



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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

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

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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 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

- Revenue of the Group for the nine months ended 31 December 2009 amounted to HK\$51,772,000, representing a 44% drop as compared to the corresponding period in the previous financial year.
- The Group's gross profit for the nine months ended 31 December 2009 was HK\$39,333,000, decreased by HK\$38,656,000 compared with the same period of last year.
- Profit attributable to equity holders of the Company for the nine months ended 31 December 2009 amounted to HK\$533,000, decreased by HK\$27,966,000 compared with same period of 2008. Excluding the overall convertible bonds net impact including a gain on derecognition of convertible bonds, fair value loss on derivative component of convertible bonds, provision on litigation and legal and professional fees incurred, of HK\$1,329,000, it would have been shown to be a profit of HK\$1,862,000.
- The Board does not recommend the payment of any interim dividend for the nine months ended 31 December 2009.

UNAUDITED CONSOLIDATED RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the nine months and three months ended 31 December 2009 together with the unaudited comparative figures for the corresponding periods in 2008 as follows:

	Notes	Nine months ended 31 December		Three months ended 31 December	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Revenue	2	51,772	91,943	18,768	25,018
Cost of sales		(12,439)	(13,954)	(5,304)	(4,620)
Gross profit		39,333	77,989	13,464	20,398
Other income and gains		3,131	1,416	703	598
Selling expenses		(10,999)	(17,956)	(3,861)	(7,620)
Administrative expenses		(25,354)	(26,887)	(8,999)	(8,761)
Other expenses		(6,822)	(5,834)	(3,481)	(3,223)
Fair value gain/(loss) on derivative component of convertible bonds		(1,654)	4,522	–	6,878
Gain on derecognition of convertible bonds		5,417	–	5,417	–
Finance costs		(92)	(3)	(31)	(3)
Profit before tax		2,960	33,247	3,212	8,267
Tax	3	(2,427)	(4,748)	(996)	1,957
Profit for the period attributable to equity holders of the Company		533	28,499	2,216	10,224
Earnings per share attributable to equity holders of the Company	4				
Basic		HK0.1 cents	HK4.8 cents	HK0.4 cents	HK1.7 cents
Diluted		HK0.1 cents	HK3.7 cents	HK0.4 cents	HK0.5 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Nine months and three months ended 31 December 2009

	Nine months ended		Three months ended	
	31 December		31 December	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit for the period	533	28,499	2,216	10,224
Other comprehensive income:				
Exchange differences arising on consolidation of overseas subsidiaries	—	2,129	—	—
Total comprehensive income for the period attributable to equity holders of the Company	533	30,628	2,216	10,224

Notes:

1. Basis of Preparation

The Group's unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the GEM Listing Rules and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property, derivative financial instruments and equity investments, which have been measured at fair value. The unaudited consolidated results are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies applied in the preparation of the unaudited consolidated results are consistent with those adopted in the preparation of the annual consolidated financial statements of the Group for the year ended 31 March 2009, except the adoption of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA mandatory for annual periods beginning on or after 1 January 2009.

In the current period, the Group has adopted, for the first time, the following new and revised HKFRSs, which are effective for accounting periods beginning on or after 1 January 2009.

HKFRSs Amendments	<i>Improvements to HKFRSs</i>
HKFRS 1 & HKAS 27 Amendments	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	<i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	<i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 & HKAS 1 Amendments	<i>Puttable Financial Instruments and Obligations Arising on Liquidation</i>

The application of the above new and revised HKFRSs had resulted in certain changes on the disclosures on the Group's accounts while the results and financial position were not affected.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective, in the unaudited consolidated results. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has anticipated that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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

2. Revenue

Revenue, which is also the Group's turnover, represents the net invoiced value of services rendered during the period, and business tax, where applicable.

3. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the nine months and three months ended 31 December 2009 (2008: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Nine months ended 31 December		Three months ended 31 December	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Current – Elsewhere				
Charge for the period	362	4,431	352	6
Overprovision in prior year	–	(2,463)	–	(2,463)
Deferred	2,065	2,780	644	500
Total tax charge/(credit) for the period	<u>2,427</u>	<u>4,748</u>	<u>996</u>	<u>(1,957)</u>

4. Earnings per Share Attributable to Equity Holders of the Company

The calculation of basic earnings per share for the nine months and three months ended 31 December 2009 are based on the profit for the period attributable to ordinary equity holders of the Company of HK\$533,000 (nine months ended 31 December 2008: HK\$28,499,000) and HK\$2,216,000 (three months ended 31 December 2008: HK\$10,224,000) respectively, and the weighted average number of ordinary shares of 598,609,909 for the nine months ended 31 December 2009 (nine months ended 31 December 2008: 597,507,727) and 600,469,565 for the three months ended 31 December 2009 (three months ended 31 December 2008: 597,675,000) in issue during the periods.

