



PROSTEN HEALTH HOLDINGS LIMITED

長達健康控股有限公司

(formerly known as 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 2016

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 traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors (the “Directors”) of Prosten Health 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 nine months ended 31 December 2016 amounted to approximately HK\$16.5 million, representing an increase of approximately 136% as compared to the corresponding period in the previous financial year.
- The Group's gross profit for the nine months ended 31 December 2016 was approximately HK\$4.6 million, increased by approximately HK\$0.5 million compared with the same period of last financial year.
- Loss attributable to equity holders of the Company for the nine months ended 31 December 2016 amounted to approximately HK\$16.0 million, which represented a decrease in loss of approximately HK\$2.3 million compared with the same period of 2015.
- The Board does not recommend the payment of any interim dividend for the nine months ended 31 December 2016.

UNAUDITED CONSOLIDATED RESULTS

The board of Directors (the “Board”) of the Company announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months and three months ended 31 December 2016 together with the unaudited comparative figures for the corresponding periods in 2015 as follows:

| | Notes | Nine months ended 31 December | | Three months ended 31 December | |
|---|-------|----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | | 2016 HK\$'000 (Unaudited) | 2015 HK\$'000 (Unaudited) | 2016 HK\$'000 (Unaudited) | 2015 HK\$'000 (Unaudited) |
| Revenue | 2 | 16,527 | 7,004 | 8,312 | 2,769 |
| Cost of sales | | (11,895) | (2,868) | (6,538) | (2,130) |
| Gross profit | | 4,632 | 4,136 | 1,774 | 639 |
| Other income and gains | | 195 | 1,325 | — | 913 |
| Selling expenses | | (2,337) | (3,784) | (801) | (2,238) |
| Administrative expenses | | (18,273) | (19,678) | (7,567) | (8,919) |
| Other expenses | | (169) | (257) | (102) | (28) |
| Finance costs | | — | (10) | — | — |
| Loss before tax | | (15,952) | (18,268) | (6,696) | (9,633) |
| Income tax expense | 3 | (39) | — | (6) | — |
| Loss for the period attributable to equity holders of the Company | | (15,991) | (18,268) | (6,702) | (9,633) |
| Other comprehensive expense | | | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Exchange differences on translation of foreign operations | | (1,487) | (100) | (828) | (432) |
| Total comprehensive expense for the period attributable to equity holders of the Company | | (17,478) | (18,368) | (7,530) | (10,065) |
| Loss per share attributable to ordinary equity holders of the Company | 4 | | | | |
| Basic | | HK\$(1.44) cents | HK\$(2.14) cents | HK\$(0.59) cents | HK\$(1.03) cents |
| Diluted | | N/A | N/A | N/A | N/A |

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 individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. In addition, the unaudited consolidated results include applicable disclosures required by the GEM Listing Rules. The measurement basis used in the preparation of the unaudited consolidated results is the historical cost convention, except for available-for-sale financial assets and financial assets at fair value through profit or loss which have been measured at fair value. These unaudited consolidated results are presented in Hong Kong dollar which is also the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated. The Group's major subsidiaries are operated in the People's Republic of China (the "PRC") with Renminbi ("RMB") as their functional currency.

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 2016, except that the Group has adopted a number of new or revised HKFRSs, which are newly effective for the period under review. The adoption of these new or revised HKFRSs had no change in significant accounting policies and no significant effect on the financial results of the current periods. There is no prior period adjustment required.

The Group has not applied or early adopted the new or revised HKFRSs (including their consequential amendments) which are relevant to the Group that have been issued but not yet effective in the preparation of these unaudited consolidated results. The Group is currently assessing the impact of these new or revised HKFRSs upon their initial application but is not yet in a position to state whether they would have any significant impact on the Group's results of operations and financial position. It is anticipated that all of the pronouncements relevant to the Group will be adopted in the Group's accounting policies in the accounting periods when they first become effective.

The unaudited consolidated results have been reviewed by the audit committee of the Company ("Audit Committee").

2. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the net invoiced value of good sold and services rendered during the periods under review.

The Group's operating activities are currently attributable to four operating segments focusing on the wireless value-added services, trading and retailing of jewelry, lending business and pharmaceutical and healthcare products business (continuing operations). These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conformed to HKFRSs, that are regularly reviewed by the executive Directors (the "Executive Directors") (being the chief operating decision makers of the Company). The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. The details of operating and reportable segments of the Group are as follows:

- Wireless value-added services
- Trading and retailing of jewelry
- Lending business
- Pharmaceutical and healthcare products

