

LEADING THE **FUTURE** of  
Telecom Technology

**P**ROACTIVE  
**2002** 1st QUARTERLY REPORT

**P**ROACTIVE

Proactive Technology Holdings Limited  
寶訊科技控股有限公司

## **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 trade on the Main Board and no assurance is given that there will be a liquid market in the securities trade 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.**

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.*

*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) all 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 RESULTS

	2002 1st Quarter HK\$'000	2001 4th Quarter HK\$'000	2001 1st Quarter HK\$'000
Turnover:			
- Telecommunications	4,780	2,530	10,459
- Computer Telephony	2,227	4,249	3,200
- Others	819	-	-
	<u>7,826</u>	<u>6,779</u>	<u>13,659</u>
Total	<u>7,826</u>	<u>6,779</u>	<u>13,659</u>
Gross profit	5,063	4,665	8,483
Gross profit margin	65%	69%	62%
Distribution, selling, general and administrative expenses	6,635	14,919	11,308
Net loss	1,726	10,009	2,752
Net assets value	31,033	32,699	53,124
Cash on hand	19,493	23,483	29,738
Debt-equity ratio	0.38 times	0.45 times	0.35 times
Gearing ratio	0.007 times	0.001 times	0.008 times

- The total unaudited consolidated turnover for the three months ended 31 March 2002 ( "First Quarter" ) was HK\$7,826,000, representing an increase of HK\$1,047,000 or 15% and a decrease of HK\$5,833,000 or 43%, as compared with last quarter ended 31 December 2001 ( "Last Quarter" ) and the last corresponding period ended 31 March 2001 ( "Last Corresponding Period " ), respectively.
- The gross profit for the First Quarter amounted to approximately HK\$5,063,000 while the gross profit margin maintained at a level of 65%.
- Operating expenditures decreased by HK\$8,284,000 or 56% to HK\$6,635,000 as compared with Last Quarter.
- The net loss narrowed to approximately HK\$1,726,000.
- As at 31 March 2002, total net assets value of the Group amounted to approximately HK\$31,033,000 and the cash balance stood at approximately HK\$19.5 million or cash per share of HK\$0.08.

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 Last Corresponding Period as follows:

	<i>Notes</i>	<b>Three months ended 31 March</b>	
		<b>2002</b>	<b>2001</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	3	<b>7,826</b>	13,659
Cost of sales		<u><b>(2,763)</b></u>	<u>(5,176)</u>
Gross profits		<b>5,063</b>	8,483
Other revenue		-	-
Distribution and selling expenses		<b>(8)</b>	(107)
General and administrative expenses		<u><b>(6,627)</b></u>	<u>(11,201)</u>
Loss from operations		<b>(1,572)</b>	(2,825)
Interest income		<b>39</b>	193
Interest expense		<b>(23)</b>	(120)
Share of loss of an associate		<u><b>(169)</b></u>	<u>-</u>
Loss before taxation and minority interests	4	<b>(1,725)</b>	(2,752)
Taxation	5	<u><b>(12)</b></u>	<u>-</u>
Loss before minority interests		<b>(1,737)</b>	(2,752)
Minority interests		<u><b>11</b></u>	<u>-</u>
Loss attributable to shareholders		<u><u><b>(1,726)</b></u></u>	<u><u>(2,752)</u></u>
Dividends	6	<u><u><b>-</b></u></u>	<u><u>-</u></u>
Loss per share-Basic	7	<u><u><b>HK 0.74cents</b></u></u>	<u><u>HK1.19cents</u></u>

*Notes:*

### **1. Company Information**

The Company was incorporated in Bermuda on 25 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on the GEM of the Stock Exchange since 18 May 2000.