The calculation of diluted earnings per share for the nine months and three months ended 31 December 2009 are based on the profit for the period attributable to ordinary equity holders of the Company of HK\$533,000 and HK\$2,216,000 respectively. The weighted average number of ordinary shares of 606,965,118 and 626,583,928 respectively used in this calculation are the total of the number of ordinary shares in issue during the periods as used in the basic earnings per share calculation and the weighted average number of ordinary shares on deemed exercise of all share options during the periods assuming issuance at no consideration of 8,355,209 and 26,114,363 respectively.

The calculation of diluted earnings per share for the nine months and three months ended 31 December 2008 was based on the profit for the period attributable to ordinary equity holders of the Company of HK\$28,499,000 and HK\$10,224,000 respectively, less the fair value gain on derivative component of convertible bonds of HK\$4,522,000 and HK\$6,878,000 respectively. The weighted average number of ordinary shares of 640,574,330 and 633,325,979 respectively used in this calculation were the total of the number of ordinary shares in issue during the periods as used in the basic earnings per share calculation, the weighted average number of ordinary shares on deemed exercise of all share options during the periods assuming issuance at no consideration of 13,066,603 and 5,650,979 respectively, and deemed conversion of all convertible bonds of 30,000,000 and 30,000,000 respectively.

5. Reserves

	Share premium account <i>HK\$'000</i>	Statutory reserve fund <i>HK\$'000</i>	Foreign currency translation reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2009 (Audited)	348,934	53	7,946	6,605	(363,569)	(31)
Profit for the period	–	–	–	–	533	533
Total comprehensive income for the period	–	–	–	–	533	533
Issue of shares	22,653	–	–	–	–	22,653
Share issued expenses	(389)	–	–	–	–	(389)
Equity-settled share option arrangements	–	–	–	915	–	915
Transfer of share option reserve on the exercised share options	262	–	–	(262)	–	–
Transfer of share option reserve on the lapse of share options	–	–	–	(293)	293	–
At 31 December 2009 (Unaudited)	<u>371,460</u>	<u>53</u>	<u>7,946</u>	<u>6,965</u>	<u>(362,743)</u>	<u>23,681</u>
At 1 April 2008 (Audited)	348,808	53	5,436	2,533	(379,222)	(22,392)
Profit for the period	–	–	–	–	28,499	28,499
Other comprehensive income: Exchange differences arising on consolidation of overseas subsidiaries	–	–	2,129	–	–	2,129
Total comprehensive income for the period	–	–	2,129	–	28,499	30,628
Issue of shares	126	–	–	–	–	126
Equity-settled share option arrangements	–	–	–	3,459	–	3,459
At 31 December 2008 (Unaudited)	<u>348,934</u>	<u>53</u>	<u>7,565</u>	<u>5,992</u>	<u>(350,723)</u>	<u>11,821</u>

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 31 December 2009 (2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's consolidated revenue for the nine-month period ended 31 December 2009 amounted to HK\$51,772,000 representing HK\$40,171,000 or 44% drop as compared to HK\$91,943,000 for the corresponding period of last year. For the three-month period ended 31 December 2009, the Group's consolidated revenue amounted to HK\$18,768,000, slightly increased by HK\$998,000 or 6% from second quarter of 2009.

For the nine months ended 31 December 2009, the Group's gross profit amounted to HK\$39,333,000, compared to HK\$77,989,000 for the same period of last year. Gross profit margin decreased to 76% from 85% for the same period of last year because the level of decrease in revenue was larger than those in cost of sales.

The overall operating expenses of the Group for the nine-month review period, including selling, administrative and other expenses, totaled HK\$43,175,000, decreased by HK\$7,502,000 or 15% compared to the same period of last year. Selling expenses decreased by HK\$6,957,000 or 39% compared to the corresponding period of last year, which was mainly attributable to lower promotion and marketing expenses. Administrative expenses slightly decreased by HK\$1,533,000 or 6%, mainly due to decrease in share option expense. On the other hand, other expenses increased by HK\$988,000 or 17% mainly due to provision on litigation being made in current period.

