

# **PROACTIVE**



**LEADING  
THE  
FUTURE  
OF  
TELECOM  
TECHNOLOGY**

**Third Quarterly Report 2001**

## HIGHLIGHTS FOR THE NINE-MONTH PERIOD AND THIRD QUARTER RESULTS

- The unaudited consolidated turnover for nine months ("Nine-Month Period") and three months ("Third Quarter") ended 30th September 2001 were HK\$42,576,000 and HK\$12,297,000 respectively.
- The Third Quarter's gross profit amounted to approximately HK\$9,096,000, down 21% from the same period's figure of HK\$11,566,000 in 2000, however, the Group recorded an increase in gross profit margin from 51% to 74%.
- The Group had been able to narrow down its net loss 79% from the prior quarter and 44% from a year earlier to HK\$1,855,000 in the Third Quarter of 2001.
- Entered an agreement with an Indonesian integrated telecommunications service provider, the first collaborative partner in this country.
- The Group's Shanghai arm, Proactive Cyberspace (Shanghai) Ltd. delivered solid third-quarter results in this turbulent environment and generated steady revenue for the Group.
- Solid achievement of PTL Technology (Taiwan) Ltd., the Group's subsidiary in Taiwan.

## RESULTS HIGHLIGHT

	2001 3rd Quarter HK\$'000	2001 2nd Quarter HK\$'000	2001 1st Quarter HK\$'000	2000 3rd Quarter HK\$'000
Turnover				
Telecommunications	<b>8,310</b>	10,334	10,459	16,172
Computer Telephony	<b>3,987</b>	6,286	3,200	6,435
<b>Total</b>	<b>12,297</b>	<b>16,620</b>	<b>13,659</b>	<b>22,607</b>
<b>Gross Profit</b>	<b>9,096</b>	7,648	8,483	11,566
<b>Gross Profit Margin</b>	<b>74%</b>	46%	62%	51%
<b>Selling and Administrative Expenses</b>	<b>11,271</b>	16,620	11,308	15,312
<b>Net Loss</b>	<b>1,855</b>	8,928	2,752	3,299

**NINE-MONTH AND THIRD 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 / Proactive”) for the Nine-Month Period and the Third Quarter ended 30th September 2001, together with the comparative unaudited figures for the previous corresponding period in 2000 as follows:

	Notes	Nine months ended 30th September		Three months ended 30th September	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	<b>42,576</b>	53,045	<b>12,297</b>	22,607
Cost of sales		<b>(17,349)</b>	(21,899)	<b>(3,201)</b>	(11,041)
Gross Profit		<b>25,227</b>	31,146	<b>9,096</b>	11,566
Other revenue		-	102	-	-
Distribution and selling expenses		<b>(928)</b>	(383)	<b>(648)</b>	(86)
General and administrative expense		<b>(38,271)</b>	(28,656)	<b>(10,623)</b>	(15,226)
(Loss) / Profit from operations		<b>(13,972)</b>	2,209	<b>(2,175)</b>	(3,746)
Interest income		<b>637</b>	1,063	<b>130</b>	512
Interest expense		<b>(351)</b>	(718)	<b>(101)</b>	(245)
Share of loss of associates		<b>34</b>	-	<b>38</b>	-
(Loss) / Profit before taxation		<b>(13,652)</b>	2,554	<b>(2,108)</b>	(3,479)
Taxation	3	<b>(114)</b>	(1,037)	<b>22</b>	180
(Loss) / Profit before minority interests		<b>(13,766)</b>	1,517	<b>(2,086)</b>	(3,299)
Loss attributable to minority interests		<b>231</b>	-	<b>231</b>	-
(Loss) / Profit attributable to shareholders		<b>(13,535)</b>	1,517	<b>(1,855)</b>	(3,299)
Dividends		-	-	-	-
(Loss) / Earning per share					
- Basic	4	<b>HK(5.8) cents</b>	HK0.7 cents	<b>HK(0.8) cents</b>	HK(1.4) 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 profits 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.

Taxation in the unaudited consolidated profit and loss account comprised:

	Nine months ended 30th September		Three months ended 30th September	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
SUBSIDIARY COMPANIES				
CURRENT TAXATION				
– Hong Kong profits tax	–	1,000	–	(200)
– Overseas taxation	<b>90</b>	37	<b>(38)</b>	20
Subtotal	<b>90</b>	1,037	<b>(38)</b>	(180)
ASSOCIATED COMPANY				
CURRENT TAXATION				
– Overseas taxation	<b>24</b>	–	<b>16</b>	–
Total	<b>114</b>	1,037	<b>(22)</b>	(180)

#### 4. (Loss) / Earning per share

The calculation of basic (loss) / earning per share is based on the consolidated loss attributable to shareholders for the Nine-Month Period and the Third Quarter of approximately HK\$13,535,000 and HK\$1,855,000 (2000: net profit of 1,517,000 and net loss of 3,299,000) and on the weighted average number of 232,000,000 shares and 232,000,000 shares (2000: 208,630,657 and 232,000,000 shares) in issue throughout the Nine-Month Period and the Third Quarter respectively, on the assumption that the Reorganisation (see note 1) had been completed on 1st January 2000.

