANCIAL STATEMENTS

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31 March 2001

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Pension costs** *(Continued)*

The Group has joined a mandatory central pension scheme (the "CP Scheme") organised by the government in the People's Republic of China (the "PRC") except Hong Kong, for the Group's employees in the PRC except Hong Kong, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the CP Scheme. The employers' contributions vest fully once they are made.

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### **Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and cash equivalents represent assets similar in nature to cash and short term liquid funds, which are not restricted as to use.



## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 3. TURNOVER AND REVENUE

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.

An analysis of turnover and revenue is as follows:

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
Turnover — sale of goods and services rendered	186,122	13,981	206,766
Other revenue:			
Interest income	17,196	471	1,130
Others	115	—	80
	17,311	471	1,210
Total revenue	203,433	14,452	207,976

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
Cost of inventories sold	87,599	7,743	138,993
Cost of services provided	28,662	240	2,303
Depreciation:			
Owned fixed assets	6,061	72	534
Leased fixed assets	—	—	80
	6,061	72	614
Operating lease rentals in respect of land and buildings	6,099	222	2,668
Auditors' remuneration	850	83	838
Staff costs:			
(excluding pension contributions and directors' remuneration (note 6)):	21,535	760	10,723
Pension contributions	343	11	410
Research and development costs:			
Current year expenditure	904	—	—
Amortisation of deferred development costs	504	—	—
Loss on disposal of fixed assets	169	—	—
Provision for doubtful debts	6,000	—	—
Interest income	(17,196)	(471)	(1,130)

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 5. FINANCE COSTS

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
Interest on bank overdrafts and bank loan wholly repayable within five years	66	61	716
Interest on finance leases	—	—	29
	<b>66</b>	<b>61</b>	<b>745</b>

### 6. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
Fees	—	—	—
Other emoluments:			
Basic salaries, other allowances and benefits in kind	6,254	335	2,098
Discretionary bonus	—	—	310
Pension contributions	87	—	—
	<b>6,341</b>	<b>335</b>	<b>2,408</b>

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 6. DIRECTORS' REMUNERATION (Continued)

In addition to the directors' remuneration above, a total of 32,000,000 share options to subscribe for ordinary shares in the Company were granted to certain directors of the Company during the year. 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 these share options. Accordingly, no value has been included in the directors' remuneration in respect thereof.

The directors' remuneration shown above does not include the monetary rental value of staff quarters leased by the Group and provided rent free to certain executive directors of the Company. The Group incurred cost of HK\$2,347,000 relating to such accommodation for the year ended 31 March 2001.

### 7. TAX

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
Group:			
Current year provision:			
Hong Kong	—	—	984
Elsewhere	353	55	840
	353	55	1,824
Hong Kong profits tax refund	(1,950)	—	—
Overprovision in prior years	(388)	—	—
Deferred tax (note 20)	(457)	355	355
Tax charge/(written back) for the year/period	(2,442)	410	2,179

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year. Hong Kong profits tax had been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong for the year ended 31 March 2000. 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.

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 8. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year was HK\$14,753,000 (period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000: Net loss of HK\$288,000).

### 9. DIVIDENDS

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
Interim dividend paid			
— HK2.5 cents (2000: Nil) per ordinary share	12,781	—	—
Dividends paid by the Company's subsidiary to their then shareholders prior to the listing of the Company	—	—	20,000
	12,781	—	20,000

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 10. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 March 2001 together with the comparative figures, is based on the following data:

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000	Pro forma combined (For information purposes only) year ended 31 March 2000 HK\$'000
<b>Earnings</b>			
Net profit attributable to shareholders, used in the basic earnings per share calculation	<b>13,967</b>	3,420	32,236
<b>Shares</b>			
Weighted average number of shares in issue for the purpose of basic earnings per share calculation	<b>511,250,000</b>	258,320,549	426,885,246

Diluted earnings per share for the year ended 31 March 2001 has not been shown as the share options and warrants outstanding had an anti-dilutive effect on the basic earnings per share for the year.

Diluted earnings per share for the period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 has not been calculated because no dilutive events existed during that period.