Profit attributable to equity holders of the Company for the nine months ended 31 December 2009 amounted to HK\$533,000, compared to a profit of HK\$28,499,000 for the same period of last year. Excluding the overall convertible bonds net impact including a gain on derecognition of convertible bonds, fair value loss on derivative component of convertible bonds, provision on litigation and legal and professional fees incurred, of HK\$1,329,000, it would have been shown to be a profit of HK\$1,862,000. Profit attributable to equity holders of the Company for the three months ended 31 December 2009 achieved HK\$2,216,000, as compared to a loss of HK\$2,244,000 for the second quarter of 2009. While excluding the overall net impact of convertible bands of HK\$2,129,000, as above mentioned items, profit attributable to equity holders of the Company would have been shown as HK\$87,000.

Financial Position, Liquidity, Financial Resources and Gearing Ratio

The total equity of the Group as at 31 December 2009 was HK\$98,686,000 (31 March 2009: HK\$59,736,000). The Group had net current assets of HK\$84,503,000 (31 March 2009: HK\$43,879,000). The Group's current ratio (i.e. current assets over current liabilities) was approximately 5.8 as at 31 December 2009 (31 March 2009: 1.7). The Group had cash and cash equivalents of HK\$74,929,000 as at 31 December 2009 (31 March 2009: HK\$81,771,000). During the period under review, the Group financed its operations mainly with its revenue from operations. The Group adheres to a prudent cash and financial management policy. In order to achieve better cost control and minimize costs of funds, the Group's treasury activities are centralized and cash is generally placed in deposits, mostly denominated in Renminbi and Hong Kong dollars. As at 31 December 2009, the gearing ratio of the Group (i.e. total borrowings over total equity) was 0.2% (31 March 2009: 67%).

Capital Structure

The shares of the Company were listed on GEM on 28 March 2000. During the period under review, change of the Company's capital structure took place as mentioned in the paragraph headed "PLACING OF NEW SHARES UNDER SPECIAL MANDATE" of this announcement. In connection with the convertible bonds, the latest position is set out as follows.

Convertible Bonds

On 30 April 2007, the Company entered into a subscription agreement (the "Subscription Agreement") with Tallmany Enterprises Limited ("Tallmany") and China Broadband Capital Partners, L.P. ("CBC") for the issuance of five-year zero-coupon convertible bonds (the "Convertible Bonds") in the principal amount of HK\$28,800,000.

On 6 June 2007, the Convertible Bonds were issued by the Company to Tallmany in the principal amount of HK\$28,800,000 (the "Principal Amount") pursuant to the terms set out in the Deed Poll dated 6 June 2007 (the "CB Terms").

The holder of the Convertible Bonds have the right to redeem the Convertible Bonds early before their maturity date on 5 June 2012 (the "Maturity Date") if one (or more) of the events of default defined in Clause 10 of the terms and conditions of the Convertible Bonds ("Events of Default") occur(s). If one (or more) of the Events of Default occur, the holder of the Convertible Bonds may by notice in writing require the Company to redeem the Convertible Bonds at 125% of the Principal Amount (the "Early Redemption Amount"), and the Early Redemption Amount must be paid within 10 days of such notice in writing.

It is Tallmany's claim that it is entitled to early redemption of the Convertible Bonds on the basis of an alleged breach of the Subscription Agreement, and on 10 March 2009, issued proceedings against the Company in respect of such alleged breach (the "High Court Action"). Details of the proceedings were provided in the Company's annual report 2009 (pages 10 to 13) published on the GEM website on 26 June 2009.

Subsequently, Tallmany filed an application for summary judgment (the "Summary Judgment"). This application was heard in the High Court on 18 September 2009.

As disclosed in the announcements published by the Company, on 20 October 2009, the High Court handed down the Summary Judgment ordering the Company to pay the Plaintiff of HK\$36,000,000 plus interest at the judgment rate from 10 March 2009 until the date of judgment. In late October 2009, the Company issued a Notice of Appeal against the Summary Judgment (the "Appeal") and on 13 November 2009, an order was given that (amongst other things) execution of the Summary Judgment be stayed (i.e. suspended) until conclusion of the Appeal, subject to payment into court of a certain amount of money.

