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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2010

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities trade on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* *For identification purpose only*

HIGHLIGHTS

- Revenue of the Group for the year ended 31 March 2010 amounted to HK$69,141,000, decreased by HK$40,336,000 or 37% as compared to last year.
- The Group attained gross profit of HK$53,068,000 for the year ended 31 March 2010, decreased by HK$37,060,000 or 41% as compared to last year.
- The loss attributable to equity holders of the Company for the year ended 31 March 2010 amounted to HK$6,805,000, as compared to a profit of HK$15,636,000 in the previous financial year. Excluding the overall convertible bonds impact, the loss attributable to equity holders of the Company would have been shown as HK$3,740,000.
- The Board does not recommend the payment of any dividend for the year ended 31 March 2010.

RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2010 together with the comparative audited figures for the year ended 31 March 2009 as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	*4*	**69,141**	109,477
Cost of sales		**(16,073)**	(19,349)
Gross profit		**53,068**	90,128
Other income and gains	*4*	**4,331**	2,418
Selling expenses		**(17,995)**	(24,697)
Administrative expenses		**(38,779)**	(41,194)
Other expenses		**(7,334)**	(10,272)
Fair value gain/(loss) on derivative component of convertible bonds		**(1,654)**	4,827
Gain on derecognition of convertible bonds		**5,446**	—
Finance costs	*5*	**(118)**	(13)
Profit/(loss) before tax	*6*	**(3,035)**	21,197
Income tax expense	*7*	**(3,770)**	(5,561)
Profit/(loss) for the year attributable to equity holders of the Company		**(6,805)**	15,636
Earnings/(loss) per share attributable to equity holders of the Company	*8*		
Basic		**(HK1.1 cents)**	HK2.6 cents
Diluted		**(HK1.1 cents)**	HK1.7 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2010

	2010	2009
	HK$'000	*HK$'000*
Profit/(loss) for the year	**(6,805)**	15,636
Other comprehensive income		
Exchange differences on translation of foreign operations	**217**	2,510
Total comprehensive income/(expense) for the year	**(6,588)**	18,146

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 March 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,778**	4,900
Investment property		**2,797**	1,888
Deposits		**—**	1,253
Available-for-sale investments		**796**	796
Deferred tax assets		**4,990**	8,377
Total non-current assets		**13,361**	17,214
CURRENT ASSETS			
Trade receivables	*9*	**15,970**	17,500
Prepayments, deposits and other receivables		**6,217**	5,824
Equity investments at fair value through profit or loss		**3,236**	1,911
Due from Directors		**703**	856
Pledged deposits		**228**	156
Cash and cash equivalents		**70,558**	81,771
Total current assets		**96,912**	108,018
CURRENT LIABILITIES			
Trade payables	*10*	**3,374**	2,838
Other payables, deposits received and accruals		**8,220**	16,762
Finance lease payables		**145**	130
Tax payable		**5,346**	4,617
Convertible bonds		**—**	36,000
Embedded financial derivative		**—**	3,792
Total current liabilities		**17,085**	64,139
NET CURRENT ASSETS		**79,827**	43,879
TOTAL ASSETS LESS CURRENT LIABILITIES		**93,188**	61,093
NON-CURRENT LIABILITIES			
Finance lease payables		**52**	197
Deferred tax liabilities		**—**	1,160
Total non-current liabilities		**52**	1,357
Net assets		**93,136**	59,736
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*11*	**75,295**	59,767
Reserves		**17,841**	(31)
Total equity		**93,136**	59,736

