



PROSTEN TECHNOLOGY HOLDINGS LIMITED

長達科技控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8026)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

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This announcement, for which the directors (the “Directors”) of Prosten Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS

- Turnover of the Group for the six months ended 30 September 2004 amounted to approximately HK\$30,058,000, representing an increase of approximately 2.2% as compared to the corresponding period in the previous financial year.
- Net loss from ordinary activities attributable to shareholders for the six months ended 30 September 2004 amounted to approximately HK\$19,624,000.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2004.

RESULTS

The Board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months and three months ended 30 September 2004 together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 September		Three months ended 30 September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
TURNOVER	2	30,058	29,414	18,943	15,871
Cost of sales		(20,520)	(20,473)	(13,456)	(11,395)
Gross profit		9,538	8,941	5,487	4,476
Other revenue	2	1,740	596	1,366	372
Selling and distribution costs		(10,130)	(9,242)	(5,790)	(5,751)
General and administrative expenses		(20,721)	(21,652)	(10,434)	(10,598)
Other operating expenses		(661)	(496)	(506)	(110)
LOSS FROM OPERATING ACTIVITIES	4	(20,234)	(21,853)	(9,877)	(11,611)
Finance costs		(24)	(10)	(3)	(5)
LOSS BEFORE TAX		(20,258)	(21,863)	(9,880)	(11,616)
Tax	5	634	(447)	646	(279)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(19,624)</u>	<u>(22,310)</u>	<u>(9,234)</u>	<u>(11,895)</u>
LOSS PER SHARE	6				
Basic		<u>(HK3.8 cents)</u>	<u>(HK4.4 cents)</u>	<u>(HK1.8 cents)</u>	<u>(HK2.3 cents)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	7	2,847	2,872
Deposits and club debenture		2,468	2,904
Intangible asset	8	—	—
		<u>5,315</u>	<u>5,776</u>
CURRENT ASSETS			
Inventories	9	5,888	10,079
Trade receivables	10	24,872	21,270
Prepayments, deposits and other receivables		5,454	7,127
Short term investments		2,085	8,544
Pledged bank deposits		581	3,363
Cash and cash equivalents		46,748	52,566
		<u>85,628</u>	<u>102,949</u>
CURRENT LIABILITIES			
Trade payables	11	14,401	13,908
Tax payable		1,003	1,242
Accrued liabilities, deposits received and other payables		16,758	15,105
Current portion of finance lease payables		137	133
		<u>32,299</u>	<u>30,388</u>
NET CURRENT ASSETS		<u>53,329</u>	<u>72,561</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		58,644	78,337
NON-CURRENT LIABILITIES			
Non-current portion of finance lease payables		24	93
		<u>58,620</u>	<u>78,244</u>
CAPITAL AND RESERVES			
Issued capital	12	51,125	51,125
Reserves		7,495	27,119
		<u>58,620</u>	<u>78,244</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Reserves			Sub-total <i>HK\$'000</i>	Total <i>HK\$'000</i>
			Statutory reserve fund <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>		
At 1 April 2003 (Audited)	51,125	339,275	–	112	(271,371)	68,016	119,141
Exchange differences arising on consolidation of overseas subsidiaries and gains not recognised in the profit and loss account	–	–	–	22	–	22	22
Net loss for the period	–	–	–	–	(22,310)	(22,310)	(22,310)
At 30 September 2003 (Unaudited)	<u>51,125</u>	<u>339,275</u>	<u>–</u>	<u>134</u>	<u>(293,681)</u>	<u>45,728</u>	<u>96,853</u>
At 1 April 2004 (Audited)	51,125	339,275	53	335	(312,544)	27,119	78,244
Net loss for the period	–	–	–	–	(19,624)	(19,624)	(19,624)
At 30 September 2004 (Unaudited)	<u>51,125</u>	<u>339,275</u>	<u>53</u>	<u>335</u>	<u>(332,168)</u>	<u>7,495</u>	<u>58,620</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(7,184)	(10,706)
Net cash inflow/(outflow) from investing activities	4,927	(4,126)
Net cash outflow from financing activities	(65)	(109)
Net decrease in cash and cash equivalents	(2,322)	(14,941)
Cash and cash equivalents at beginning of period	19,422	87,755
Cash and cash equivalents at end of period	<u>17,100</u>	<u>72,814</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	12,050	9,494
Non-pledged time deposits placed at financial institutions with original maturity of less than three months	–	45,658
Other liquid funds	5,050	17,662
	<u>17,100</u>	<u>72,814</u>

Notes:

1. Basis of Preparation

The Group's unaudited condensed interim financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the Hong Kong Financial Reporting Standard – Hong Kong Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The unaudited condensed interim financial statements have been prepared under the historical cost convention except for the re-measurement of short term investments. The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31 March 2004.