The following is an analysis of the Group's revenue and results by operating segments:

| For the nine months ended 31 December 2016 | Wireless value-added services <i>HK\$'000</i> (Unaudited) | Trading and retailing of jewelry <i>HK\$'000</i> (Unaudited) | Lending business <i>HK\$'000</i> (Unaudited) | Pharmaceutical and healthcare products <i>HK\$'000</i> (Unaudited) | Consolidation <i>HK\$'000</i> (Unaudited) |
|--|---|--|---|--|---|
| REVENUE | | | | | |
| External sales | — | 9,340 | 2,785 | 4,402 | 16,527 |
| RESULTS | | | | | |
| Segment results | | | | | |
| (loss)/profit | (1,302) | (1,320) | 1,626 | (3,283) | (4,279) |
| Unallocated income | | | | | 195 |
| Unallocated expenses | | | | | (11,868) |
| Loss before tax | | | | | (15,952) |

| For the three months ended 31 December 2016 | Wireless value-added services <i>HK\$'000</i> (Unaudited) | Trading and retailing of jewelry <i>HK\$'000</i> (Unaudited) | Lending business <i>HK\$'000</i> (Unaudited) | Pharmaceutical and healthcare products <i>HK\$'000</i> (Unaudited) | Consolidation <i>HK\$'000</i> (Unaudited) |
|---|---|--|---|--|---|
|---|---|--|---|--|---|

REVENUE

| | | | | | |
|----------------|---|-------|-------|-----|-------|
| External sales | — | 6,503 | 1,042 | 767 | 8,312 |
|----------------|---|-------|-------|-----|-------|

RESULTS

| | | | | | |
|-------------------------------|-------|-------|-----|---------|---------|
| Segment results (loss)/profit | (300) | (225) | 622 | (2,215) | (2,118) |
| Unallocated expenses | | | | | (4,578) |
| Loss before tax | | | | | (6,696) |

| For the nine months ended 31 December 2015 | Wireless value-added services <i>HK\$'000</i> (Unaudited) | Trading and retailing of jewelry <i>HK\$'000</i> (Unaudited) | Lending business <i>HK\$'000</i> (Unaudited) | Pharmaceutical and healthcare products <i>HK\$'000</i> (Unaudited) | Consolidation <i>HK\$'000</i> (Unaudited) |
|--|---|--|---|--|---|
|--|---|--|---|--|---|

REVENUE

| | | | | | |
|----------------|-------|---|---|---|-------|
| External sales | 7,004 | — | — | — | 7,004 |
|----------------|-------|---|---|---|-------|

RESULTS

| | | | | | |
|------------------------|-----|---|---|---|----------|
| Segment results profit | 342 | — | — | — | 342 |
| Unallocated income | | | | | 1,325 |
| Unallocated expenses | | | | | (19,935) |
| Loss before tax | | | | | (18,268) |

| For the three months ended 31 December 2015 | Wireless value-added services <i>HK\$ '000</i> (Unaudited) | Trading and retailing of jewelry <i>HK\$ '000</i> (Unaudited) | Lending business <i>HK\$ '000</i> (Unaudited) | Pharmaceutical and healthcare products <i>HK\$ '000</i> (Unaudited) | Consolidation <i>HK\$ '000</i> (Unaudited) |
|---|--|---|--|---|--|
| REVENUE | | | | | |
| External sales | 2,769 | — | — | — | 2,769 |
| | <u>2,769</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>2,769</u> |
| RESULTS | | | | | |
| Segment results loss | (1,599) | — | — | — | (1,599) |
| Unallocated income | | | | | 913 |
| Unallocated expenses | | | | | (8,947) |
| Loss before tax | | | | | <u>(9,633)</u> |

As most of the Group's customers and operations were located in the PRC, no geographical information was presented for the nine months and three months periods ended 31 December 2016 and 2015.

Segment profit/loss represents the profit/loss earned/incurred by each segment without allocation of central administration costs, certain other income and gains and other expenses. This is the measure reported to the Executive Directors for the purposes of resource allocation and performance assessment.

3. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the nine months and three months ended 31 December 2016. 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 2015. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

| | Nine months ended 31 December | | Three months ended 31 December | |
|-------------------------------------|---|---|---|---|
| | 2016 <i>HK\$ '000</i> (Unaudited) | 2015 <i>HK\$ '000</i> (Unaudited) | 2016 <i>HK\$ '000</i> (Unaudited) | 2015 <i>HK\$ '000</i> (Unaudited) |
| Current — Hong Kong: | | | | |
| Charge for the period | 33 | — | — | — |
| Current — Overseas: | | | | |
| Charge for the period | 6 | — | 6 | — |
| Total tax charged for the period | <u>39</u> | <u>—</u> | <u>6</u> | <u>—</u> |

4. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of the basic loss per share for the nine months and three months ended 31 December 2016 are based on the unaudited loss for the periods attributable to equity holders of the Company of approximately HK\$15,991,000 (nine months ended 31 December 2015: HK\$18,268,000) and approximately HK\$6,702,000 (three months ended 31 December 2015: HK\$9,633,000) respectively, and the weighted average numbers of ordinary shares in issue of 1,108,087,773 and 1,133,403,978, respectively, for the nine months and three months ended 31 December 2016 (nine months and three months ended 31 December 2015: 854,786,250 and 935,512,000 respectively).