On 24 December 2009, the Company entered into a settlement agreement (the “Settlement Agreement”) with Tallmany and CBC. Under the Settlement Agreement, the Company agreed to pay to Tallmany on or before 31 December 2009 HK\$36,000,000 being the judgment sum under the Summary Judgment and interest accrued at the judgment rate from 10 March 2009 to the date of actual payment (the “Settlement Amount”). The Company’s agreement to pay the Settlement Amount shall constitute full and final settlement of the Company’s liabilities and obligations under the Summary Judgment and the High Court Action, as well as the Subscription Agreement and the CB Terms to which the Summary Judgment relates. Under the Settlement Agreement, the Company would also pay a sum of HK\$1,650,000 to Tallmany in respect of part of Tallmany legal costs arising from the above action and the Appeal. The part of the Appeal in respect of the Company is also to be withdrawn under the Settlement Agreement.

As at 31 December 2009, the payment obligations of the Company in respect of the Settlement Amount together with the legal costs of Tallmany arising from the High Court Action and the Appeal have been met in full pursuant to the terms of the Settlement Agreement. On 22 January 2010, the High Court made an order that, inter alia, the High Court Action was dismissed.

Following the settlement of such payment obligations, the Company’s liabilities and obligations under the Summary Judgment, the High Court Action, the Subscription Agreement and the CB Terms were fully and finally settled. Accordingly, the liability and the derivative components of convertible bonds which had been recognised as current liabilities were derecognised by 31 December 2009. During the nine-month review period, a gain on derecognition of convertible bonds of HK\$5,417,000, fair value loss on derivative component of convertible bonds of HK\$1,654,000 and provision on litigation related to convertible bonds of HK\$3,974,000 were recorded in the consolidated results.

Business Review and Outlook

As stringent regulation and supervision on mobile internet was imposed in China, telecom operators proactively acted in line with the supervision in the business policy on mobile value added industry, which negatively impacted the development of certain value added businesses. Phased suspension of WAP service charges of the mobile internet business and the marketing of various businesses carried out by telecom operators materially affected the overall mobile music value added business, accordingly the revenue generated from music obviously has a downward trend. As the Group proactively adopted effective measures from the beginning of the industry consolidation, the adverse impact on its business was reduced as a whole.

The development of the Group's core businesses during the third quarter of 2009 are as follows:

- 1. Optimization of the core search engine.** The Group was strived to increasing the accuracy of its music search service by optimizing its search engine, improving subscriber experience and enhancing the loyalty of subscribers.
- 2. Enhancing the function of mobile internet music search services.** With a development period of 5 years, there are numerous loyal subscribers in the mobile internet market, in which music subscribers make up the majority. Although the industry was impacted by stringent supervision, the Group's income from mobile internet music search services increased slightly for this quarter attributable to the improved operational efficiency and enhanced search experience interface for users.
- 3. Co-operation and join marketing effort with provincial operators.** During the quarter, the Group closely worked with China Mobile's Sichuan music base and was well prepared for jointly developing the search market for mobile music subscribers in 2010. Music search service will be widely promoted as it is believed to be one of the best ways to boost subscribers' patronage and help precisely download mobile music and satisfy their audio-visual demand.

During the quarter, a new business management team with extensive experience in mobile value added services was introduced, which made distinct enhancements in various aspects including products, operation, innovation and channel development. The management expects that the business environment for the next quarter will still be challenging. The Chinese authorities will maintain its stringent governing on the mobile internet industry, and more supervising policies will be imposed by telecom operators.

Looking ahead, the management is still confident of delivering a sustainable growth for the Group. China has the largest mobile music subscribers market in the world. The Group believes that it is the largest mobile music search service provider in China with approximately 206 million mobile music search users. The main task for telecom operators is to increase subscribers' patronage and to enhance their loyalty. Moreover, music search service is believed to be one of the best and the most effective ways to increase subscribers' patronage and to improve user experience. Generally, the prospect of the wireless music searching market is promising. The Group will strengthen its co-operation with telecom operators in all aspects while further developing traditional channels, including but not limited to traditional media and networks such as television, radios and newspapers, and the "products embedded in mobile phones" channels.

