

LEADING THE **FUTURE** *of*
Telecom Technology

PROACTIVE



PROACTIVE TECHNOLOGY HOLDINGS LIMITED

寶訊科技控股有限公司

2 0 0 1 1st QUARTERLY REPORT

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

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

HIGHLIGHTS FOR THE FIRST QUARTER

- Despite unfavorable market conditions, the Group has been able to narrow down its loss to HK\$2.8 million for the three months ended 31st March, 2001 ("First Quarter") from a loss of HK\$7.4 million in the last three months ended 31st December, 2000 ("Last Quarter"), representing a 62% improvement over the Last Quarter.
- Turnover increased moderately by 27% as compared to the Last Quarter and 48% as compared to previous corresponding three months ended 31st March, 2000 ("Previous Corresponding Quarter"). A significant level of telecom projects was secured from existing telecom customers, with a sizable contract awarded by a new telecom customer.
- Operating expenditures decreased by 21% as compared to the Last Quarter.
- The Group has started to study the feasibility and applications in Softswitch technology that connects Internet Protocol (IP) network and traditional phone network, enabling service providers to offer a combination of voice, video and data services on single network.
- The Group will establish a joint venture in Taiwan in the second quarter of 2001 to expedite its business development in Taiwan.

RESULTS HIGHLIGHTS

<i>HK\$'000</i>	2001 1st Quarter	2000 4th Quarter	2000 1st Quarter
Turnover:			
Telecom	10,459	4,853	6,031
Computer Telephony	3,200	5,918	3,191
Total	<u>13,659</u>	<u>10,771</u>	<u>9,222</u>
Gross Profit	8,483	5,506	4,575
Gross Profit Margin	62%	51%	50%
Distribution, Selling and Administrative Expenses	11,308	14,405	5,027
Net Loss	2,752	7,442	551

FIRST QUARTER RESULTS

The board of directors (the "Directors") of Proactive Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group" or "Proactive") for the First Quarter, together with the comparative unaudited figures for the Previous Corresponding Quarter as follows:

	Notes	Three months ended 31st March,	
		2001 HK\$'000	2000 HK\$'000
Turnover	2	13,659	9,222
Cost of sales		(5,176)	(4,647)
Gross profit		8,483	4,575
Other revenue		–	79
Distribution and selling expenses		(107)	(15)
General and administrative expenses		(11,201)	(5,012)
Loss from operations		(2,825)	(373)
Interest income		193	42
Interest expense		(120)	(220)
Loss before taxation		(2,752)	(551)
Taxation	3	–	–
Loss attributable to shareholders		(2,752)	(551)
Dividends		–	–
Loss per share			
– Basic	4	HK1.19 cents	HK0.30 cents

Notes:

1. Basis of presentation

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 25th February, 2000. Its shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18th May, 2000.

On 3rd May, 2000, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation scheme (the "Reorganisation") in preparation for the listing of the Company's Shares on GEM. The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting. Under which the consolidated financial statements have been prepared on the basis that the Company had always been the holding company of the Group.

2. Turnover

Turnover represents (i) net invoiced value for the supply, development and integration of telecommunications and computer telephony products and solutions after allowances for returns and discounts; (ii) rental income for leasing telecommunications and computer telephony equipment; and (iii) fees for consulting and maintenance services.

3. Taxation

The Company is exempted from taxation in Bermuda until March 2016. Hong Kong profit tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax has been provided by subsidiaries, branch or representative offices based on their estimated taxable profits at the rates of taxation applicable in the respective jurisdictions in which they operate.

4. Loss per share

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately HK\$2,752,000 (2000: HK\$551,000) and on the weighted average number of 232,000,000 shares (2000: 185,600,000 shares) in issue throughout the First Quarter, on the assumption that the Reorganisation (see note 1) had been completed on 1st January, 2000.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the First Quarter (2000: Nil).

FINANCIAL POSITION

The Group remained at a healthy financial position. As at 31st March, 2001, debt-equity ratio was 0.3 times, net assets of the Group was approximately HK\$53 million. Cash balance as at 31st March, 2001 stood at approximately HK\$29 million, or cash per share of HK\$0.125.

BUSINESS REVIEW

Facing a continuously uncertain economic environment, the Directors exercised prudent on its expenditure policy, rationalized resources on the development of cost-effective products and focused its sales efforts on major service providers and large enterprise customers, which are expected to have higher demands for the Group's products.