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

2. Turnover and Revenue

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

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

	Six months ended		Three months ended	
	30 September		30 September	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover:				
Sale of goods	10,797	15,817	8,976	11,839
Services rendered	19,261	13,597	9,967	4,032
	<u>30,058</u>	<u>29,414</u>	<u>18,943</u>	<u>15,871</u>
Other revenue:				
Financial subsidy from the PRC governmental authority	558	–	558	–
Interest income	410	567	243	352
Investment income	307	15	100	7
Recovery of bad debts provided for in prior years	465	–	465	–
Others	–	14	–	13
	<u>1,740</u>	<u>596</u>	<u>1,366</u>	<u>372</u>
Total revenue	<u><u>31,798</u></u>	<u><u>30,010</u></u>	<u><u>20,309</u></u>	<u><u>16,243</u></u>

3. Segment Information

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

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

An analysis of the Group's unaudited revenue and results for the six months ended 30 September 2004 and 2003 by business segment is as follows:

	Provision of broadband data networks and Internet backbone solutions		Provision of applications software		Provision of e-commerce solutions, related IT consultancy services and wireless value-added services		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:								
Sales to external customers	<u>10,609</u>	<u>15,974</u>	<u>188</u>	<u>2,523</u>	<u>19,261</u>	<u>10,917</u>	<u>30,058</u>	<u>29,414</u>
Segment results	<u>(3,310)</u>	<u>(3,106)</u>	<u>39</u>	<u>(1,368)</u>	<u>1,094</u>	<u>2,855</u>	<u>(2,177)</u>	<u>(1,619)</u>
Unallocated expenses							<u>(19,797)</u>	<u>(20,830)</u>
Other revenue							<u>1,740</u>	<u>596</u>
Loss from operating activities							<u>(20,234)</u>	<u>(21,853)</u>
Finance costs							<u>(24)</u>	<u>(10)</u>
Loss before tax							<u>(20,258)</u>	<u>(21,863)</u>
Tax							<u>634</u>	<u>(447)</u>
Net loss from ordinary activities attributable to shareholders							<u><u>(19,624)</u></u>	<u><u>(22,310)</u></u>

4. Loss from Operating Activities

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

	Six months ended 30 September		Three months ended 30 September	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Depreciation	<u>1,376</u>	2,458	<u>642</u>	1,206
Minimum lease payments under operating leases:				
Land and buildings	<u>1,690</u>	3,782	<u>871</u>	1,667
Staff costs:				
Wages and salaries	<u>13,857</u>	13,327	<u>6,997</u>	6,496
Pension scheme contributions	<u>1,595</u>	936	<u>903</u>	499
Amortisation of an intangible asset	<u>–</u>	1,362	<u>–</u>	681
Loss on disposal of fixed assets	<u>–</u>	349	<u>–</u>	91

5. Tax

	Six months ended		Three months ended	
	30 September		30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current period provision:				
Hong Kong	–	–	–	–
Elsewhere	12	447	–	279
	12	447	–	279
Hong Kong profits tax refunded	(503)	–	(503)	–
Overprovision in prior years	(143)	–	(143)	–
Tax charge/(written back) for the period	(634)	447	(646)	279

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the six months and three months ended 30 September 2004 (2003: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Group's subsidiary operating in the PRC has been awarded “高新技術企業” status by the PRC governmental authority. In accordance with a notice issued by the PRC governmental authority on 29 December 2003, the subsidiary is entitled to a subvention on 7% of its assessable profits for the period from 1 January 2003 to 31 December 2004 when all conditions as set out in the notice are complied with. The PRC governmental authority has confirmed the fulfillment of the said conditions by the subsidiary and as such the subsidiary has received approximately HK\$558,000 of subvention.