No diluted loss per share for the periods are calculated as there were no dilutive potential ordinary shares in existence at 31 December 2016 and 2015. Hence, the basic and diluted loss per share were the same for the periods.

5. RESERVES

| | Share premium account <i>HK\$'000</i> | Statutory reserve fund <i>HK\$'000</i> | Available- for-sale financial assets equity reserve <i>HK\$'000</i> <i>(Note a)</i> | Foreign currency translation reserve <i>HK\$'000</i> <i>(Note b)</i> | Share option reserve <i>HK\$'000</i> <i>(Note c)</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|---|---|---|--|--|--------------------------|
| At 1 April 2016 (audited) | 455,438 | 3,349 | 6,760 | 14,766 | 316 | (519,211) | (38,582) |
| Loss for the period (unaudited) | — | — | — | — | — | (15,991) | (15,991) |
| Other comprehensive expense for the period (unaudited): | | | | | | | |
| Exchange difference on translation of foreign operations (unaudited) | — | — | — | (1,487) | — | — | (1,487) |
| Total comprehensive expense for the period (unaudited) | — | — | — | (1,487) | — | (15,991) | (17,478) |
| Issues of shares on a conversion of convertible note (unaudited) | 23,709 | — | — | — | — | — | 23,709 |
| At 31 December 2016 (unaudited) | <u>479,147</u> | <u>3,349</u> | <u>6,760</u> | <u>13,279</u> | <u>316</u> | <u>(535,202)</u> | <u>(32,351)</u> |

| | Share premium account <i>HK\$'000</i> | Statutory reserve fund <i>HK\$'000</i> | Available- for-sale financial assets equity reserve <i>HK\$'000</i> <i>(Note a)</i> | Foreign currency translation reserve <i>HK\$'000</i> <i>(Note b)</i> | Share option reserve <i>HK\$'000</i> <i>(Note c)</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|---|---|---|--|--|--------------------------|
| At 1 April 2015 (audited) | 378,628 | 3,349 | — | 14,787 | 611 | (487,852) | (90,477) |
| Loss for the period (unaudited) | — | — | — | — | — | (18,268) | (18,268) |
| Other comprehensive expense for the period (unaudited): | | | | | | | |
| Exchange difference on translation of foreign operations (unaudited) | — | — | — | (100) | — | — | (100) |
| Total comprehensive expense for the period (unaudited) | — | — | — | (100) | — | (18,268) | (18,368) |
| Equity-settled share option arrangements (unaudited) | — | — | — | — | 79 | — | 79 |
| Exercise of share options (unaudited) | 704 | — | — | — | (401) | — | 303 |
| Placement of new shares (unaudited) | 44,969 | — | — | — | — | — | 44,969 |
| Expense on issue of new shares (unaudited) | (1,359) | — | — | — | — | — | (1,359) |
| At 31 December 2015 (unaudited) | <u>422,942</u> | <u>3,349</u> | <u>—</u> | <u>14,687</u> | <u>289</u> | <u>(506,120)</u> | <u>(64,853)</u> |

Notes:

(a) Statutory reserve fund

Pursuant to the relevant laws and regulations for business enterprises in the PRC, a portion of the profits of the entities which are registered in the PRC has been transferred to the statutory reserve fund which is restricted as to use. When the balance of such reserve fund reaches 50% of the capital of that entity, any further appropriation is optional. The statutory reserve fund can be utilised, upon approval of the relevant authority, to offset prior years' losses or to increase capital. However, the balance of the statutory reserve fund must be maintained at least 25% of capital after such usage.

(b) Available-for-sale financial assets equity reserve

Available-for-sale financial assets equity reserve relates to the cumulative gains or losses arising on the change in fair value of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those financial assets are disposed or impaired.

(c) Foreign currency translation reserve

Foreign currency translation reserve, represents exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollar), are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Such exchange differences accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or deconsolidation of the foreign operations.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 31 December 2016 (for the nine months ended 31 December 2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

Following the diversification of the Group's business to the jewelry trading and retailing business, and the lending business in the second half of the year ended 31 March 2016, the Group further diversified to pharmaceutical and healthcare products business ("New Businesses"). During the nine months and three months ended 31 December 2016, the Group has recorded revenue of approximately HK\$16,527,000 and HK\$8,312,000, respectively, representing an increase of approximately 136% and a surge of approximately 200% as compared to the revenue of for the nine months and three months ended 31 December 2015, respectively. Due to the expiry of contracts with telecommunication operator in the PRC during the year ended 31 March 2016, there is no revenue from the wireless value-added services ("WVAS") since then.

Cost of sales and gross profit margin

As a result of entering into the trading and retailing of jewelry business, and the pharmaceutical and healthcare products business, cost of sales of the Group increased from approximately HK\$2,868,000 and HK\$2,130,000 for the nine months and three months ended 31 December 2015, respectively, to approximately HK\$11,895,000 and HK\$6,538,000 for the nine months and three months ended 31 December 2016, representing increases of approximately 315% and 207%, respectively. As the Group has revenue generated from the New Businesses which have a lower gross profit margin, the overall gross profit margins decreased from approximately 59% and 23%, respectively for the nine months and three months ended 31 December 2015 to approximately 28% and 21% for the nine months and three months ended 31 December 2016.