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 11. FIXED ASSETS

#### Group

	Leasehold improvements HK\$'000	Office and computer equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	38	11,513	135	11,686
Additions	3,188	9,756	490	13,434
Disposals	—	(572)	(50)	(622)
Exchange adjustments	1	41	5	47
At 31 March 2001	3,227	20,738	580	24,545
Accumulated depreciation:				
At beginning of year	23	46	3	72
Provided for the year	619	5,163	279	6,061
Disposals	—	(393)	(50)	(443)
Exchange adjustments	1	41	—	42
At 31 March 2001	643	4,857	232	5,732
Net book value:				
At 31 March 2001	2,584	15,881	348	18,813
At 31 March 2000	15	11,467	132	11,614

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 12. DEFERRED DEVELOPMENT COSTS

	Group HK\$'000
Cost:	
Additions during the year and at 31 March 2001	6,046
Accumulated amortisation:	
Provided during the year and at 31 March 2001	(504)
Net book value:	
At 31 March 2001	5,542

### 13. INTANGIBLE ASSET

	Group HK\$'000
Cost:	
Additions during the year and at 31 March 2001	45,889
Accumulated amortisation:	
Provided during the year and at 31 March 2001	—
Net book value:	
At 31 March 2001	45,889

As at 31 March 2001, the underlying products in respect of which the intangible assets were acquired have not been put into commercial production and accordingly, no amortisation has been provided.

According to a valuation performed by American Appraisal Hongkong Limited, an independent firm of professional valuers, the fair market value of the intangible asset, using discounted cashflow model, exceeded its carrying value as at 31 March 2001.



## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 14. DEPOSITS AND CLUB DEBENTURE

	Group	
	2001	2000
	HK\$'000	HK\$'000
Rental deposits	2,319	—
Deposits for purchases of fixed assets	540	—
Club debenture	420	—
	3,279	—

### 15. DEPOSIT PAID FOR THE PROPOSED ACQUISITION OF AN UNLISTED INVESTMENT

On 20 March 2001, the Group entered into a conditional sale and purchase agreement (the "Agreement") with an independent third party for the acquisition of a 16% equity interest in a Sino-foreign jointly-controlled entity in the PRC at a consideration of approximately HK\$45,159,000. Under the Agreement, there are certain conditions to be fulfilled prior to the completion of the acquisition. Up to the date of the approval of the financial statements, these conditions have not yet been fulfilled. The capital commitment in relation to the above acquisition is set out in note 25(ii)(a) to the financial statements.

### 16. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	27,445	27,445
Due from subsidiaries	364,351	366,454
	391,796	393,899

The amount due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ establishment and operations	Paid-up/ registered share capital	Attributable equity interest to the Group	Principal activities
<i>Held directly:</i>				
Prosten (BVI) Limited	British Virgin Islands ("BVI")	US\$21,025	100%	Investment holding
Prosten Technology Co. Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Trading of computer equipment, software development, system integration and system development consulting
Prolink Technology Limited	Hong Kong	Ordinary HK\$5	100%	Investment holding
Worldly Limited	Hong Kong	Ordinary HK\$10,000	100%	Investment holding
Worldly Computer (Beijing) Co., Ltd.	PRC	US\$1,500,000	100%	Trading of computer equipment, software development, system integration and system development consulting
Prosten Software Limited	BVI	US\$1,000	100%	Application Software development
Prosten E-commerce Solutions Limited	BVI	US\$1,000	100%	Provision of e-commerce solutions and related information and technology consultancy services

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 16. INTERESTS IN SUBSIDIARIES (Continued)

Company	Place of incorporation/ establishment and operations	Paid-up/ registered share capital	Attributable equity interest to the Group	Principal activities
<i>Held directly: (Continued)</i>				
Prosten Technology (Shanghai) Company Limited	PRC	US\$1,500,000	100%	Trading of computer equipment, software development, system integration and system development consulting
Broadband Internet Company Limited	Hong Kong	Ordinary HK\$20	100%	Provision of broadband Internet portal hosting and transit services

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### 17. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Finished goods	17,538	2,645

### 18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the balance was an advance to an independent third party for the purpose of investing in a certain equity interest in a public company in Singapore (the "Proposed Investment") amounting to approximately HK\$15,857,000. The amount advanced was partially secured by a 4.9% equity interest in the Proposed Investment, bore interest at a rate of 10% per annum and repayable on or before 31 October 2001 if the Proposed Investment is not materialised.