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2010

	Attributable to equity holders of the Company							
	Issued capital *HK$'000*	**Share premium account** *HK$'000*	**Statutory reserve fund** *HK$'000*	**Foreign currency translation reserve** *HK$'000*	**Share option reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Sub-total** *HK$'000*	**Total equity** *HK$'000*
At 1 April 2009	59,767	348,934	53	7,946	6,605	(363,569)	(31)	59,736
Total comprehensive income/ (expense) for the year	—	—	—	217	—	(6,805)	(6,588)	(6,588)
Issue of shares	15,000	22,500	—	—	—	—	22,500	37,500
Share options exercised	528	321	—	—	—	—	321	849
Share issue expenses	—	(389)	—	—	—	—	(389)	(389)
Equity-settled share option arrangements	—	—	—	—	2,028	—	2,028	2,028
Transfer of share option reserve on the exercised share options	—	566	—	—	(566)	—	—	—
Transfer of share option reserve on the forfeited share options	—	—	—	—	(699)	699	—	—
At 31 March 2010	75,295	371,932	53	8,163	7,368	(369,675)	17,841	93,136
At 1 April 2008	59,727	348,808	53	5,436	2,533	(379,222)	(22,392)	37,335
Total comprehensive income for the year	—	—	—	2,510	—	15,636	18,146	18,146
Share options exercised	40	126	—	—	—	—	126	166
Equity-settled share option arrangements	—	—	—	—	4,089	—	4,089	4,089
Transfer of share option reserve on the forfeited share options	—	—	—	—	(17)	17	—	—
At 31 March 2009	59,767	348,934	53	7,946	6,605	(363,569)	(31)	59,736

Notes:

1. BASIS OF PREPARATION

The 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 ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of 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. These consolidated results are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated results include the results of the Group for the year ended 31 March 2010. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated results.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of the HKFRS 7 Amendments, the HKFRS 8 Amendment, HKAS 1 (Revised) and Improvements to HKFRSs (October 2008), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

(a) Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

(b) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14.

(c) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(d) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated results.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*[2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* and *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. For *Improvements to HKFRSs 2009*, the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010. For *Improvements to HKFRSs 2010*, the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-13 are effective for annual periods beginning on or after 1 January 2010 while the amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010. There are separate transitional provisions for each standard or interpretation listed above.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 April 2009. An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the Group's chief operating decision makers in order to allocate resources and assess performance of the segment.

For the years presented, the chief operating decision makers have determined that the Group has only one single operating segment as the Group is principally engaged in wireless mobile value added services and related business which is the basis to allocate resources and assess performance. No geographical information is presented as the Group's customers and operations are located in Mainland China.

Information about major customers

During the year ended 31 March 2010, revenue of approximately HK$53,115,000 and HK$8,650,000 were derived from services rendered to two customers. During the year ended 31 March 2009, revenue of approximately HK$89,981,000 was derived from services rendered to a single customer.

4. REVENUE

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

An analysis of revenue, other income and gains is as follows:

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Services income	**69,141**	109,477
Other income		
Bank interest income	**710**	975
Investment income	**534**	570
Write back of trade payables	**696**	73
Others	**168**	625
	2,108	2,243
Gains		
Gain on disposal of items of property, plant and equipment	**—**	175
Fair value gain on equity investments at fair value through profit or loss	**1,325**	—
Fair value gain on an investment property	**898**	—
	2,223	175
	4,331	2,418

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2010	2009
	HK$'000	*HK$'000*
Interest on bank overdrafts	**89**	—
Interest on a finance lease	**29**	13
	118	13

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2010	2009
	HK$'000	*HK$'000*
Cost of services provided*	**16,073**	19,349
Depreciation	**1,985**	2,316
Minimum lease payments under operating leases:		
Land and buildings	**5,689**	5,704
Motor vehicles	**218**	403
Auditors' remuneration	**820**	1,028
Employee benefit expense (including Directors' remuneration):		
Wages and salaries	**25,865**	29,459
Equity-settled share option arrangements	**1,526**	2,461
Pension scheme contributions (defined contribution schemes)	**4,751**	4,939
Severance payments	**1,192**	384
	33,334	37,243
Write off of items of property, plant and equipment	**6**	252
Impairment allowance for trade receivables	**78**	366
Research and development costs**	**2,976**	4,894
Fair value loss/(gain) on equity investments at fair value through profit or loss	**(1,325)**	1,251
Fair value loss/(gain) on an investment property	**(898)**	580

* The cost of services provided includes depreciation and staff costs of HK$5,824,000 for the year ended 31 March 2010 (2009: HK$9,769,000), which are also included in the respective total amounts disclosed separately above.