Other income and gains

Other income and gains during the nine months and three months ended 31 December 2016 amounted to approximately HK\$195,000 and nil, which was reduced by approximately HK\$1,130,000 and HK\$913,000, respectively, which mainly because of no gain on disposal of property, plant and equipment during the nine months and three months periods under review as compared with that in the corresponding periods of 2015.

Expenses

Selling expenses incurred for the nine months and three months ended 31 December 2016 was approximately HK\$2,337,000 and HK\$801,000, reduced by approximately 38% and 64%, respectively, as compared with those in the corresponding periods of 2015. The lower selling expense incurred than those for the nine months and three months ended 31 December 2015 was mainly due to reduced staff cost and business development expense.

Administrative expenses were reduced by approximately HK\$1,405,000 and HK\$1,352,000, respectively, from approximately HK\$19,678,000 and HK\$8,919,000 for the nine months and three months ended 31 December 2015 to approximately HK\$18,273,000 and HK\$7,567,000 for the nine months and three months ended 31 December 2016, which mainly due to the reason of reduced staff costs and legal and professional fees.

Loss for the period

As a combination effect of the above, the loss attributable to equity holders of the Company for the first three quarters of 2016 amounted to approximately HK\$15.99 million, as compared to that of approximately HK\$18.27 million for the same period last year.

Financial Position

Total equity

Despite the loss in the first nine months period under review, as at 31 December 2016, the Group has a total equity amounted to approximately HK\$88,475,000 and net current assets amounted to approximately HK\$51,619,000, as compared with the total equity amounted to approximately HK\$70,954,000 and net current assets of approximately HK\$42,935,000 as at 31 March 2016, which mainly due to the reasons of funds raising upon the issue of the convertible note during the nine months period under review.

Liquidity and financial resources

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the cost of funds, the Group's treasury activities are centralised and cash is generally placed in deposits with banks.

As at 31 December 2016, total cash and cash equivalents of the Group amounted to approximately HK\$18,729,000 (as at 31 March 2016: HK\$28,761,000). As at 31 December 2016 and 31 March 2016, the Group has not borrowed any loan from third party.

The decrease in cash and cash equivalents was mainly due to the increase in accounts receivable for lending business, as well as the payment for acquisition of subsidiaries.

Treasury policies and foreign currency exchange exposure

Despite that the Group's trading transactions, monetary assets and liabilities are mainly denominated in RMB and Hong Kong dollars, it does not believe that the impact of foreign exchange exposure to the Group was material. The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency transactions and other financial assets and liabilities created in the ordinary course of business. The majorities of the Group's operating assets are located in Mainland China and are denominated in RMB.

Cash is generally deposited at banks in the PRC and Hong Kong and denominated mostly in Renminbi and Hong Kong dollar. As at 31 December 2016, no related hedges were made by the Group (as at 31 March 2016: nil).

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities (as at 31 March 2016: nil).

Significant investments, acquisitions or disposals

Except for the conditional acquisition of the entire interest in and shareholder's loans to King Win Intelligent Technologies Limited ("King Win") (the acquisition was completed in January 2017), which had been disclosed in the Company's announcements dated 13 December 2016 and 13 January 2017, respectively, the Group does not have any material acquisition or disposal which requires disclosure during the nine months ended 31 December 2016.

Capital structure

The shares of the Company were listed on GEM on 28 March 2000.

On 31 May 2016, the Company and a potential investor entered into a subscription agreement pursuant to which the subscriber agreed to subscribe for, and the Company agreed to issue, a convertible note in the aggregate principal amount of HK\$35 million. All the conditions precedent under the subscription agreement have been fulfilled and completion took place on 31 October 2016.

On 24 November 2016, the Company received notice from the holder of the convertible note, requesting for the conversion of the convertible note in the principal amount of HK\$35,000,000 into shares of the Company. On 29 November 2016, the Company allotted and issued a total of 112,903,225 shares of the Company to the holder at the conversion price of HK\$0.31 per share.

Upon conversion of the convertible note, excess of the carrying amount of the convertible note over the nominal value of shares being issued of approximately HK\$23,709,000 was transferred to the Company's share premium account.