#### 5. Comparative figures

Certain comparative figures for the nine months ended 30th September 2000 have been reclassified to conform with the audited annual report for the year ended 31st December 2000.

### INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Nine-Month Period ended 30th September 2001 (2000: Nil).

### FINANCIAL POSITION

The financial position of the Group remained healthy and stable. As at 30th September 2001, debt-equity ratio was 0.3 times, net assets of the Group was approximately HK\$43 million. Cash balance as at 30th September 2001 stood at approximately HK\$29 million, or cash per share of HK\$0.12.

### BUSINESS REVIEW AND PROSPECTS

#### Financial Performance

For the Nine-Month Period and the Third Quarter ended 30th September 2001, Proactive generated an unaudited consolidated turnover of HK\$42,576,000 and HK\$12,297,000 respectively, representing a decrease of 20% and 46% from the previous corresponding period in 2000 respectively. The Third Quarter's gross profit amounted to approximately HK\$9,096,000, down 21% from the same period's figure of HK\$11,566,000 in 2000, however, the Group recorded an increase in gross profit margin from 51% to 74%.

The fall in revenue and gross profit were mainly due to the fragile global economic backdrop. The worldwide business economic outlook was relatively weak, together with the recent tragic events in the US, it had led to a great deal of uncertainty. Under such continuously adverse market circumstances, and further hampered by consumers' cautious spending, technology companies remained at the forefront of the global economic slowdown.

During the period under review, customers were more cautious in placing orders of telecommunications and computer telephony products. The global market of telecommunications and computer telephony products was sluggish. The Group, therefore, continued to maintain a defensive posture with an emphasis on high-quality product development and consistent business strategy with respect to the poor economic condition.

Under this difficult operating environment, the Group had exercised prudent measures, in particular, on cost control policies. The Group's selling and administrative expenses in the three months to 30th September decreased by 26% from the previous corresponding third quarter to HK\$11,271,000. We aim to further lower the existing operating expenses in the fourth quarter as we continue to rationalize and streamline our operations, resulting in further reduction of operating loss.

For the three months ended 30th September 2001, Proactive had actively taken a strategic initiative to better position itself and been successful to narrow down its net loss 79% from the prior quarter and 44% from a year earlier to HK\$1,855,000.

### **Telecommunications Business**

Turnover of the telecommunications business for the nine months was HK\$29,102,000, remaining as the major business of the Group which accounted for 68% of total turnover.

In an already slowing economy, the Asia Pacific market continued to suffer from the continuous global economic downturn and the delayed upswing in the US economy. However, the management maintains a positive attitude towards the development of the telecommunications business by closely monitoring opportunities for regional expansion.

In July 2001, Proactive concluded an exciting agreement with a leading integrated telecommunications service provider in Indonesia. Under the agreement, this service provider gains access to Proactive's telecommunications products in which enable the development of its regional Voice over Internet Protocol ("VoIP") infrastructure so as to offer additional value-added products and services to its customers. This alliance recognizes our committed efforts to look for high-value business opportunities and business partnerships. As this service provider is being the Group's first collaborative partner in Indonesia, it is a significant step to our journey in exploring regional expansion.

Besides, Proactive has made continuous efforts to customize its telecommunications products and solutions to suit the specific needs of targeted Asian markets. A sound base of customization skills is necessary not only to tailor products to suit the needs of an individual client, but to gain exposure to new business opportunities and extend our business network in the Asia Pacific region.

### **Computer Telephony Business**

Affected by the global economic fallout, the Group's computer telephony business also suffered severely. During the first three quarters, it attained consolidated turnover of HK\$13,473,000, less 9% year-on-year.

Although the business performance was not favourable during the Nine-Month Period, the Group's Shanghai arm, Proactive Cyberspace (Shanghai) Ltd. ("PCS") that mainly specializes in computer telephony business has gradually picked up the business development after a year commencement of operations. During the quarter under review, PCS delivered solid third-quarter results in this turbulent environment and generated steady revenue for the Group.