There was no unprovided deferred tax in respect of the six months and three months ended 30 September 2004 and at the balance sheet date (2003: Nil).

6. Loss Per Share

The calculation of basic loss per share amount for the six months and three months ended 30 September 2004 are based on the unaudited net loss from ordinary activities attributable to shareholders of HK\$19,624,000 (six months ended 30 September 2003: net loss from ordinary activities attributable to shareholders of HK\$22,310,000) and HK\$9,234,000 (three months ended 30 September 2003: net loss from ordinary activities attributable to shareholders of HK\$11,895,000), respectively, and on the weighted average number of 511,250,000 ordinary shares (both for the six months and three months ended 30 September 2003: 511,250,000 ordinary shares) in issue throughout the periods.

Diluted loss per share amount for the six months and three months ended 30 September 2004 and 2003 have not been disclosed, as the share options and warrants outstanding had an anti-dilutive effect on the basic loss per share for the periods.

7. Fixed Assets

The movements of fixed assets of the Group were:

	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
Net book value, beginning of period/year	2,872	5,779
Additions	1,351	1,664
Disposals	–	(420)
Depreciation	(1,376)	(4,145)
Exchange adjustments	–	(6)
	<hr/>	<hr/>
Net book value, end of period/year	<u>2,847</u>	<u>2,872</u>

8. Intangible Asset

The movements of intangible asset of the Group were:

	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
Net book value, beginning of the period/year	–	5,922
Amortisation	–	(2,724)
Impairment recognised in the profit and loss account	–	(3,198)
	<hr/>	<hr/>
Net book value, end of period/year	<u>–</u>	<u>–</u>

9. Inventories

	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
Work in progress	498	2,200
Finished goods	5,390	7,879
	<hr/>	<hr/>
	<u>5,888</u>	<u>10,079</u>

10. Trade Receivables

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

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

	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
0 – 90 days	11,927	19,470
91 – 180 days	7,577	6
181 – 365 days	3,563	1,242
Over 365 days	1,805	552
	<u>24,872</u>	<u>21,270</u>

11. Trade Payables

An aged analysis of the Group's trade payables as at the balance sheet date is as follows:

	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
0 – 90 days	2,164	3,113
91 – 180 days	1,532	18
181 – 365 days	–	314
Over 365 days	10,705	10,463
	<u>14,401</u>	<u>13,908</u>

12. Share Capital

	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
Authorised: 2,500,000,000 shares of HK\$0.10 each	<u>250,000</u>	<u>250,000</u>
Issued and fully paid: 511,250,000 shares of HK\$0.10 each	<u>51,125</u>	<u>51,125</u>

13. Operating Lease Arrangements

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

As at 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
Land and building:		
Within one year	5,621	5,262
In the second to fifth years, inclusive	2,700	3,973
	<u>8,321</u>	<u>9,235</u>
Motor vehicles:		
Within one year	264	316
In the second to fifth years, inclusive	98	236
	<u>362</u>	<u>552</u>
	<u>8,683</u>	<u>9,787</u>

The Company did not have any significant commitment under non-cancellable operating leases at the balance sheet date.

14. Commitments

Capital commitments contracted for

	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
Acquisition of fixed assets	64	–
Investment in a subsidiary in the PRC	3,877	3,877
	<u>3,941</u>	<u>3,877</u>

The Company had no significant commitments at the balance sheet date.

15. 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\$31,018,000 (31 March 2004: HK\$32,569,000) in respect of banking facilities granted to certain subsidiaries of the Company.

As at 30 September 2004, the bank facilities granted to the subsidiaries subject to these guarantees given to the banks by the Company were utilised to the extent of approximately HK\$581,000 (31 March 2004: HK\$3,349,000).