The Company's authorised, issued and fully paid share capital were as follows:

| | Number of shares | Share capital <i>HK\$'000</i> |
|--|-----------------------------|--|
| Authorised: | | |
| At 1 April 2016 (audited) and 31 December 2016 (unaudited) (HK\$0.1 each) | 2,500,000,000 | 250,000 |
| Issued and fully paid: | | |
| At 1 April 2016 (HK\$0.1 each) (audited) | 1,095,360,500 | 109,536 |
| Issue of shares upon conversion of convertible note (unaudited) | 112,903,225 | 11,290 |
| At 31 December 2016 (HK\$0.1 each) (unaudited) | 1,208,263,725 | 120,826 |

The Group's capital structure is sound with healthy working capital management and strong cash flow. As at 31 December 2016, the Group's total equity amounted to approximately HK\$88,475,000, representing an increase of approximately 25% compared with that as at 31 March 2016 (31 March 2016: HK\$70,954,000). As at 31 December 2016, the Group's cash and cash equivalents totaled approximately HK\$18,729,000 (as at 31 March 2016: HK\$28,761,000). The current ratio (note 1) and quick ratio (note 2) of the Group as at 31 December 2016 was 2.6 (as at 31 March 2016: 2.3) and 2.2 (as at 31 March 2016: 1.9), respectively.

Apart from the above, there has been no material change in the structure of the Group during the period.

Notes:

- (1) Current Ratio = Current Assets ÷ Current Liabilities
- (2) Quick Ratio = (Current Assets – Inventories) ÷ Current Liabilities

Events after the Reporting Period

New loan receivable

Pursuant to the Company's announcement dated 25 January 2017, an unsecured loan agreement with principal loan amount of HK\$10 million was entered into between SZ Enterprise Union Finance Limited, an indirect wholly-owned subsidiary of the Company, and the borrower Mr. Chen Tianju on 25 January 2017. Details of the term of loan agreement were set out in the announcement dated 25 January 2017.

Completion of acquisition of King Win

The acquisition of 100% interest in King Win was completed on 13 January 2017. Details of the completion was set out in the Company's announcement dated 13 January 2017.

Save from the above, there was no particular event after the reporting period of 31 December 2016.

Business Review and Outlook

Wireless value-added services

Further to the expiry of WVAS contracts with a PRC telecommunication operator during the year ended 31 March 2016, the Group did not have any revenue from WVAS during the nine months and three months ended 31 December 2016.

Lending business

During the previous financial year ended 31 March 2016, the Group had commenced in lending business in Hong Kong to diversity the Group's income sources by acquiring a group of companies with a valid money lending licence in Hong Kong.

The lending business was introduced to the Group in the second half of the year ended 31 March 2016. It continues to grow and gives a positive result to the Group during the nine months ended 31 December 2016. The Group will pay a close attention to the market and the external economic environment and consider the possibility of further expansion in the lending business sector. During the nine months ended 31 December 2016, there were three major loan receivables with the Group. All of them constitute transactions carried out as part of the ordinary and usual course of business of the Group and will continue to bring in interest income to the Group. One of the debts was in the principal amount of HK\$13,000,000 under the loan agreements entered into between SZ Enterprise Union Finance Limited, an indirect wholly-owned subsidiary of the Company, and the borrower, Mr. Xu Weiqiang, on 21 March 2016 and 20 September 2016. This loan was unsecured and bearing an interest at a rate of 10% per annum for an original term of six months and an extended term of another six months. The original and extended final repayment date is 21 September 2016 and 21 March 2017 respectively and early repayment is allowed. Interest accrued under the loan for the original term has been fully paid to the Group before 31 December 2016. Accrued interest for the extended term shall be paid in the first instance upon the end of the third month of the extended term, and thereafter on the final repayment date together with repayment of the principal. This loan was granted to enhance the borrower's short-term cash flow. For more details of the loan, please refer to the Company's announcements dated 21 March 2016 and 20 September 2016.

On top of the above loan, pursuant to the loan agreement and two extension agreements made between SZ Enterprise Union Finance Limited and the borrower, Mr. Yu Shaoheng, on 22 April 2016, 21 October 2016 and 23 December 2016 respectively, a loan in the principal amount of HK\$6,000,000 bearing interest at a rate of 10% per annum was advanced to this borrower for an original period of six months with extended periods of three months and one month. The final repayment date of the loan fell on 21 January 2017 and the loan in amount of HK\$6,000,000 together with the accrued interest had been fully settled before the date of this announcement.

In addition, pursuant to the Company's announcement dated 8 November 2016, an unsecured loan agreement was entered into between SZ Enterprise Union Finance Limited and the borrower, Mr. Wen Qimin, on 8 November 2016, according to which a loan in a principal amount of HK\$13,000,000 bearing interest at a rate of 10% per annum for a six-month period, was drawn down on 8 November 2016. The final repayment date of the loan is on 8 May 2017, but early repayment is allowed. Accrued interest shall be paid in the first instance upon the end of the third month of the term, and thereafter on the final repayment date together with the repayment of the loan principal.

Furthermore, pursuant to the Company's announcement dated 25 January 2017, an unsecured loan agreement with principal loan amount of HK\$10,000,000 has entered into between, SZ Enterprise Union Finance Limited and the borrower, Mr. Chen Tianju, on 25 January 2017. The interest is 12% per annum. The first drawdown of the loan in the amount of HK\$6,000,000 ("Installment 1") was on 25 January 2017 and the remaining of loan of HK\$4,000,000 ("Installment 2") is to be drawdown on or before 28 February 2017. The final repayment date of the Installment 1 is on 25 January 2018, and the Installment 2 is to be repaid on the date falling on the next day of the end of the 12th month from the drawdown date, but early repayment is allowed. The Company has conducted internal risk assessment on the subject loan arrangement. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the borrower has substantial investments and assets in the PRC which support his financial capability to repay the loan. The purpose of the loan is to enhance his short-term cash flow. Therefore, the Company has not sought securities or collaterals for his repayment of the loan.