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	51,742	1,607	80	65
Bank deposits	110,466	369,641	—	—
Other liquid funds	41,435	—	—	—
	203,643	371,248	80	65

### 20. DEFERRED TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
Balance at beginning of year/period	457	—
Arising on acquisition of subsidiaries	—	102
Charge/(written back) for the year/period (note 7)	(457)	355
At 31 March	—	457

The Group and the Company did not have any significant unprovided deferred tax liabilities at the balance sheet date.

The principal components of the Group's deferred tax assets/(liabilities) not recognised were as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Tax losses	3,208	—
Accelerated capital allowances	(1,802)	—
	1,406	—

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 21. SHARE CAPITAL

#### Shares

	2001 HK\$'000	2000 HK\$'000
Authorised:		
2,500,000,000 shares of HK\$0.10 each	250,000	250,000
Issued and fully paid:		
511,250,000 shares of HK\$0.10 each	51,125	51,125

#### (a) Share options

Under the terms of the share option scheme (the "Option Scheme") adopted by the Company on 7 March 2000, the directors of the Company are authorised at their absolute discretion, to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares of the Company. The subscription price will be determined by the directors, but may not be less than the highest of the closing price of the shares on the GEM of the Stock Exchange on the date of the grant of the option or the average of the closing price of the shares on the GEM of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the option or the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Option Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The Option Scheme became effective for a period of ten years commencing on the listing of the Company's shares on 28 March 2000.

The movements in the number of share options to subscribe for ordinary shares in the Company during the year are as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share of			
	HK\$1.22 '000	HK\$1.43 '000	HK\$1.52 '000	Total '000
At beginning of year	—	—	—	—
Granted during the year	17,390	2,300	21,633	41,323
Exercised during the year	—	—	—	—
Lapsed during the year	(2,433)	—	—	(2,433)
<b>At 31 March 2001</b>	<b>14,957</b>	<b>2,300</b>	<b>21,633</b>	<b>38,890</b>

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 21. SHARE CAPITAL (Continued)

#### (a) Share options (Continued)

The options outstanding at 31 March 2001 expire at various dates up to the close of business on 12 October 2010, or if that day is not a business day, the expiry date will be the close of business immediately preceding 12 October 2010. The exercise in full of the outstanding options would, under the present capital structure of the Company, result in the issue of 38,890,000 additional ordinary shares and cash proceeds to the Company are approximately HK\$54,419,000 before the related share issue expenses.

#### (b) Warrants

On 5 January 2001, a bonus issue of warrants (the "Year 2004 Warrants") was made in the proportion of one warrant for every ten shares then taken up. 51,125,000 Year 2004 Warrants were issued pursuant to the bonus issue. Each of the Year 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, subject to adjustment, at any time during the period from 9 January 2001 to 8 January 2004.

At the balance sheet date, the Company had 51,125,000 Year 2004 Warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 51,125,000 additional ordinary shares and cash proceeds to the Company is approximately of the amount of HK\$73,109,000 before the related share issue expenses.

### 22. RESERVES

	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
<b>Group</b>				
At 31 March 2000	339,275	—	3,420	342,695
Net profit for the year	—	—	13,967	13,967
Exchange differences arising on:				
Consolidation of overseas subsidiaries	—	129	—	129
Dividends	—	—	(12,781)	(12,781)
<b>At 31 March 2001</b>	<b>339,275</b>	<b>129</b>	<b>4,606</b>	<b>344,010</b>
<b>Company</b>				
At 31 March 2000	339,275	—	(288)	338,987
Net profit for the year	—	—	14,753	14,753
Dividends	—	—	(12,781)	(12,781)
<b>At 31 March 2001</b>	<b>339,275</b>	<b>—</b>	<b>1,684</b>	<b>340,959</b>

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 22. RESERVES (Continued)

- (a) The share premium account of the Company includes (i) shares issued at premium and (ii) the difference between the nominal value of the shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying net assets of the subsidiaries at the date they were acquired by the Company. Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.
- (b) The Company's reserves available for the distribution comprise the share premium account and retained profits. At 31 March 2001, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$340,959,000 subject to the restrictions stated in note 22(a) above.