Despite the adverse market conditions, turnover of the Group exhibits moderate growth by 2.7% from Last Quarter to HK\$13.7 million, or a growth of 48% compared with the Previous Corresponding Quarter. While the Group's sales of enterprise computer telephony solutions decreased, sales of telecommunications products has gradually increased.

Gross profit margin surged up to 62% as the Group had taken several high profit margin projects in the First Quarter. Continuous effort of cost control over the Group's operating expenditures has successfully reduced the Group's overheads. As a result, the Group's operating loss has narrowed to HK\$2.8 million, while loss before interest, taxation, depreciation and amortization for the First Quarter was HK\$1.7 million.

Telecommunications Business

Sales of telecommunications products in the First Quarter was HK\$10.5 million, representing approximately 2 times of last quarter's telecommunications sales. Although the overall telecommunications market has slowed down, ongoing development of mobile communications technologies, such as General Packet Radio Services (GPRS) and third-generation wireless (3G), has driven relatively strong demand in telecommunications solutions. The Group received several projects from major mobile carriers in Hong Kong. Amongst other telecom projects, the Group had secured a sizable contract from a new telecom customer and developed a calling card gateway for its IDD services. Sales performance in Australia was also encouraging. After a year of operation in Australia, Proactive has established its market position there and received several repeated orders for Proactive's GlobalCall systems from its customers.

New Products and New Developments

During the First Quarter, the Group had developed and completed a series of enhanced features on its GlobalCall system. The new products include "Web-based Card Administration" which enables the operators to manage prepaid calling cards through the Internet; "Dual-Host Module" providing automatic backup hosting of the switching system; "ExNet Module" which allows a series of chassis to be cascaded together using optical fibers which reduces consumption of network connections; and "GlobalCall Billing Module", a module that integrates the GlobalCall system with a sophisticated billing system developed by MIND-CTI Ltd., the Group's technology partner.

Recognizing new business opportunities emerging from the recent tariffs reductions on IDD rates and International Private Lease Line Circuits (IPLC) in Mainland China for calls between Hong Kong and Mainland China, Proactive has partnered with a major Hong Kong carrier to provide IPLC services for enterprise users. Proactive will be responsible for providing the technical support and network management services to complement the IPLC services.

Computer Telephony Business

Following the consolidation of technology, media and telecommunications markets, companies in general became more conservative in their capital expenditure on technology investment and which has added pressure on the Group's computer telephony business. Adding to seasonal factor, sales of computer telephony solutions to enterprises in the First Quarter decreased by approximately 45% as compared to the Last Quarter, to HK\$3.2 million, which was about the same level of sales as previous corresponding quarter. During the First Quarter, Proactive had delivered a variety of computer telephony solutions, including e-brokerage Interactive Voice Response (IVR) systems and various call centre system, to different industries.

New Products and New Developments

In additional to the three existing computer telephony product lines, Proactive has partnered with Nortel Networks to develop a new line of call centre suite – Symposium Call Center Server (SCCS). The first phase of development involving the integration of Proactive's IVR system with SCCS which was completed in the First Quarter. It is anticipated that the second phase of development, being the integration of SCCS with Proactive's Call Centre Suite, will be completed in the second half of 2001.

PRC Business Development

As stated in the 2000 Annual Report, the Group planned to establish a foothold in the PRC in 2001. The Group is currently negotiating several PRC telecom projects which could be materialized in the second quarter.

PCS – The Group's Shanghai arm, Proactive Cyberspace (Shanghai) Company Limited ("PCS"), after several months of operation, has already grown to a company with approximately 40 employees and generating steady revenue. In the second quarter of 2001, PCS will set up a call centre team customizing call centre solutions for enterprises in the PRC. The Directors anticipate that PCS will continue to grow and will become a lucrative business for the Group in the near future.

Jiao Da Proactive – Proactive and Shanghai Jiao Tong University ("SJTU") entered into a Memorandum of Understanding in February, 2001, undertaking to form a joint venture to jointly develop and market computer telephony solutions for the PRC market. A feasibility study of the joint venture had been submitted to and was approved by SJTU. It is proposed that the joint venture will be 40% owned by SJTU and 60% owned by Proactive. The joint venture is expected to be formed in the second half of the year.