16. Connected and Related Party Transactions

During the period, the Group had the following material transactions with related parties:

		Six months ended	
		30 September	
	Notes	2004	2003
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Rental expenses paid	(i)	378	317
Handling services fee paid	(ii)	421	141
Rental expenses paid	(iii)	<u>180</u>	<u>180</u>

- (i) The rentals were paid in respect of the Group's leased motor vehicles to a related company, of which a shareholder of the related company is the father-in-law of Mr. Yip Heon Ping, a director of the Company. The directors of the Company have confirmed that the monthly rentals were calculated by reference to the then prevailing open market rental value.
- (ii) Handling services fee paid represented the fee charged on services provided by a related company in handling the Group's mobile value added services, of which shareholders of the related company are the mother-in-law and sister-in-law of Mr. Yip Heon Ping, a director of the Company. The fee was charged according to the terms of an agreement dated 20 August 2003.
- (iii) The rentals were paid in respect of the Group's leased staff quarter situated in Hong Kong to Mr. Yip Heon Wai, a director of the Company, and Ms. Chan Fu Kuen, Gladys, the spouse of Mr. Yip Heon Wai. The directors of the Company have confirmed that the monthly rental was calculated by reference to the then prevailing open market rental value.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's turnover for the six months ended 30 September 2004 was HK\$30,058,000, representing a slight increase of approximately 2.2% over the corresponding period in last year. This was mainly attributable to the increase in Mobile Value Added Services (MVAS) for the period under review, whose revenue has accomplished approximately HK\$15,500,000, representing 51.6% of the Group's total revenue for the six months period ended.

For the three months ended 30 September 2004, the turnover of the Group amounted to HK\$18,943,000, representing an increase of approximately 19.4% as compared with that of the three months ended 30 September 2003. The increase was mainly attributed to a rapid expansion of MVAS business, and the revenue of MVAS was approximately of HK\$7,358,000 for the three months under review.

For the first half of 2004, the segment revenue generated from the provision of e-commerce solutions, related IT consultancy services and wireless value-added services increased to approximately HK\$19,261,000 as compared with approximately HK\$10,917,000 in the corresponding period last year. This remarkable growth rate of 76.4% was contributed by MVAS's revenue through the sales network/channel expansion and successful marketing strategy in the PRC. However, the segment revenue from provision of broadband

data networks and Internet backbone solutions dropped by HK\$5,365,000, representing a decrease of 33.6%. The drop was due to the overall poor market condition in system integration business in the PRC. Details of the information relating to different business segments of the Group are set out in note 3 to the Interim Report.

The gross profit of the Group for the six months ended 30 September 2004 amounted to HK\$9,538,000, representing a slight increase of 6.7% from last year. This increase resulted from the higher gross profit as contributed by the MVAS business.

The Group devoted more resources to marketing activities in order to cope with the development of MVAS business; as a result, the selling and distribution costs were increased by 9.6% to approximately HK\$10,130,000 when compared to the same period in last year. Nevertheless, the Group continued to implement its tight cost control policy. The overall operating expenses were maintained at the same level when compared with the corresponding period in last year. On the other hand, the other revenue increased by HK\$1,144,000 which was contributed by the financial subsidy received from the PRC governmental authority and recovery of bad debts provided for in prior years in the amount of HK\$558,000 and HK\$465,000 respectively. Also, the Group successfully claimed back HK\$503,000 of Hong Kong profits tax. As a result, the Group's net loss from ordinary activities attributable to shareholders was improved to HK\$19,624,000 for the six months ended 30 September 2004, representing a decrease of approximately 12% from the corresponding period in last year.

Financial Position, Liquidity, Financial Resources and Debt Ratio

As at 30 September 2004, the shareholders' fund of the Group amounted to HK\$ 58,620,000 which was decreased by 25.1% as compared to 31 March 2004. The Group had net current assets of HK\$53,329,000 compared with that of HK\$72,561,000 as at 31 March 2004. The Group's current ratio was approximately 2.7 (31 March 2004: 3.4). The gearing ratio of the Group, as a ratio of total borrowings to shareholders' fund, as at 30 September 2004 was 0.3% (31 March 2004: 0.3%).

As at 30 September 2004, the Group had cash and bank balances including pledged bank deposits of HK\$47,329,000 (31 March 2004: HK\$55,929,000). During the period under review, the Group generally financed its operations mainly with its operating revenue, internal resources and banking facilities provided by its principal bankers. The Directors believe that the Group has a sound financial position to finance its business development in the current year.

Capital Structure

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

Significant Investment and Disposals

There was no material acquisitions and disposals of subsidiaries and affiliated companies by the Company during the period under review.

Foreign Currency Exchange Exposure and Treasury Policies

Most of the Group's trading transaction, assets and liabilities were denominated in Hong Kong dollars, United States dollars and Renminbi. As the exchange rate of United States dollars and the Renminbi to Hong Kong dollars were fairly stable, the Directors believe that the impact of the foreign exchange exposure of the Group is minimal and has no significant adverse effect on the normal operations of the Group.