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of profit from operating activities to net cash inflow/(outflow) from operating activities

	Year ended 31 March 2001 HK\$'000	Period from 22 November 1999 (date of incorporation of the Company) to 31 March 2000 HK\$'000
Profit from operating activities	11,591	3,891
Interest income	(17,196)	(471)
Loss on disposal of fixed assets	169	—
Amortisation of deferred development costs	504	—
Provision for doubtful debts	6,000	—
Depreciation	6,061	72
Increase in deposits and club debenture	(2,739)	—
Increase in inventories	(14,893)	—
Increase in trade receivables	(61,545)	(11,743)
Decrease in bills receivable	3,074	189
Decrease/(increase) in prepayments, deposits and other receivables	(738)	8,935
Decrease in an amount due from a director	—	1,621
Increase/(decrease) in trade payables	(20,628)	3,670
Increase/(decrease) in bills payable	(6,473)	471
Increase/(decrease) in accrued liabilities, deposits received and other payables	3,727	(4,904)
Exchange differences arising on consolidation of overseas subsidiaries	124	—
Net cash inflow/(outflow) from operating activities	(92,962)	1,731

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Analysis of changes in financing during the year/period

	Share capital and share premium HK\$'000	Interest- bearing bank loan HK\$'000
At beginning of period	—	—
Proceeds from shares issued on initial public offering	388,125	—
Arising on acquisition of subsidiaries	27,445	7,266
Share issue expenses	(25,170)	—
Settled by the director	—	(7,266)
At 31 March 2000 and 31 March 2001	390,400	—

#### (c) Acquisition of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	—	11,686
Inventories	—	2,645
Trade receivables	—	49,034
Bills receivable	—	4,018
Prepayments, deposits and other receivables	—	12,909
Tax recoverable	—	27
Due from a director	—	8,887
Cash and bank balances	—	13,366
Trade payable, accrued liabilities, deposits received and other payables	—	(48,981)
Bills payable	—	(16,264)
Tax payable	—	(2,514)
Interest-bearing bank loan, secured	—	(7,266)
Deferred tax	—	(102)
	—	27,445
Share premium	—	(27,245)
	—	200
Satisfied by:		
Issue of shares	—	200



## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (c) Acquisition of subsidiaries (Continued)

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash and bank balances acquired	—	13,366
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	—	13,366

The subsidiaries acquired during the period ended 31 March 2000 contributed HK\$1,731,000 to the Group's net operating cash inflow and received HK\$410,000 in respect of the net returns on investments and servicing of finance.

#### (d) Major non-cash transactions

- (i) The consideration for the purchase of subsidiaries during the period ended 31 March 2000 was settled by the issuing of the Company's shares.
- (ii) During the period ended 31 March 2000, the balance due from a director was fully settled by way of repayment of a bank loan by the director.

### 24. BANKING FACILITIES

As at 31 March 2001, the Group's banking facilities were secured by bank deposits in the aggregate amount of HK\$2,544,000 (2000: HK\$10,766,000) and corporate guarantees given by the Company and certain subsidiaries of the Company.

At 31 March 2001, the banking facilities utilised by the Group amounted to approximately HK\$41,741,000 (2000: HK\$23,088,000).

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 25. COMMITMENTS

#### (i) Operating lease commitments

	Group	
	2001	2000
	HK\$'000	HK\$'000
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	1,175	1,201
In the second to fifth years, inclusive	5,437	894
	<b>6,612</b>	<b>2,095</b>

#### (ii) Capital commitments contracted for

		Group	
	Note	2001	2000
		HK\$'000	HK\$'000
Proposed acquisition of 16% equity interest in a Sino Foreign jointly-controlled entity in the PRC	(a)	42,045	—
Acquisition of fixed assets		1,687	—
Investment in a subsidiary in the PRC		3,893	—
		<b>47,625</b>	<b>—</b>

(a) Further details of the proposed acquisition is set out in note 15 to the financial statements.

(iii) The Group had outstanding commitments to provide funding amounting to HK\$1,347,000 concerning 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.

### 26. 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\$70,810,000 (2000: HK\$15,480,000) in respect of banking facilities granted to certain subsidiaries of the Company.