** The research and development costs for the year include HK$2,976,000 (2009: HK$2,534,000) relating to employee benefit expense for research and development activities, which are also included in the employee benefit expense disclosed separately above.

At 31 March 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

7. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: 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.

	2010	2009
	HK$'000	*HK$'000*
Current — Elsewhere		
Charge for the year	**362**	4,261
Overprovision in prior years	**—**	(2,401)
Deferred	**3,408**	3,701
Total tax charge for the year	**3,770**	5,561

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the loss for the year attributable to ordinary equity holders of the Company of HK$6,805,000 (2009: a profit of HK$15,636,000), and the weighted average number of 636,978,014 (2009: 597,548,973) ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 March 2010 in respect of a dilution as the impact of the share options outstanding and fair value loss on derivative component of convertible bonds had anti-dilutive effects on the basic loss per share amount presented.

The calculation of diluted earnings per share for the year ended 31 March 2009 was based on the profit for that year attributable to ordinary equity holders of the Company of HK$15,636,000, less the fair value gain on the derivative component of convertible bonds of HK$4,827,000. The weighted average number of ordinary shares of 634,971,984 used in this calculation was the total of the number of ordinary shares in issue during that year as used in the basic earnings per share calculation, the weighted average number of ordinary shares on deemed exercise of all share options during that year assuming issuance at no consideration of 7,423,011, and deemed conversion of all convertible bonds of 30,000,000.

9. TRADE RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**16,416**	25,216
Impairment allowances	**(446)**	(7,716)
	15,970	17,500

The Group's trade receivables, which generally have credit terms of one month to three months pursuant to the provisions of the relevant contracts, are recognised and carried at the original invoice amount, and an estimate of impairment allowance for trade receivables is made and deducted when collection of the full amount is no longer probable. There is a significant concentration of credit risk as over 72% (2009: 83%) of the balance represented a receivable from one customer. Trade receivables are non-interest-bearing.

An aging analysis of the Group's trade receivables, net of allowances and based on the invoice date, is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 to 3 months	**15,970**	17,489
4 to 6 months	**—**	11
	15,970	17,500

10. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the payment due date, is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 to 3 months	**1,061**	—
4 to 6 months	**60**	—
6 to 12 months	**102**	—
Over 12 months	**2,151**	2,838
	3,374	2,838

The trade payables are non-interest-bearing and are normally settled on three-month terms.

11. SHARE CAPITAL

	2010	2009
	HK$'000	*HK$'000*
Shares		
Authorised:		
2,500,000,000 (2009: 2,500,000,000) ordinary shares of HK$0.10 each	**250,000**	250,000
Issued and fully paid:		
752,955,000 (2009: 597,675,000) ordinary shares of HK$0.10 each	**75,295**	59,767

A summary of the transactions in the Company's issued share capital during the year is as follows:

	Notes	**Number of shares in issue**	**Issued capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 April 2008		597,275,000	59,727	348,808	408,535
Share options exercised		400,000	40	126	166
At 31 March 2009 and 1 April 2009		597,675,000	59,767	348,934	408,701
Issue of shares	(a)	150,000,000	15,000	22,500	37,500
Share options exercised	(b)	5,280,000	528	321	849
Transfer of share option reserve on the exercised share options	(b)	—	—	566	566
		155,280,000	15,528	23,387	38,915
Share issue expenses		—	—	(389)	(389)
At 31 March 2010		752,955,000	75,295	371,932	447,227

Notes:

(a) On 2 December 2009, the Company entered into a share placing agreement with a third party in respect of the subscription of 150,000,000 new ordinary shares of HK$0.10 each at a price of HK$0.25 per share. The subscription was completed on 30 December 2009. The premium on the issue of shares, amounted to approximately HK$22,500,000 (before share issue expenses of HK$389,000) was credited to the Company's share premium account.