The management is confident about the future of the wireless music search business and expects a bright prospect. The Group will endeavor to maintain its leading position in the sector and launch more innovative services.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests or short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were, pursuant to the code of conduct regarding securities transactions by Directors adopted by the Company, notified to the Company and the Exchange, were as follows:

Interests or short positions in the ordinary shares or underlying shares of the Company

Name of Director	Notes	Capacity and nature of interest	Number of ordinary shares or underlying shares Note (5)	Percentage of the Company's issued share capital Note (6)
Mr. Yip Heon Keung	(1) & (2)	Interest of controlled corporations	404,280,619 (L) 30,000,000 (S)	53.90% 4.00%
Mr. Yip Heon Ping	(3) & (4)	Object of a discretionary family trust, beneficially owned & through a controlled corporation	304,280,619 (L)	40.57%

Notes:

- (1) Among these shares, an aggregate of 304,280,619 shares are held through Greenford Company (PTC) Limited (“Greenford”), Century Technology Holding (PTC) Limited (“Century”) and Bakersfield Global (PTC) Corporation (“Bakersfield”) 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 Ace Central Group (PTC) Limited (“Ace Central”) as the trustee of The New Millennium Trust, a discretionary family trust and Mr. Yip Heon Keung is the sole director and sole shareholder of Ace Central. 100,000,000 shares are held by Uniright Group Limited (“Uniright”) and its entire issued capital is held by Mr. Yip Heon Keung and Mr. Yip Heon Wai, a former Director of the Company, in equal shares. By virtue of the SFO, Mr. Yip Heon Keung is deemed to be interested in 304,280,619 shares of the Company held by Ace Central and 100,000,000 shares of the Company held by Uniright, respectively.
- (2) On 6 June 2007, Uniright issued to Tallmany the zero-coupon exchangeable bonds (“Exchangeable Bonds”) in the principal amount of HK\$30,000,000. If the exchange rights attached to the Exchangeable Bonds are exercised in full at the exchange price of HK\$1.00 per share, a total of 30,000,000 shares of the Company will be transferred by Uniright to Tallmany.
- (3) By virtue of the SFO, Mr. Yip Heon Ping, being one of the discretionary objects of The New Millennium Trust for the time being, is deemed to be interested in 304,280,619 shares of the Company.
- (4) Among these shares, 122,597,702 shares is held by Greenford as a trustee mentioned above. The entire issued share capital in Greenford is held by Mr. Yip Heon Ping.
- (5) The letter “L” denotes long position in the ordinary shares of the Company. The letter “S” denotes short position in the underlying shares of the Company.
- (6) Based on 750,055,000 shares of the Company in issue as at 31 December 2009.

Long positions in underlying shares of the Company

Share Options

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

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

At the extraordinary general meeting of the Company held on 9 April 2002, ordinary resolutions to approve the termination of the Old Scheme and the adoption of a new share option scheme (the "New Scheme") were duly passed by the shareholders. Upon termination of the Old Scheme, no further options will be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith. The New Scheme became effective for a period of 10 years commencing on 23 April 2002. Under the New Scheme, the Directors may, at their sole discretion, grant to any eligible participants under the New Scheme options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of shares of the Company on 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 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 Company's 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.

At the annual general meeting of the Company held on 25 July 2006 (the "AGM"), an ordinary resolution was passed by the shareholders to approve the refreshing of the 10% general limit on the grant of share options under the New Scheme.

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 AGM.

The maximum number of shares 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 schemes of the Group must not in aggregate exceed 30% of the relevant class of shares of the Company in issue from time to time.

In accordance with the terms of the relevant share option schemes, 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 respective date when the share options are granted, subject to the provisions for early termination thereof.

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

Name of Director	Number of share options				At 31 December 2009	Date of share options re-granted	Exercise period of share options re-granted	Exercise price of share options re-granted HK\$ per share
	At 1 April 2009	Exercised during the period	Transferred during the period	Lapsed during the period				
Mr. Yip Heon Keung	5,300,000	-	-	-	5,300,000	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

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

Name of Director	Number of share options				At 31 December 2009	Date of share options granted	Exercise period of share options granted	Exercise price of share options granted HK\$ per share
	At 1 April 2009	Exercised during the period	Transferred during the period	Lapsed during the period				
Mr. Guan Ming Jie ^{##}	5,000,000	-	(5,000,000)	-	-	3 April 2008	3 April 2008 to 2 April 2018	0.41

[#] Mr. Yip Heon Wai has retired as a Director of the Company but remained as an employee of the Group since 30 July 2009. Pursuant to the Old Scheme, he is still entitled to his share options to subscribe for 5,300,000 shares of the Company in his capacity as an employee of the Group.