As at 30 September 2004, the Group had no significant exposures under foreign exchange contracts, interest or currency swaps or other financial derivatives.

Capital Commitment

As at 30 September 2004, the Group had capital commitments contracted for the acquisition of fixed assets and investment in a subsidiary in the PRC for the aggregate amount of HK\$3,941,000.

Banking Facilities and Contingent Liabilities

As at 30 September 2004, the Group was granted banking facilities of HK\$9,886,000 that were secured by the Group's bank deposits of HK\$581,000. The banking facilities utilised by the Group amounted to HK\$581,000. The Group had no other material contingent liabilities.

Employee and Remuneration Policy

As at 30 September 2004, the Group had a total of 207 employees. The Group's remuneration policy is basically determined by the performance of individual employees. In addition to salaries, employee benefits included medical scheme, pension contributions and share option schemes.

Business Review and Outlook

For the six months ended 30 September 2004, the Group experienced a setback in revenue from provision of broadband data networks and internet backbone solutions as a consequence of continuing weak spending in such sectors by telecommunications operators in China. However, the shortfall of revenue was more than offset by the increase in the revenue from MVAS. The Group recorded a marginal 2.2% increase in gross turnover for this six-month period compared to the corresponding period of last year. The Group was able to quickly adjust its business strategy for meeting changing market conditions via appropriate reallocations of resources. As a result, its net loss from ordinary activities attributable to shareholders for the first six months 2004 improved by 12% when compared to the last year six months operating result.

For the broadband data networks and internet backbone solutions business, the Group leveraged on its extensive project management experience in large-scale network infrastructure projects and continued to complete projects to fulfill customer needs. Consequently, it was awarded kiNETic™ BillCare 4.0 software upgrade and services by Shanghai Telecom, Fujian 179 ecommerce upgrade and optimization services by Fujian Telcom, the ATM/IP network upgrade and expansion contracts by Ningxia Telecom, etc. The Group also partnered with Telecom NTT Engineering Co. Ltd to provide IP network installation and maintenance services to Japanese clients operating in China. Due to projected weak demands in this business sector for the remaining half financial year, the Group has scaled down its operations in this business line and is looking for other alternative revenue funnels to make up for the shortfall, such as via increasing focus on MVAS and exploring other potential channels of business co-operations.

On the MVAS side, the Group made steady progress in this segment of business. In comparison with the 1st quarter 2004 result, it achieved a breakthrough increase of subscriber base to approximately one million in July 2004 which resulted in the highest recorded gross turnover for that single month since the Group's entrance into MVAS business. However, the Group is taking cautious approaches towards future expansion plans of MVAS due to two main reasons. Firstly, the MVAS revenue may decline in future as a result of tightening up regulations in value-added services by the Ministry of Information Industry (MII) and the Chinese telecommunications operators. Secondly, provincial subsidiaries of China Mobile Communication Corporation continue to install new MISC billing platform. As such, the Group is required to purchase additional platforms and modify its existing billing software in order to be compatible with the new MISC billing platform. Also, the billing settlement period with China Mobile Communication Corporation has been lengthened due to the installation of the new MISC billing platform. These factors generally will have an adverse impact on the MVAS cash flow.

For the 2nd quarter 2004, MVAS concentrated on (1) enhancing the existing SMS products, (2) expanding Wireless Application Protocol (WAP) applications, (3) upgrading Interactive Voice Response Services (IVRS) (4) establishing media co-operations and (5) building up alliances and profit sharing arrangements with third-party content providers, service providers and mobile phone vendors. For instance, it partnered with a PRC based mobile phone manufacturing company to ensure that all mobile phones manufactured by the latter were equipped with wireless service menus and products offered by MVAS before the phones were put on market for sale. The objective is to make MVAS easily accessible via targeting new mobile phone buyers. In addition, an exclusive cooperative agreement was entered into with Miss World Pageant organizer to jointly promote this event that will be held starting from November this year in Sanya , Hainan Province of China via caller voting of their most favorite contestants.