(b) During the year ended 31 March 2010, the subscription rights attaching to 700,000 and 4,580,000 share options were exercised at subscription prices of HK$0.10 and HK$0.17 per share, respectively, resulting in the issuance of 5,280,000 ordinary shares of HK$0.10 each for a total cash consideration, before the related expenses, of approximately HK$849,000. Upon the share options being exercised, HK$566,000 was transferred from the share option reserve to the share premium account.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 March 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

A. OPERATING RESULTS

Revenue, Cost of Sales, Gross Profit and Other Income and Gains

During the year under review, as stringent regulation and supervision on mobile internet was imposed in China, telecom operators proactively acted in line with such supervision in their business policy on the 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 the provision of music related business has recorded an obvious downward trend. As the Group proactively adopted effective measures from the beginning of the industry, the adverse impact on its business was relatively slight as a whole. Consolidated revenue for the year ended 31 March 2010 amounted to HK$69,141,000, decreased by HK$40,336,000 or 37% compared to last year.

The Group's cost of sales for the year ended 31 March 2010 amounted to HK$16,073,000, decreased by HK$3,276,000 or 17% compared to 2009 mainly due to decrease in staff costs.

Gross profit for the year ended 31 March 2010 amounted to HK$53,068,000, decreased by HK$37,060,000 or 41% compared to 2009. Gross profit margin decreased from 82% in 2009 to 77% in 2010 because the extent of decrease in revenue was larger than those in cost of sales.

Other income and gains increased by HK$1,913,000 to HK$4,331,000 in current year. It was mainly due to a fair value gain of equity investments at fair value through profit or loss and a fair value gain on an investment property.

Operating Expenses

Overall operating expenses including selling, administrative and other expenses amounted to HK$64,108,000, decreased by HK$12,055,000 or 16% over last year. Selling expenses decreased by HK$6,702,000 or 27% to HK$17,995,000 compared to last year, it was mainly attributable to reduction in promotion and marketing expenses. Administrative expenses slightly decreased by HK$2,415,000 or 6% to HK$38,779,000, it was mainly attributable to decrease in staff and related costs and share option expenses. Other expenses decreased by HK$2,938,000 or 29%, it was mainly due to the drop in research and development costs.

Results for the year

The loss for the year attributable to equity holders of the Company amounted to HK$6,805,000, as compared to a profit of HK$15,636,000 in 2009. When excluding the overall convertible bonds impact, the loss attributable to equity holders would have been shown as HK$3,740,000.

Financial Position, Liquidity, Financial Resources and Gearing Ratio

The total equity of the Group as at 31 March 2010 was HK$93,136,000 (2009: HK$59,736,000). The Group had net current assets of HK$79,827,000 as at 31 March 2010 (2009: HK$43,879,000). The Group's current ratio (current assets over current liabilities), was approximately 5.7 as at 31 March 2010 (2009: 1.7). The Group had cash and cash equivalents of HK$70,558,000 as at 31 March 2010 (2009: HK$81,771,000). During the year under review, the Group financed its operations mainly with its revenue from operations and the net proceeds from the issue of ordinary shares. The Group adopts to a prudent cash and financial management policy. In order to achieve better cost control and minimize cost of funds, the Group's treasury activities are centralized and cash is generally placed in deposits, denominated mostly in Renminbi and Hong Kong dollars. As at 31 March 2010, the gearing ratio of the Group (total borrowings over total equity), was 0.2% (2009: 67%).

Capital Structure

The shares of the Company were listed on GEM on 28 March 2000. During the year 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. The current status of the convertible bonds is set out below.

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 was granted the right to redeem them before the maturity date on 5 June 2012 (the "Maturity Date") upon the occurrence of one (or more) of the events of default defined in Clause 10 of the terms and conditions of the Convertible Bonds ("Events of Default"). Under such terms, if one (or more) of the Events of Default occurred, the holder of the

Convertible Bonds could by notice in writing to require the Company to redeem the Convertible Bonds at 125% of the Principal Amount (the "Early Redemption Amount") whereupon the Early Redemption Amount had to be paid within 10 days of such notice being given.