In addition to Mr. Yip's personally held share options to subscribe for 5,300,000 shares of the Company, he is also deemed to be interested in the share options held by his spouse (in her capacity as an employee of the Company) to subscribe for 4,300,000 share of the Company at an exercise price of HK\$0.40 per share within the meaning of Part XV of the SFO, and whose exercise period is from 22 August 2001 to 21 August 2011.

^{##} Mr. Guan Ming Jie retired as a Director of the Company on 30 July 2009 but his share options to subscribe for 5,000,000 shares of the Company were extended one year to 29 July 2010.

As at 31 December 2009, the Company had outstanding options to subscribe for up to 25,365,000 shares and 33,050,000 shares under the Old Scheme and the New Scheme, respectively.

Save as disclosed above, as at 31 December 2009, none of the Directors of the Company had registered an interest or short position in the ordinary shares or underlying shares of the Company or any of its associated corporations that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, shareholders (other than the Directors or chief executive of the Company) who had interests or short positions in the ordinary shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Interests or short positions in the ordinary shares or underlying shares of the Company

Name of shareholder	Notes	Capacity and nature of interest	Number of ordinary shares or underlying shares Note (12)	Percentage of the Company's issued share capital Note (13)
Greenford Company (PTC) Limited	(1)	Directly beneficially owned	122,597,702 (L)	16.35%
Century Technology Holding (PTC) Limited	(2)	Directly beneficially owned	122,597,701 (L)	16.35%
Bakersfield Global (PTC) Corporation	(3)	Directly beneficially owned	59,085,216 (L)	7.88%
Ace Central Group (PTC) Limited (as trustee of The New Millennium Trust)	(4)	Trustee of a discretionary family trust & through controlled corporations	304,280,619 (L)	40.57%
Mr. Yip Seng Mun	(2), (3), (4) & (5)	Founder of a discretionary family trust, beneficially owned & through controlled corporations	309,280,619 (L)	41.23%
Knicks Capital Inc.	(6)	Directly beneficially owned	40,480,000 (L)	5.40%
Mr. Zhang Xingsheng	(6)	Interest of a controlled corporation	40,480,000 (L)	5.40%
Uniright Group Limited	(7) & (10)	Directly beneficially owned	100,000,000 (L) 30,000,000 (S)	13.33% 4.00%
Mr. Yip Heon Wai	(7), (8) & (10)	Interest of a controlled corporation	109,600,000 (L) 30,000,000 (S)	14.61% 4.00%
Tallmany Enterprises Limited	(9) & (10)	Directly beneficially owned	160,000,000 (L)	21.33%
Right Advance Management Limited	(11)	Directly beneficially owned	150,000,000 (L)	20.00%
Ms. Wang Li Mei	(11)	Interest of a controlled corporation	150,000,000 (L)	20.00%
Mr. Wang Leilei	(11)	Interest of a controlled corporation	150,000,000 (L)	20.00%

Notes:

1. Greenford is a company incorporated in the British Virgin Islands and its entire issued share capital is held by Mr. Yip Heon Ping, a Director of the Company.
2. Century is a company incorporated in the British Virgin Islands and its entire issued share capital is beneficially owned by Mr. Yip Seng Mun, a former Director of the Company.
3. Bakersfield is a company incorporated in the British Virgin Islands and its entire issued share capital is beneficially owned by Mr. Yip Seng Mun, a former Director of the Company.
4. An aggregate of 304,280,619 shares are held through Greenford, Century and Bakersfield 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 Ace Central as the trustee of The New Millennium Trust, a discretionary family trust established with Mr. Yip Seng Mun as the founder and Mr. Yip Heon Ping as one of the discretionary objects for the time being. Mr. Yip Seng Mun is a former Director of the Company and Mr. Yip Heon Ping is a Director of the Company.

Mr. Yip Heon Keung, a Director of the Company, is the sole director and sole shareholder of Ace Central.