FUTURE PLANS

Corporate Development

In May, 2001, Proactive entered into an agreement with Pacific Electronic Technology Company Limited ("PETEK") and its associates to form a new joint venture company in Taiwan, namely Proactive Technology (Taiwan) Limited ("PTTL"). Under the agreement, Proactive will hold 60% of PTTL, while PETEK and its associates will hold the remaining 40%. PETEK and its associates are Taiwan based independent third parties not connected with the Group and any connected persons of the Group as defined under the Listing Rules. The Directors believe, with the establishment of PTTL, it will further expedite the Group's business development in Taiwan.

New Technology

As stated in the section of "Future Plan" of the prospectus of the Company dated 10th May, 2000, the Group has started to study the feasibility and applications of an advanced telecom infrastructure technology – Softswitch, which offers universal standards and protocols that can seamlessly interconnect phone network and IP network based on different proprietary software. As service providers move towards the offering of voice, video and data services on one single networks, the Directors are confident that Softswitch will be in strong demand in the next few years and is considering to invest in the development of Softswitch applications.

PROSPECT

The Directors believe that the telecom market is undergoing a moderate recovery and expect modest growth in the Group's businesses in the next quarter. Under the global telecom market slowdown, major telecom operators have been competing on cost effective niche applications. This driving force has provided opportunities for local technology providers, like Proactive.

Moving forward, Proactive will continue its business strategy, focusing on the development of value-added services for major carriers and innovative computer telephony products. The Group will also continue to look for high-value business or technological cooperation to enrich its business scope.

DIRECTORS' INTEREST IN SHARES

As at 31st March, 2001, the interests of the Directors and their respective associates in the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance") of the Company or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong

Kong Limited (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Personal Interest	Number of Shares of the Company			Total
		Family Interest	Corporate Interest	Other Interest	
Mr. Tsang Chi Hin	52,415,466	-	-	-	52,415,466
Mr. Lam Kim Chau	52,415,466	-	-	-	52,415,466
Mr. Lau Kai Shun, Barry	37,382,664	-	-	-	37,382,664
Mr. Wong Wai Ho	10,210,688	-	-	-	10,210,688

Other than disclosed above, as at 31st March, 2001, neither the Directors nor their associates, had any interest in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the First Quarter.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has adopted a share option scheme on 3rd May, 2000 ("Share Option Scheme"), pursuant to which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. Pursuant to the Share Option Scheme, options were granted on 30th June, 2000 to the executive Directors and other employees of the Group to subscribe for an aggregate of 19,420,000 shares in the Company at a price of HK\$1.30 per share, during the option period from 1st July, 2003 to 30th June, 2010. As a result of the cessation of employment of certain grantees, 3,050,000 share options granted to them on 30th June, 2000 has lapsed since date of grant.

As at 31st March, 2001, the outstanding ordinary share options granted to the Directors are as follows:

Name of Directors	Subscription price per share	Number of share options
Mr. Tsang Chi Hin	HK\$1.30	1,000,000
Mr. Lam Kim Chau	HK\$1.30	1,000,000
Mr. Lau Kai Shun, Barry	HK\$1.30	1,000,000
Mr. Wong Wai Ho	HK\$1.30	1,000,000
Mr. Pong Kam Wah	HK\$1.30	5,800,000

Save as disclosed above, at no time during the First Quarter was the Company or any of its subsidiaries a party to any arrangements to enable any of the Directors to acquire benefits by means of, the acquisition of share (debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, in addition to those interests as disclosed above in respect of the Directors according to the register of substantial shareholders required to be maintained under Sections 16(1) of the SDI Ordinance, the Company has been notified of the following interests, being 10% or more in the issued capital of the Company.

Name of shareholder	Number of shares
Mr. Tsang Chi Hin	52,415,466
Mr. Lam Kim Chau	52,415,466
Mr. Lau Kai Shun, Barry	37,382,664

COMPETING INTEREST

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

SPONSOR'S INTERESTS

Pursuant to the agreement dated 8th May, 2000 entered into between the Company and Pacific Challenge Capital Limited ("Pacific Challenge"). Pacific Challenge has received and will receive a fee for acting as the Company's retained sponsor for the period from 18th May, 2000 to 31st December, 2002.

As at 31st March, 2001, none of the directors, employees nor associates of Pacific Challenge had any interest in any securities of the Company or any of its associated corporations.

AUDIT COMMITTEE

The Company has established an audit committee on 3rd May, 2000 and has formulated its written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee now comprises two independent non-executive Directors, who are Wu Suk Ching, Annie and Yang Zhenhan.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the First Quarter.

By order of the Board
Tsang Chi Hin
Chairman

Hong Kong, 11th May, 2001