During the year ended 31 March 2009, early redemption of the Convertible Bonds was demanded by Tallmany on the basis of an alleged breach of the Subscription Agreement. On 10 March 2009, Tallmany 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.

On 20 October 2009, the High Court handed down judgment in favour of Tallmany and ordered the Company to pay to Tallmany the sum of HK$36,000,000 plus interest. Subsequently, steps were taken by the Company (jointly with a co-defendant) to appeal against the Summary Judgment (the "Appeal").

In 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, plus interest accrued at the judgment rate from 10 March 2009 to the date of actual payment (the "Settlement Amount"), as well as a sum of HK$1,650,000 in respect of Tallmany's legal costs against the Company arising from the High Court Action and the Appeal (the "Legal Costs"). The Company agreed to pay the Settlement Amount in full and final settlement of the Company's liabilities and obligations under the Summary Judgment, the High Court Action, the Subscription Agreement and the CB Terms. The Settlement Agreement further provided that the Appeal by the Company as co-defendant be withdrawn.

During the year ended 31 March 2010, the payment obligations of the Company under the Settlement Agreement including the Settlement Amount in the total amount of HK$38,324,000 together with the said Legal Costs in the sum of HK$1,650,000 were paid and performed in full. Pursuant to the terms of the Settlement Agreement, the High Court made an order to, inter alia, formally dismiss the Company's Appeal on 22 January 2010.

Following the settlement of the Company's above-mentioned 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. During the year ended 31 March 2010, a gain on derecognition of convertible bonds of HK$5,446,000 and a fair value loss on derivative component of convertible bonds of

HK$1,654,000 were recognised in the consolidated income statement. In addition, the interest and the Legal Costs of HK$3,974,000 in total were charged to other expenses in the consolidated income statement for the year ended 31 March 2010.

Significant Investments and Disposal

There were no material acquisitions and disposals of subsidiaries by the Company during the year under review.

Foreign Currency Exchange Exposure and Treasury Policies

As most of the Group's trading transactions, monetary assets and liabilities were denominated in Renminbi and Hong Kong dollars, the impact of the foreign exchange exposure of the Group was minimal and there was no significant adverse effect on normal operations. As at 31 March 2010, no related hedges were made by the Group.

Contingent Liabilities

As at 31 March 2010, the Group had no material contingent liabilities.

Employees and Remuneration Policy

As at 31 March 2010, the Group had a total of 125 employees (2009: 166). The Group's remuneration policy is basically determined by the performance of individual employees and the market condition. In addition to salaries and discretionary bonus, employee benefits included medical scheme, pension contributions and share option schemes.

B. BUSINESS REVIEW

Focusing on wireless music industry, the Group has been optimizing its wireless music search services and strengthening its partnership with China Mobile. By the end of March 2010, the Group has approximately accumulated 220 million mobile music search users.

Since second quarter of this financial year, the Group has concentrated on enhancing and promoting its mobile internet music search services, thus expanding its revenue from music services based on GPRS (General Packet Radio Service) and TD-SCDMA (Time Division Synchronous Code Division Multiple Access, hereinafter referred to as "TD"). Revenue from MP3 ring tones and songs download have increased significantly, with its proportion in the total revenue of the Group from music increasing from 6% in the previous financial year to 17% in the current financial year. In the fourth quarter of this financial year, such proportion further increased to 24%. In the past year, the proportion of revenue of the Group from MP3 ring tones and songs download kept a sustained and steady growth, in line with the growth of total ring tones and songs download of the wireless music services of China Mobile, showing that the Group has enjoyed a healthy growth in the wireless music market of China.