### 27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 June 2001.

## NOTICE OF ANNUAL GENERAL MEETING

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**NOTICE IS HEREBY GIVEN** that an Annual General Meeting of the members of Prosten Technology Holdings Limited (the "Company") will be held at Unit 906–910, 9/F, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong on Friday, 27 July 2001 at 10:30 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 March 2001;
2. To re-elect Directors and to authorise the Board to fix the Directors' remuneration;
3. To re-appoint Auditors and to authorise the Board to fix their remuneration;
4. To consider as Special Business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

**"THAT**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase ordinary shares and 2004 Warrants in the capital of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the total nominal amount of shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution, and the subscription rights attached to 2004 Warrants to be purchased pursuant to such approval shall not exceed 10% of the total subscription rights attached to 2004 Warrants outstanding on such date, and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next Annual General Meeting of the Company;
  - (ii) the revocation or variation of the authority given under this Resolution by Ordinary Resolution of the shareholders in general meetings; or
  - (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held.";

5. To consider as Special Business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

**"THAT**

- (a) subject to the following provisions of this Resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers during or after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise); or by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong); or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the capital of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next Annual General Meeting of the Company;
  - (ii) the revocation or variation of the authority given under this Resolution by Ordinary Resolution of the shareholders in general meetings; or
  - (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held.";

## NOTICE OF ANNUAL GENERAL MEETING

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6. To consider as Special Business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT** the general mandate granted to the Directors of the Company pursuant to Resolution 5 above and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the total nominal amount of shares in the capital of the Company repurchased by the Company since the granting of a general mandate to the Directors of the Company to exercise the powers of the Company to purchase such shares, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution.";

7. To consider as Special Business and, if thought fit, pass with or without amendments, the following resolution as a Special Resolution:

"**THAT** Article 156(A) of the Articles of Association of the Company shall be amended by the insertion of the following at the end of the first sentence:

"Dividends may be paid out of such distributable reserves of the Company as the Directors in their absolute discretion may determine which shall include, but not be limited to, profits of the Company, reserves of the Company lawfully available for distribution and share premium."";

8. To consider as Special Business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT** conditional upon the proposed cancellation of share options and the grant of share options referred to in paragraphs (a) and (b) below respectively of this Resolution by The Stock Exchange of Hong Kong Limited:

- (a) the cancellation of the options granted by the Company to subscribe for shares ("Shares") in the Company pursuant to the rules of the share option scheme ("Scheme") adopted by the Company on 28 March 2000 to the employees ("Grantees") of the Company or its subsidiaries, whose names and particulars are set out in the Company's circular ("Circular") dated 29 June, 2001 to its shareholders (a copy of which has been produced to the meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification), which cancellation shall take effect on the second day immediately following the date of the AGM;
- (b) the grant by the Company of options to subscribe for shares in the Company to each of the Grantees on and subject to such terms and conditions as set out in the Circular and the Scheme be and it is hereby approved; and
- (c) the Directors or the Committee be and they are hereby authorised to grant options to subscribe for Shares thereunder on and subject to such terms and conditions as set out in the Circular and the Scheme and to allot, issue and deal with Shares pursuant to the exercise of options so granted and to take all such steps as may be necessary, desirable or expedient to carry into effect the arrangement referred to in paragraphs (a) and (b) of this Resolution.";

9. "THAT conditional upon The Stock Exchange of Hong Kong Limited ("Stock Exchange") granting its approval of the amendments set out below in paragraph (a) of this Resolution:

(a) the rules of the share option scheme ("Scheme") adopted by the Company on 28 March 2000 be and are hereby amended:

(i) by adding the following definition in the existing paragraph 1.1 immediately after the definition of the "Company":

"connected person" has the same meaning as defined in the GEM Listing Rules;"

(ii) by adding the following as paragraphs 4.8 and 4.9 immediately after the existing paragraph 4.7:

"4.8 Any grant of Options to a connected person must be approved by all the independent non-executive directors of the Company.

4.9 Any proposed grant of Options to the following person or his associates shall be conditional upon the approval of shareholders of the Company in general meeting:

(i) an independent non-executive director; or

(ii) a connected person who, at the time of such proposal, is also a substantial shareholder (as such term is defined in the Listing Rules), and the proposed grant of Options, when aggregated with the Options already granted to that connected person in the past 12-month period, would entitle him to receive more than 0.1 per cent. of the total issued Shares for the time being and the value of which is in excess of HK\$5 million.