During the period under review, PCS has entered a jointly collaboration agreement with Nexus Community Inc. ("Nexus"), a Korean computer telephony integration and Internet telephony integration provider. Under this agreement, PCS has been appointed as a distributor and integration partner for Nexus's computer telephony integration middleware and Internet call center products in the People's Republic of China ("PRC"). With the PCS's comprehensive business network in the PRC, it had already secured several contracts. During the period under review, the co-operation went very well, which not only extended PCS's market coverage, but also brought synergies to its computer telephony solutions business. It signified a quantum leap for PCS's business development and the long-term and well-established partnership with Nexus.

### **REGIONAL EXPANSION**

Considering the global economic situation, the Group had already postponed the plan in setting up regional offices in other Asian countries. Instead, the Group would further explore its regional expansion in the Greater China, in particular, the PRC which was outperforming most of the region.

According to the State Statistics Bureau, the PRC's Gross Domestic Product ("GDP") grew 7.6% year-on-year to 6.72 trillion yuan for the first three quarters as a whole. Though China's economic growth for the third quarter had slowed below economists' expectations, the PRC Government was confident it could achieve its targeted economic growth rate of 7% for the entire year. The negative impact brought by the slowdown in the world economy would be offset and the overall economic performance in the PRC would be stable. Possessing a strong foothold in the PRC market, the Group enjoyed the solid economic performance and the continuing strong GDP growth during the period under review. The management was in firm belief that the PRC would provide tremendous opportunities for its business development in the years to come.

Besides, PTL Technology (Taiwan) Ltd., ("PTL-Taiwan") a subsidiary of Proactive in Taiwan, also attained revenue for the three months ended 30 September 2001, following the commencement of business operations in May. During the quarter under review, a Memorandum of Understanding ("MOU") was signed between PTL-Taiwan and Taiwan Mobile Communication Inc. ("TMC") in Taiwan on 13th September 2001. Under the MOU, PTL-Taiwan and TMC had agreed with a technical collaboration in jointly developing an International Call Forwarding service in Taiwan. It is expected to be launched in the fourth quarter of 2001 for targeted commercial clients. The management anticipated that the solid achievement of PTL-Taiwan paved the way for its business development in Taiwan and maintained a positive outlook for its future growth.

## FUTURE PROSPECTS

Looking ahead, the management has a range of strong initiatives to enhance Proactive's position as a leader in the Hong Kong and PRC telecommunications industry. The Group has been actively establishing its business foundation and business relationships with key technology and business partners and clients through the provision of comprehensive services and technological support to seize the arising market opportunities in the telecommunications industries.

In September 2001, four Third-Generation ("3G") mobile services licenses were awarded by Office of the Telecommunications Authority of Hong Kong Government. These four 3G licensees shall be stipulated to open up at least 30% of their network capacity to Mobile Virtual Network Operators ("MVNO"). Under this open network access policy, the Group is deliberated to strengthen its research and development team in providing infrastructure and products solution for MVNO and being well prepared to capture this booming market demand.



In view of the positive effect of the eminent China's entry into the World Trade Organization and Beijing winning the bid to host the 2008 Olympic Games, the favorable business environment procure a lucrative avenue to capitalize the expansion in the PRC and the neighboring countries. The construction of new infrastructure and facilities will add new investment vigour to the Chinese economy over the short term that leads to accelerated growth in the telecommunications industry. With our sound business strategy, built upon firm business connections, experience and knowledge, the management strongly believes that Proactive is well-positioned to benefit from these several positive development.

In the future, the Group is confident that it is heading in the right direction and that its strategies and objectives will improve the Company's competitive position in the industry, maintain positive performance of business and achieve better returns for shareholders.

### DIRECTORS' INTEREST IN SHARES

As at 30th September 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
Mr. Pong Kam Wah	7,500,000	-	-	-	7,500,000

Other than disclosed above, as at 30th September 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 Nine-Month Period.

## 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, 3,460,000 share options granted to them on 30th June 2000 has lapsed since date of grant.

As at 30th September 2001, the outstanding ordinary share options granted to the Directors are as follows:

<b>Name of Directors</b>	<b>Subscription price per share</b>	<b>Number of share options</b>
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 Nine-Month Period 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 30th September 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.

<b>Name of shareholder</b>	<b>Number of shares</b>
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 29th May 2001 entered into between the Company and Deloitte & Touche Corporate Finance Ltd. ("Deloitte"), Deloitte has received and will receive a fee for acting as the Company's retained sponsor for the period from 29th May 2001 to 31st December 2002.

As at 30th September 2001, none of the directors, employees nor associates of Deloitte 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 Nine-Month Period.

By order of the Board

**Tsang Chi Hin**  
*Chairman*

## **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.**

**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. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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*This report, 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*