Looking into the future, the management is confident that the Group will maintain a sustainable growth in its wireless music business. The number of users of China Mobile has surged to 544 million by the end of April 2010, with over 8 million TD users. In the year of 2009, China Mobile generated revenue of over RMB 10 billion from its wireless music business, which is expected to be further expanded in the future. Wireless music search is sure to receive even more popularity as the most convenient and precise way to obtain music for wireless music users in China. The Group will strive to enhance the accuracy of wireless music search and personalized recommendation services, and enrich and deepen the context of wireless music search services, in order to enhance user experience and loyalty.

With the aim of further expanding its market share in the wireless music industry, the Group will expand its coverage of wireless music search services in the upcoming quarters. In addition to music search services for music, songs, musician and lyrics that are already widely popular among mobile music users, the Group will provide more quality wireless music search services, including but not limited to image, music news, music video and audio searching. Special attention will be devoted to video and audio search services based on 3G networks. Chinese authorities have decided to proactively promote "Three Network Convergence" at the beginning of 2010. "Three Network Convergence" means telecom network, broadcast TV network and internet can infiltrate and converge with each other and are gradually integrated into a unified information and communication network. Thanks to the gradual integration of the three networks, there are increasing ways for users to obtain internet application, thus creating tremendous business opportunities. Meanwhile, such convergence will bring benefit to the Group's current user base with an integrated media interaction experience that is totally different from the past.

As for marketing, along with the 2010 World Expo in Shanghai and 2010 South Africa World Cup, China Mobile will launch nationwide marketing campaigns relating to its music services, which are expected to last till mid October 2010. As one of the major items for marketing in such campaigns, the Group's wireless music search services will be widely marketed by China Mobile and provincial telecom operators. The management anticipates the Group's wireless music search service will become the beneficiary of such campaign effort.

With matured core searching technology and ever-growing capacity for innovation, the Group plans to launch its own music search services based on its existing hundreds of millions of mobile internet music search users and intensive operational experiences. Such services including "handset embedded music applications" based on multi-platform design and mobile internet interactive music community driven by music search.

In addition, we have made breakthroughs in and generated revenue from data-mining based precise marketing solutions during the year. We are in talks with various provincial telecom operators for future partnerships. Precise marketing solutions are based on search services for massive users, and can provide mobile users with more personalized value added services.

OUTLOOK

Looking forward, the management is optimistic about the prospect of mobile value added service industry and wireless music industry in China. The Group will endeavor to maintain its leading position and market shares in wireless music search sector by accelerating its expansion in acquiring free wireless music user while retaining its position in paid wireless music user market. With the management works together in a concerted effort, the Group believes it will overcome difficulties ahead from a position of strength and confidence.

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 (based on a total number of 600,055,000 ordinary shares) and approximately 20% of the enlarged issued share capital of the Company immediately after the Placing (based on a total number of 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.

CHANGES IN SHAREHOLDING

Subsequent to the reporting year ended 31 March 2010, the Company was informed by Mr. Yip Heon Keung, the Chairman of the Board and an executive Director, that on 21 April 2010, a total of 100,000,000 shares having a par value of HK$0.10 each in the Company were sold by Uniright Group Limited ("Uniright") to Will City Limited. Completion of such sale took place on 21 April 2010. Uniright is a company whose issued share capital is owned by Mr. Yip Heon Keung and Mr. Yip Heon Wai (a former Director) in equal shares.

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 year.

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

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

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 year ended 31 March 2010.

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

During the year 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 only two independent non-executive Directors and two Audit Committee members. Since the Company has failed to find a suitable candidate 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 whom 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 require 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, since November 2009, 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. Further 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 year under review.

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 year under review, following the retirement of Mr. Guan Ming Jie as an executive Director and his resignation from the office of the chief executive officer of the Company ("CEO") on 30 July 2009, the appointment of the CEO was outstanding. During the transitional period from 9 November 2009, Mr. Yip Heon Keung, the Chairman and executive Director, assumed the post of the acting CEO until Ms. Li Luyi was appointed as the CEO on 3 February 2010.

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 year under review, following the resignation of Mr. Siano as an independent non-executive Director and the Audit Committee member on 1 November 2009, the Company has only two independent non-executive Directors.

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 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, 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, 21 June 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.