For the purpose of and in connection with the convening of the general meeting of the Company for considering and (if so thought fit) approving such proposed grant of Options, the following provisions shall apply:

(a) the connected person involved and all other connected persons of the Company shall be required to abstain from voting in such general meeting, except where any connected person intends to vote against the proposed grant; and

(b) a shareholders' circular shall be despatched together with the notice of the relevant general meeting, which shall explain the proposed grant, disclose the number and terms of the Options to be granted and set out the recommendation from the independent non-executive directors of the Company (other than the independent non-executive director involved) on whether or not to vote in favour of the proposed grant.";

4.10 The Company shall include the following information in its annual and interim reports:

- (a) details of the options granted to each Director and all the other Grantees; and
- (b) a summary of the major terms of this Scheme and other option schemes adopted by the shareholders of the Company.

(iii) paragraph 8.1 shall be deleted in its entirety and replaced by the following:

"8.1 (A) The number of Shares in respect of which Options may be granted at any time under this Scheme together with options which may be granted under any other share option schemes for the time being of the Company shall not exceed such number of Shares as equals 30% of the issued share capital of the Company ("30% Threshold") (subject to adjustment as provided in this paragraph 8) from time to time during the period of ten years from the Adoption Date, excluding:

- (a) any Shares which have been issued upon the exercise of Options granted under this Scheme or any other share option schemes of the Company; and
- (b) any pro-rata entitlements to further Shares issued in respect of those Shares mentioned in paragraph 8.1(a).

The maximum number of Shares in respect of all Options shall include all Shares falling to be issued upon the exercise of any Option by any Grantee (to the extent not already exercised) together with all Shares which have already been issued pursuant to the exercise of any Option, including options granted by the Company under any other share option schemes.

(B) Subject always to the provisions of paragraph 8.1(A) but without prejudice to paragraph 8.1(C), shareholders of the Company in general meeting may grant a general mandate (which shall be renewed if and only if approved by shareholders at annual general meetings held from time to time prior to the Termination Date) to the Directors to grant, pursuant to the provisions of this Scheme or any other share option schemes for the time being of the Company, options to subscribe for Shares to eligible grantees hereunder or thereunder, provided that the aggregate nominal amount of Shares which may be subscribed for upon exercise of the options granted under such general mandate shall not exceed 10 per cent. of the issued share capital of the Company from time to time.

(C) Subject always to the provisions of paragraph 8.1(A) but without prejudice to paragraph 8.1(B), the Company may seek the approval of its shareholders in general meeting to grant, pursuant to the provisions of this Scheme or any other share option schemes for the time being of the Company, options to subscribe for Shares beyond the 10 per cent. limit referred to in paragraph 8.1(B) above to eligible grantees thereunder whose names and

## NOTICE OF ANNUAL GENERAL MEETING

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particulars and the details of the options concerned are specified in the notice of such general meeting or in the announcement or circular in connection therewith published or delivered to the shareholders prior to such general meeting.”;

- (b) the Directors be and they are hereby authorised to approve any further amendments to the rules of the Scheme as may be acceptable or not objected to by the Stock Exchange, and to grant at their absolute discretion options to subscribe for shares (“Shares”) in the Company thereunder, and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Scheme.”; and

### 10. “THAT

- (a) subject to the following provisions of this Resolution and pursuant to the provisions of any outstanding share option scheme or schemes of the Company, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to grant options to eligible grantees under such scheme or schemes to subscribe for shares (“Shares”) of the Company be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which would be subscribed for upon the exercise of the options granted pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the issued share capital of the Company from time to time, excluding (i) any Shares which have been issued upon the exercise of options granted under any share option scheme or schemes of the Company, and (ii) any pro-rata entitlements to further Shares issued in respect of those Share mentioned in (i); and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the date of passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next Annual General Meeting of the Company;
  - (ii) the revocation or variation of the authority given under this Resolution by Ordinary Resolution of the shareholders in general meetings; or
  - (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held.”.

BY ORDER OF THE BOARD

**Chiu Wai Ki**

*Director*

Hong Kong, 27 June 2001



## NOTICE OF ANNUAL GENERAL MEETING

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### Notes:

- (a) The Register of Members of the Company will be closed from Monday, 23 July 2001 to Friday, 27 July 2001, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for attending the Meeting convened by the above notice, all transfers accompanied by the relevant share certificates and transfer forms and in case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Friday, 20 July 2001.
- (b) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.
- (d) Explanatory statements setting out further information regarding Resolutions 4 to 10 above will be despatched to members of the Company and for information only, warrant holders together with the 2001 Annual Report.