Going forward, the Group will continue to concentrate on developing the MVAS business and is confident on its future engagements. It will put more attention to designing and building new products and diversified services. As a new and energetic wireless value-added service provider, the Group is constantly looking for innovative ways of improving its brand image and market share in the MVAS in China. On the other hand, it will also look for technology partners in system integration area for improving its revenue and growth potential. The Group strongly believes that if it delivers on fundamentals, shareholder values will be realized.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 September 2004, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities	Percentage of the Company's issued share capital
Mr. Yip Heon Ping	The Company	An object of a discretionary trust (Note 1)	404,280,619 shares	79.08%
Mr. Yip Seng Mun	The Company	Interest of corporation controlled by director (Note 2)	248,349,584 shares	48.58%

Notes:

- (1) These shares were held by Greenford Company Limited, Century Technology Holding Limited and Bakersfield Global Corporation as trustees of The Greenford Unit Trust, The Century Unit Trust and The Bakersfield Unit Trust, respectively, all the units of which were held by Cititrust (Cayman) Limited as trustee of The New Millennium Trust, a discretionary family trust established with Mr. Yip Heon Ping as the discretionary object for the time being.
- (2) These shares were held by Century Technology Holding Limited and Bakersfield Global Corporation and were beneficially owned by Mr. Yip Seng Mun.

Long positions in underlying shares of the Company

Share Options

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

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

Save as disclosed above, as at 30 September 2004, none of the Directors or their associates as well as the chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by Directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEMES

The Company’s share option scheme which was adopted on 7 March 2000 (the “Old Scheme”) was terminated and replaced by a new share option scheme approved by the shareholders at the extraordinary general meeting of the Company held on 9 April 2002 (the “New Scheme”). The options granted under the Old Scheme remain exercisable within their respective exercise periods.

A summary of the Old Scheme and the New Scheme is set out below:

(a) Old Scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants include the Company’s directors and employees of the Group. Under the Old Scheme, the board was authorised, at its absolute discretion, to grant options to the Company’s directors and employees of the Group, to take up options to subscribe for ordinary shares of the Company. The Old Scheme became effective for a period of 10 years commencing on the listing of the Company’s shares on the Growth Enterprises Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Exchange”) on 28 March 2000.

(b) New Scheme

The New Scheme became effective for a period of 10 years commencing on 23 April 2002. Under the New Scheme, the directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the higher of (i) the closing price of shares of the Company on the GEM as stated in the Exchange’s daily quotation sheet on the date of the offer of grant; or (ii) the average closing price of the shares of the Company on the GEM as stated in the Exchange’s daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the share. The offer of a grant of options may be accepted within 21 days from the date of the offer. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option. The exercise period of the options granted is determinable by the directors, and commences after certain vesting period and ends in any event not later than 10 years from the date of the offer on which the offer for grant of the option is made, subject to the provisions for early termination thereof.

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

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the New Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the extraordinary general meeting held on 9 April 2002.

Options to subscribe for shares of the Company under the Old Scheme

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

Name or category of participant	Number of share options			Date of share options re-granted*	Exercise period of share options re-granted	Exercise price of share options re-granted ** HK\$
	At 1 April 2004	Lapsed during the period	At 30 September 2004			
Directors						
Mr. Yip Seng Mun	6,000,000	–	6,000,000	22 August 2001	22 August 2001 to 21 August 2011	0.40
Mr. Yip Heon Ping	6,300,000	–	6,300,000	22 August 2001	22 August 2001 to 21 August 2011	0.40
Mr. Yip Heon Wai	5,300,000	–	5,300,000	22 August 2001	22 August 2001 to 21 August 2011	0.40
Mr. Yip Heon Keung	5,300,000	–	5,300,000	22 August 2001	22 August 2001 to 21 August 2011	0.40
	<u>22,900,000</u>	<u>–</u>	<u>22,900,000</u>			
Other employees of the Group						
In aggregate	4,795,000	(190,000)	4,605,000	22 August 2001	22 August 2001 to 21 August 2011	0.40
	<u>27,695,000</u>	<u>(190,000)</u>	<u>27,505,000</u>			