## 2. Basis of presentation

The unaudited financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

## 3. Turnover

Turnover represents (i) net invoiced value for the supply, development and integration of telecommunications and computer telephony systems, after allowances for return and discounts; (ii) rental income from leasing telecommunications and computer telephony equipment; and (iii) fees for consulting and maintenance services. Turnover by operating segments is as follows:

	Three months ended 31 March	
	2002 HK\$'000	2001 HK\$'000
Telecommunications	4,780	10,459
Computer telephony	2,227	3,200
Others	819	-
Turnover	<u>7,826</u>	<u>13,659</u>

## 4. Loss before taxation and minority interests

Loss before taxation and minority interests was determined after charging the following items:

	Three months ended 31 March	
	2002 HK\$'000	2001 HK\$'000
Staff costs (including directors' emoluments)	3,251	6,270
Operating lease rentals of premises	915	1,162
Depreciation of machinery and equipment		
- owned assets	1,138	1,035
- assets held under finance lease	63	63
	<u>63</u>	<u>63</u>

**5. Taxation**

Taxation consists of:

	<b>Three months ended 31 March</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Current taxation		
- Hong Kong profits tax	-	-
- Overseas income tax	<b>12</b>	-
Share of associates taxation	-	-
	<u><b>12</b></u>	<u>-</u>

The Company is not subject to taxation in Bermuda on its profit or capital gains until March 2016. No Hong Kong profits tax has been provided, as the Group had no assessable profit arising in or derived from Hong Kong. Overseas income tax has been provided by subsidiaries, branches or representative offices based on their estimated taxable profits at the rates of taxation applicable in the respective jurisdictions in which they operate.

**6. Dividends**

The directors do not recommend the payment of interim dividend for the First Quarter (2001: Nil).

**7. Loss per share**

The calculation of the basic loss per share is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,726,000 (2001: HK\$2,752,000) and on the weighted average number of 232,000,000 (2001: 232,000,000) shares.

Diluted loss per share is not presented because the effect is anti-dilutive.

## 8. Reserves

Movements of reserves during the First Quarter were:

	Share premium HK\$'000	Capital reserve HK\$'000	Cumulated translation adjustments HK\$'000	Accumulated deficits HK\$'000	Total HK\$'000
As at 1 January 2001	29,135	3,530	(2)	115	32,778
Loss attributable to shareholders	-	-	-	(2,752)	(2,752)
Translation adjustments	-	-	(103)	-	(103)
As at 31 March 2001	<u>29,135</u>	<u>3,530</u>	<u>(105)</u>	<u>(2,637)</u>	<u>29,923</u>
As at 1 January 2002	29,135	3,530	(150)	(23,429)	9,086
Loss attributable to shareholders	-	-	-	(1,726)	(1,726)
Translation adjustments	-	-	63	-	63
As at 31 March 2002	<u>29,135</u>	<u>3,530</u>	<u>(87)</u>	<u>(25,155)</u>	<u>7,423</u>

## BUSINESS REVIEW AND PROSPECTS

### FINANCIAL PERFORMANCE

During the First Quarter, the Group generated an unaudited consolidated turnover of approximately HK\$7,826,000, representing a decrease of 43% from HK\$13,659,000 of Last Corresponding Period. The First Quarter's gross profit decreased by HK\$3,420,000 or 40% to HK\$5,063,000 as compared with Last Corresponding Period. However, the gross profit margin was maintained at about 65% for the First Quarter. The unaudited consolidated loss attributable to shareholders amounted to approximately HK\$1,726,000, representing a decrease of 37% and 83% over the Last Corresponding Period of HK\$2,752,000 and Last Quarter of HK\$10,009,000, respectively.

As a result of the continuous economic downturn which have severe impact on the telecommunications industry, turnover of the Group's telecommunications business decreased by HK\$5,679,000 or 54% as compared with the Last Corresponding Period but increased by HK\$2,250,000 or 89% as compared with the Last Quarter to approximately HK\$4,780,000 in the First Quarter. The Group's computer telephony business attributed turnover of HK\$2,227,000 for the First Quarter, down by HK\$973,000 or 30% and HK\$2,022,000 or 48% as compared with the Last Corresponding Period and the Last Quarter, respectively.