Trading and retailing of Jewelry business

The Group had also expanded into the trading and retailing of jewelry business in the second half of the year ended 31 March 2016 by acquiring a group of jewelry companies which are mainly based in Shenzhen, the PRC. Such acquisition was to broaden the Group's income sources and so as to compensate the effect of the reduction of income attributable to the WVAS.

The increase in revenue in trading and retailing of Jewelry business during the nine months and three months ended 31 December 2016 was mainly because of trading of gold and golden jewelry products in the PRC.

Because of the devaluation of the PRC's Renminbi, the income from jewelry business was affected. The Group incurred loss in this segment due to the maintenance of the selling and administration expense in the PRC.

Pharmaceutical and healthcare products business

Further to the commencement of pharmaceutical and healthcare products business, the Group is expected to benefit from entering into a market with a population of 1.4 billion in the PRC. Despite that the current economic conditions in the PRC is challenging, it is believed that this could turn out to be an opportunity for the Group to develop a sound market share there. As the Group has just made effort in developing this business segment, its pharmaceutical and healthcare products business in China is still at the development stage.

Nevertheless, the Group would continue to adopt a cautious approach to balance between our business development process and its financial liquidity position.

Updates on matters relating to the De-consolidation

With reference to the annual report of the Company for the year ended 31 March 2016 (“2016 Annual Report”), the Directors considered that the Group was unable to govern the De-Consolidated Subsidiaries (as defined under the 2016 Annual Report) and the control over the De-Consolidated Subsidiaries was lost. Therefore, from 1 January 2016 onwards, the Group had de-consolidated the De-Consolidated Subsidiaries from its financial statements for the financial year ended 31 March 2016 (the “De-Consolidation”).

The Company has been in negotiation with the relevant party(ies) with an aim to resolving the matters arising from or in connection with the loss of control over the De-Consolidated Subsidiaries.

The Company has also engaged an internal control reviewer to conduct an internal control review for the Group with the following objectives:

- (a) to review and assess whether there is any existing internal control weaknesses of the Group indicated by the incident(s) leading to the De-consolidation;
- (b) to review the Group’s current enterprise risk management and internal controls in order to assist the Directors to ensure that the management of the Group maintains a sound system for (i) evaluating the risks it is willing to take in achieving the Group’s strategic objectives; and (ii) ensuring the internal controls to safeguard the investments of the shareholders of the Company (the “Shareholders”) and the Group’s assets; and
- (c) to make recommendation on any measures which, in the internal control reviewer’s opinion, the Group should take in order to rectify any material weaknesses which have been identified in (a) above and its enterprise risk management and internal controls.

The scope of review shall cover four major areas, namely, (i) corporate internal control; (ii) financial reporting and disclosure internal control; (iii) internal control over business processes; and (iv) operational manual.

The aforesaid internal control review is in progress. The Company will keep the Shareholders and potential investors of the Company informed of any material development in the above matters as and when appropriate.

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

As at 31 December 2016, the interests and short positions of the Directors and chief executive in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock 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 Stock Exchange, were as follows:

Long positions in the ordinary shares of the Company

| Name of Directors | Notes | Capacity and nature of interest | Number of ordinary shares | Percentage of the Company's issued share capital <i>Note (4)</i> |
|--------------------|-------|--------------------------------------|---------------------------|---|
| Mr. Yip Heon Keung | (1) | Personal interest | 6,300,000 | 0.52% |
| Mr. Chen Weixi | (2) | Interest of a controlled corporation | 294,276,619 | 24.36% |
| Mr. Song Xuxi | (3) | Personal interest | 1,000,000 | 0.08% |

Notes:

- (1) Mr. Yip Heon Keung is personally interested in 6,300,000 shares of the Company.
- (2) 294,276,619 shares of the Company are held by Dynamic Peak Limited and its entire issued share capital is held as to 80% by Mr. Chen Weixi and as to the remaining 20% by Mr. Xu Zhigang. Both of them are the Directors. By virtue of the SFO, Mr. Chen Weixi is deemed to be interested in 294,276,619 shares of the Company held by Dynamic Peak Limited.
- (3) Mr. Song Xuxi is personally interested in 1,000,000 shares of the Company.
- (4) Based on 1,208,263,725 shares of the Company in issue as at 31 December 2016.

Long positions in underlying shares of the Company

Share Options

The Company adopts and administers a share option scheme which is currently in force and effect for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Company's original share option scheme was approved by the Shareholders on 7 March 2000, and was terminated and replaced by a share option scheme approved by the Shareholders on 9 April 2002, which in turn was terminated and replaced by a new share option scheme approved by the Shareholders on 5 August 2011 (the "2011 Scheme").