Options to subscribe for shares of the Company under the New Scheme

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

Name or category of participant	Number of share options		At 30 September 2004	Date of share options granted*	Exercise period of share options granted	Exercise price of share options granted ** HK\$
	At 1 April 2004	Lapsed during the period				
Director						
Mr. Au Shing Kwok	500,000	–	500,000	22 May 2002	22 May 2002 to 21 May 2012	0.26
Other employees of the Group						
In aggregate	11,380,000	(190,000)	11,190,000	22 May 2002	22 May 2002 to 21 May 2012	0.26
In aggregate [#]	3,000,000	–	3,000,000	22 May 2002	1 February 2004 to 31 January 2005	0.26
In aggregate	5,210,000	(70,000)	5,140,000	26 March 2004	26 March 2004 to 25 March 2014	0.10
Others						
In aggregate	1,200,000	–	1,200,000	26 March 2004	26 March 2004 to 25 March 2014	0.10
	<u>21,290,000</u>	<u>(260,000)</u>	<u>21,030,000</u>			

The Directors of the Company extended the expiry date of a former employee's share options, whose 3,000,000 share options would lapse upon the cessation date of employment on 1 February 2004, from 1 February 2004 to 31 January 2005.

* The time of acceptance of the share options was within 21 days from the options offer date. The share options granted are subject to certain vesting period and vary for each category of participant as specified under the respective share option schemes.

** The exercise price of the share options was subject to a adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

As at 30 September 2004, the Company had 27,505,000 and 21,030,000 share options outstanding under the Old Scheme and the New Scheme, respectively.

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

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

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the following persons (other than the Directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	<i>Notes</i>	Interest in ordinary shares	Percentage of the Company's issued share capital
Greenford Company Limited	<i>(1)</i>	155,931,035	30.50%
Century Technology Holding Limited	<i>(2)</i>	155,931,035	30.50%
Bakersfield Global Corporation	<i>(3)</i>	92,418,549	18.08%
Cititrust (Cayman) Limited	<i>(4)</i>	<u>404,280,619</u>	<u>79.08%</u>

Notes:

- (1) The entire issued share capital of Greenford Company Limited is beneficially owned by Mr. Yip Heon Ping, a director of the Company.
- (2) The entire issued share capital of Century Technology Holding Limited is beneficially owned by Mr. Yip Seng Mun, a director of the Company.
- (3) The entire issued share capital of Bakersfield Global Corporation is beneficially owned by Mr. Yip Seng Mun, a director of the Company.
- (4) 404,280,619 shares were held through Greenford Company Limited, Century Technology Holding Limited and Bakersfield Global Corporation as trustee of The Greenford Unit Trust, The Century Unit Trust and The Bakersfield Unit Trust, respectively, all of the units of which were held by Cititrust (Cayman) Limited as trustee of The New Millennium Trust, a discretionary family trust established with Mr. Yip Heon Ping as the discretionary object for the time being. Cititrust (Cayman) Limited is a wholly-owned subsidiary of Citibank Overseas Investment Corporation which in turn is owned by Citibank N.A.

Save as disclosed above, as at 30 September 2004, there was no person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

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

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the reporting period.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 September 2004, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 7 March 2000 with written terms of reference in compliance with the GEM Listing Rules at that time. The primary duties of the Committee are to review and supervise the financial reporting process and internal controls of the Group. The Committee's terms of reference has been reviewed by reference to the new amendments for GEM Listing Rules which came into effect on 31 March 2004 and the Company must comply with the new amendments for GEM Listing Rules by 30 September 2004. Currently, the Committee comprises only the two independent non-executive Directors of the Company, namely Mr. James T. Siano (who is acting as the Chairman of the Committee) and Mr. Au Shing Kwok. Thus, the Company is unable to strictly comply with the relevant Rules 5.05 and 5.28 of the GEM Listing Rules requiring the Company to retain at all times three independent non-executive directors and a minimum of three members to comprise the audit committee. Save as disclosed above, the Committee has reviewed the draft of this announcement and has provided advice and comments thereon.

By Order of the Board
Yip Seng Mun
Chairman

Hong Kong, 8 November 2004

As at the date of this announcement, the Board comprises Mr. Yip Seng Mun, Mr. Yip Heon Ping, Mr. Yip Heon Wai and Mr. Yip Heon Keung (all of whom are Executive Directors); Mr. James T. Siano and Mr. Au Shing Kwok (both are independent non-executive Directors).

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the day of its posting and on the Company's website at www.prosten.com.