5. By virtue of the SFO, Mr. Yip Seng Mun is deemed to be interested in 304,280,619 shares of the Company as the founder of The New Millennium Trust and personally interested in 1,000,000 shares of the Company. In addition, he is also entitled to his share options to subscribe for 4,000,000 shares of the Company in his capacity as an employee of the Group.
6. Knicks Capital Inc. is a company incorporated in the British Virgin Islands and its entire issued share capital is held by Mr. Zhang Xingsheng.
7. Uniright is a company incorporated in the British Virgin Islands and its entire issued share capital is held by Mr. Yip Heon Keung, a Director of the Company and Mr. Yip Heon Wai, a former Director of the Company, in equal shares.
8. By virtue of the SFO, Mr. Yip Heon Wai, a former Director of the Company, is deemed to be interested in 100,000,000 shares of the Company held by Uniright. In addition, he is also entitled to his options to subscribe for 5,300,000 shares of the Company and deemed to be interested in the share options held by his spouse, in her capacity as an employee of the Company, to subscribe for 4,300,000 shares of the Company.
9. Tallmany is a company incorporated in the British Virgin Islands and currently holds 30,000,000 shares of the Company. It is a wholly owned subsidiary of CBC, a fund established in the Cayman Island as an exempted limited partnership (the "Fund"). CBC Partners, L.P. ("CBC Partners") holds approximately 1.01% of the issued share capital of the Fund, which in turn is ultimately wholly owned by Dr. Edward Tian indirectly. Dr. Xu Zhiming, a Director of the Company, is also a director of Tallmany.
10. Tallmany is also the holder of the zero-coupon exchangeable bonds in the principal amount of HK\$30,000,000 due in 2012 (the "Exchangeable Bonds") issued by Uniright on 6 June 2007. If the exchange rights attached to the Exchangeable Bonds are exercised in full at the exchange price of HK\$1.00 per share, a total of 30,000,000 shares of the Company will be transferred by Uniright to Tallmany.

It was agreed between the parties to the Exchangeable Bonds subscription agreement ("EB Subscription Agreement") that at completion, Uniright, as a charger, shall deliver to Tallmany, as a chargee, a duly executed share charge in respect of the charging of 100,000,000 ordinary shares of the Company ("Shares") by Uniright in favor of Tallmany ("Share Charge"). On 6 June 2007, being the completion date of the EB Subscription Agreement, Uniright executed and delivered the Share Charge to Tallmany. Subject to the terms and conditions set out therein, Uniright pledged 100,000,000 Shares to Tallmany as the collateral created by the Share Charge.

11. Right Advance Management Limited is a company incorporated in the British Virgin Islands and its entire issued share capital is registered in the name of Ms. Wang Li Mei, such shares are ultimately owned by Mr. Wang Leilei. Ms. Wang Li Mei is the sole director of Right Advance Management Limited.
12. The letter “L” denotes long position in the ordinary shares of the Company. The letter “S” denotes short position in the underlying shares of the Company.
13. Based on 750,055,000 shares of the Company in issue as at 31 December 2009.

Save as disclosed above, as at 31 December 2009, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the ordinary shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PLACING OF NEW SHARES UNDER SPECIAL MANDATE

Pursuant to a placing agreement dated 2 December 2009, 150,000,000 ordinary shares of HK\$0.10 each of the Company were issued under a special mandate at the price of HK\$0.25 per share for cash to a then independent third party (the “Placing”) who subsequent to the Placing has become a substantial shareholder of the Company.

The total of 150,000,000 placing shares represents approximately 25% of the Company’s issued share capital immediately before the Placing (600,055,000 ordinary shares) and approximately 20% of its enlarged issued share capital of the Company immediately after the Placing (750,055,000 ordinary shares). The net proceeds from the Placing was approximately HK\$37 million. The Company will use such net proceeds mainly for general working capital of the Group. The Placing was completed on 30 December 2009.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the period under review.

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

During the nine months ended 31 December 2009, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities.

DIRECTORS’ SECURITIES TRANSACTIONS

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. In response to specific enquiry made by the Company, each of the Directors gave confirmation that he/she complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors throughout the nine months ended 31 December 2009.