A summary of the share option schemes is set out below:

2011 Scheme

At the annual general meeting of the Company held on 5 August 2011 (the "2011 AGM"), an ordinary resolution was passed by the Shareholders to approve and adopt the 2011 Scheme.

The 2011 Scheme became effective for a period of 10 years commencing on 10 August 2011. Eligible participants of the 2011 Scheme include all Directors and employees of the Group, suppliers, customers, consultants who provided services to the Group, shareholders of the subsidiaries of the Group and joint venture partners. Under the 2011 Scheme, the Directors may, at their sole discretion, grant to any eligible participants 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 Stock Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the shares of the Company on GEM as stated in the Stock 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. The exercise period of the options granted is determinable by the Directors, which commences after the date of offer with a 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.

An ordinary resolution was passed at the annual general meeting of the Company on 28 September 2016 (the "2016 AGM") to refresh the scheme mandate limit of the 2011 Scheme. The total number of shares of the Company which may be allotted and issued upon exercise of all options to be granted under the 2011 Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the 2016 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 2011 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.

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Shareholders. Options granted to substantial shareholders or independent non-executive Directors in excess of 0.1% of the Company's share capital and with an aggregate value in excess of HK\$5 million must be approved in advance by the Shareholders. The 2011 Scheme does not provide for any minimum period for holding of options or any performance target before exercise of options.

The following Director was granted share options under the 2011 Scheme to subscribe for shares of the Company, details of which are as follows:

| Name or category of participant | Number of shares to be subscribed for by outstanding options | | | | | Date of share options granted* | Exercise period of share options granted | Exercise price of share options granted** <i>HK\$ per share</i> |
|-------------------------------------|--|-------------------------------|-----------------------------|--------------------------|---------------------|--------------------------------|--|--|
| | At 1 April 2016 | Transferred during the period | Exercised during the period | Lapsed during the period | At 31 December 2016 | | | |
| Director | | | | | | | | |
| Mr. Yip Heon Keung | 700,000 | — | — | — | 700,000 | 5 December 2013 | 5 December 2013 to 4 December 2023 | 0.165 |
| | <u>700,000</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>700,000</u> | | | |
| Other employees of the Group | | | | | | | | |
| In aggregate | 2,000,000 | — | — | — | 2,000,000 | 5 December 2013 | 5 December 2013 to 4 December 2023 | 0.165 |
| | <u>2,700,000</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>2,700,000</u> | | | |

- * The time of acceptance of the share options was within 21 days from the options offer date. The share options granted are subject to certain vesting period and vary for each category of participant as specified under the respective share option schemes.
- ** The exercise price of the share options is subject to some adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had an interest or short position in the ordinary shares or underlying shares of the Company or any of its associated corporations that was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, shareholders (other than the Directors or chief executive of the Company) who had interests or short positions in the 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:

Long positions in the ordinary shares or underlying shares of the Company

| Name of shareholder | <i>Notes</i> | Capacity and nature of interest | Number of ordinary shares or underlying shares | Percentage of the Company's issued share capital <i>Note (8)</i> |
|---------------------------------------|---------------|--|---|--|
| Dynamic Peak Limited | (1) | Beneficially owned | 294,276,619 | 24.36% |
| Rainbow Enterprise Holdings Co., Ltd. | (2) | Beneficially owned | 206,647,000 | 17.10% |
| Mr. Cheng Haiqing | (2) | Interest of a controlled corporation | 206,647,000 | 17.10% |
| Glory Gate International Limited | (3) | Interest of controlled corporations | 127,582,675 | 10.56% |
| Legit Ability Limited | (4) | Interest of a controlled corporation | 127,582,675 | 10.56% |
| Ms. Shen Jing | (3), (4), (5) | Interest of a controlled corporation | 127,582,675 | 10.56% |
| Dragon Fortune Group Holdings Limited | (5) | Beneficially owned | 112,903,225 | 9.34% |
| Right Advance Management Limited | (6) | Beneficially owned | 111,000,000 | 9.19% |
| Ms. Wang Li Mei | (6) | Interest of a controlled corporation | 111,000,000 | 9.19% |
| Mr. Wang Leilei | (6) | Interest of a controlled corporation | 111,000,000 | 9.19% |
| Will City Limited | (7) | Beneficially owned | 100,000,000 | 8.28% |
| Ms. Zhang Yingnan | (7) | Interest of a controlled corporation | 100,000,000 | 8.28% |
| Mr. Pei Chuang | | Beneficially owned | 70,000,000 | 5.79% |

Notes:

- (1) Dynamic Peak Limited is a company incorporated in the British Virgin Islands and its entire issued share capital is held as to 80% by Mr. Chen Weixi and as to the remaining 20% by Mr. Xu Zhigang. Both of them are the Directors.
- (2) Rainbow Enterprise Holdings Co., Limited is a company incorporated in the British Virgin Islands and its entire issued share capital is registered in the name of Mr. Cheng Haiqing, and such shares are solely owned by Mr. Cheng Haiqing.
- (3) Glory Gate International Limited is a company incorporated in the British Virgin Islands and its entire issued share capital is held by Legit Ability Limited.
- (4) Legit Ability Limited is a Company incorporated in the British Virgin Islands and its entire issued shares capital is held by Ms. Shen Jing.
- (5) Dragon Fortune Group Holdings Limited is a company incorporated in the British Virgin Islands and its entire issued share capital is held by Glory Gate International Limited.
- (6) Right Advance Management Limited (“Right Advance”) 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, and such shares are ultimately owned by Mr. Wang Leilei. Ms. Wang Li Mei is the sole director of Right Advance.
- (7) Will City Limited is a company incorporated in the British Virgin Islands and its entire issued share capital is held by Ms. Zhang Yingnan.
- (8) Based on 1,208,263,725 shares of the Company in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, 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 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.

COMPETING INTERESTS

None of the Directors or the controlling 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

On 31 October 2016, the Company issued a convertible note with a principal amount of HK\$35,000,000. The convertible note was fully converted into 112,903,225 ordinary shares of the Company on 29 November 2016 at the conversion price of HK\$0.31 per share.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the nine months ended 31 December 2016.

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 2016.

CORPORATE GOVERNANCE CODE

Save as the deviation disclosed below, the Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 15 to 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 the chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. During the period under review, the Company has not appointed a CEO and the Chairman, Mr. Xu Zhigang, assumed the post of acting CEO. The Board considers that the current arrangement is adequate in view of the size and complexity of the Group's operations. The Board will, nonetheless, review the business growth of the Group and locate suitable candidate to fill the vacancy of the CEO when considered essential and will continue setting out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the Company.

Code provision A.6.7 of the CG Code requires all independent non-executive directors and non-executive directors should attend general meetings of listed issuers. Mr. Poon Yan Wai, being independent non-executive Director, was unable to attend the annual general meeting held on 28 September 2016; and Mr. Xu Xiaoping, being independent non-executive Director, and Mr. Chen Weixi, Mr. Yip Heon Keung and Mr. Song Xuxi, being non-executive Directors, were unable to attend the annual general meeting and the extraordinary general meeting held on 28 September 2016 and 18 October 2016 respectively due to their personal commitments.

CHANGE OF DIRECTORS' INFORMATION

Mr. Lam Kwok Cheong, an independent non-executive Director of the Company, has resigned as non-executive director of Mega Medical Technology Limited (stock code: 876) and resigned as independent non-executive director of Southwest Securities International Securities Limited (stock code: 812), both of which are companies with shares listed on the Stock Exchange, effective from 1 July 2016 and 19 September 2016 respectively.

Save as disclosed above, there is no change in Director's information to be disclosed.

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 review and supervision of the Group's financial reporting system, risk management and internal control procedures, review of the Group's financial information and review of the Group's relationship with its auditors.

As at the date of this announcement, the Audit Committee comprised three independent non-executive Directors, namely Mr. Poon Yan Wai (Chairman of the Audit Committee), Mr. Xu Xiaoping and Mr. Lam Kwok Cheong and one non-executive Director, namely Mr. Chen Weixi.

The Audit Committee has reviewed this announcement and has provided advice and comments thereon.

REMUNERATION COMMITTEE

In accordance with the CG Code, the Company established the 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 remuneration of all 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, namely Mr. Xu Xiaoping (Chairman of the Remuneration Committee) and Mr. Lam Kwok Cheong, and one executive Director, namely Mr. Xu Zhigang.

NOMINATION COMMITTEE

In accordance with the CG Code, the Company established the nomination committee (“Nomination Committee”) on 29 March 2012 with written terms of reference. The principal responsibilities of the Nomination Committee include formulating nomination policy and making recommendations to the Board on nomination and appointment of Directors and Board succession, developing selection procedures for nomination of candidates, reviewing the size, structure and composition of the Board, as well as assessing the independence of independent non-executive Directors.

The Nomination Committee comprises one executive Director, namely Mr. Xu Zhigang (Chairman of the Nomination Committee) and two independent non-executive Directors, namely Mr. Xu Xiaoping and Mr. Lam Kwok Cheong.

By Order of the Board

Xu Zhigang

Chairman

Hong Kong, 9 February 2017

As at the date of this announcement, the Board comprises the following Directors:

Mr. Xu Zhigang (*Executive Director and Chairman*)

Mr. Han Jun (*Executive Director*)

Mr. Shi Liangsheng (*Executive Director*)

Mr. Chen Weixi (*Non-Executive Director*)

Mr. Yip Heon Keung (*Non-Executive Director*)

Mr. Song Xuxi (*Non-Executive Director*)

Mr. Poon Yan Wai (*Independent Non-Executive Director*)

Mr. Xu Xiaoping (*Independent Non-Executive Director*)

Mr. Lam Kwok Cheong (*Independent Non-Executive Director*)

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