OUTSTANDING APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR AND AUDIT COMMITTEE MEMBER

During the period under review, Mr. James T. Siano (“Mr. Siano”) resigned from his offices of an independent non-executive Director and the Chairman of the audit committee of the Company (“Audit Committee”), both took effect on 1 November 2009. Following his resignation and up to the date of this announcement, the Company has had only two independent non-executive Directors and two Audit Committee members. Since the Company has failed to find a replacement to fill the vacancies before 1 February 2010, being the 3 months’ time from the resignation of Mr. Siano on 1 November 2009, the Company has breached Rules 5.05 and 5.28 of the GEM Listing Rules which respectively require the Company to retain at all times three independent non-executive directors with at least one of the independent non-executive directors has relevant professional qualifications of accounting or financial management expertise and a minimum of three members to comprise the audit committee. The Company has also breached Rules 5.06 and 5.33 of the GEM Listing Rules which requires the Company to meet the requirements as stipulated under Rules 5.05 and 5.28 of the GEM Listing Rules within 3 months after failing to meet such requirements.

The Company has, in the past three months, taken steps to identify a suitable candidate to fill the vacancies. A number of potential candidates have been suggested or introduced to the Company, but most of them were considered not suitable due to various reasons such as conflict of interest or lack of relevant professional qualifications of accounting or financial management expertise. The Company will continue to use its best endeavours and take appropriate steps (including solicit action through personal introductions and referrals through the Company’s connections) to appoint a suitable candidate to fill such vacancies as soon as practicable. Announcement will be made by the Company once any new appointments are confirmed in due course.

CORPORATE GOVERNANCE PRACTICES

Save as the deviation disclosed below, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) as contained in Appendix 15 of the GEM Listing Rules throughout the period under review.

With respect to the deviation, the CG Code provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. During the period under review, following the retirement of Mr. Guan Ming Jie as an executive Director of the Company and his resignation from the office of the chief executive officer of the Company on 30 July 2009, the appointment of the chief executive officer is still outstanding. During the transitional period, Mr. Yip Heon Keung, the Chairman and executive Director of the Company, assumed the post of the acting chief executive officer of the Company with effect from 9 November 2009.

The CG Code provision A.3 (Note 1) also provides that every board of directors of a listed issuer must include at least three independent non-executive directors. During the period under review, following the resignation of Mr. Siano as an independent non-executive Director and an Audit Committee member on 1 November 2009, the Company has only two independent non-executive Directors.

APPOINTMENT OF CHIEF EXECUTIVE OFFICER

Subsequent to the reporting period ended 31 December 2009, Ms. Li Luyi was appointed as the chief executive officer of the Company with effect from 3 February 2010. In light of this appointment, Mr. Yip Heon Keung ceased to be the acting chief executive officer of the Company with effect from 3 February 2010.

AUDIT COMMITTEE

The Company established the Audit Committee on 7 March 2000 and has formulated and from time to time amended its written terms of reference in accordance with the provisions set out in the CG Code. The primary duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the auditors of the Company. The Audit Committee has reviewed the draft of this announcement and has provided advice and comments thereon.

Prior to the resignation of Mr. Siano, the Audit Committee comprised three independent non-executive Directors of the Company, namely Mr. Siano (Chairman of the Audit Committee), Ms. Tse Yuet Ling, Justine and Ms. Lai May Lun. Following the resignation of Mr. Siano on 1 November 2009, the Company has only two independent non-executive Directors and two Audit Committee members, and there is no independent non-executive Director with relevant professional qualifications of accounting or financial management expertise. During the transitional period, Ms. Lai May Lun assumed the post of the acting Chairman of the Audit Committee with effect from 9 November 2009.

REMUNERATION COMMITTEE

In accordance with the CG Code, the Company established its remuneration committee ("Remuneration Committee") on 17 June 2005 with written terms of reference. The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and reviewing the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee comprises two independent non-executive Directors of the Company, namely Ms. Tse Yuet Ling, Justine (Chairman of the Remuneration Committee), Ms. Lai May Lun and one executive Director, Mr. Yip Heon Keung.

By Order of the Board
Yip Heon Keung
Chairman

Hong Kong, 3 February 2010

As at the date of this announcement, the Board comprises Mr. Yip Heon Keung and Mr. Yip Heon Ping (both of them are executive Directors); Dr. Xu Zhiming and Mr. Zhang Ying (both of them are non-executive Directors); Ms. Tse Yuet Ling, Justine and Ms. Lai May Lun (both of them are independent non-executive Directors).

This announcement will remain on the "Latest Company Announcement" 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.