Last year, the Group has exercised series of measures to rationalize and streamline our operations. The total operating expenditures significantly decreased to HK\$6,635,000 by 41% and 56% from the Last Corresponding period and the Last Quarter, respectively. In particular, our staff cost decreased by approximately HK\$3 million and HK\$4 million as compared with that of the Last Corresponding Period and the Last Quarter, respectively. As a result, the Group's loss attributable to shareholders has narrowed to HK\$1,726,000.

As at 31 March 2002, the Group's working capital and net assets was approximately HK\$17,280,000 and HK\$31,033,000, respectively. Cash balance as at 31 March 2002 stood at approximately HK\$19,493,000, or cash per share of HK\$0.08. The debt-equity ratio and gearing ratio was 0.38 times and 0.007 times, respectively.

### **TELECOMMUNICATION BUSINESS**

Turnover of the telecommunications business for the three months was HK\$4,780,000, remaining as the major business of the Group which accounted for 61% of the total group turnover.

In the short term, the global telecommunications market is still under low investment atmosphere. In the wireless telecommunications sector, uncertainty of 3G technology and lacking of killer applications driven mobile carriers to become over-modest in making network infrastructure investments. Most mobile carriers consider that the existing 2G and 2.5G (GPRS) networks serve as a transitional infrastructure for supporting the upcoming 3G migration. Therefore, their initiatives for developing new products and services on their existing networks have become short-term and a low priority. Such adverse situation is expected to continue for at least a few quarters.

With respect to the Hong Kong fixed network telecommunications sector, the market continues suffering from strong competition. Except for wireless broadband access network, fixed telecommunications network service (FTNS) operators and wireless fixed network operators are conservative in investing in fixed network infrastructure.

However, in reviewing the telecommunications market (both wireless and fixed network sectors) in the longer term, the Group's management considers that the basic fundamental factors have remained unchanged and positive. The opening of telecommunications market for competition still serves as the major trend in most Asian countries. Telecommunications network upgrade and enhancement activities will keep providing opportunities for equipment and solution vendors in the region. The management also believes that the policy of the MII of the PRC which accelerate the market opening in China, will generate more opportunities in the PRC market in the coming years.

### **COMPUTER TELEPHONY BUSINESS**

Turnover of the computer telephony business for the First Quarter was HK\$2,227,000 which accounted for 28% of the total group turnover.



The computer telephony business has also been affected by the overall economic recession, especially in the local market in Hong Kong. Due to the uncertain economic outlook for most industry sectors, enterprises are streamlining their operating expenses and retrenching the IT budgets. As a result of the cost saving pressure and the incentive pull derived from the huge potential market in China after the official entrance into WTO, numerous companies in Hong Kong are now considering to re-locate part of their operations or to establish offices in China. Such market moves decrease the local IT product and solution market demand significantly but increase the demand in China. Apparently, this re-location trend will continue for a longer term.

With a view to capture the demand at China, the management of the Group plans to re-allocate more of our resources to PRC. In fact, a supporting agent was appointed in Guangzhou in February 2002 to expand the Company's coverage in China and to provide better support services for our existing and potential customers which have cross-border operations. It is the vision of Proactive that we can benefit from this market shift by providing one-stop computer telephony and IT services to Hong Kong enterprises.

## REGION

Considering the global economic situation, the Group had suspended the plan in setting up regional offices in other Asian countries. Instead, the Group would further focus in exploring more opportunities in the Greater China areas, in particular, the Beijing market. The management believes that there will be a lot of new opportunities in Beijing (including telecommunications and computer telephony business) to prepare for the upcoming Olympic 2008 in Beijing. The Group will further strengthen our Beijing representative office, and in the meantime, will actively explore decent local partnership in order to develop the Beijing market.

## FUTURE PROSPECTS

This year appears to present a wide array of opportunities and challenges for the Group. Although the market conditions will continue to be tough due to the fact that Asian economies remain depressed with declining activity and deflation, we remain prudent in the volatile market and will do our best to turn adversity into opportunity.

The management's objective is to turn around the loss into profit within this year. In order to achieve this objective as soon as possible, we keep our operation size slim and thin, but highly productive. The Company will strengthen the sales and marketing power by working closely with more business partners, especially in the region to generate more new sales orders. On the other hand, the Company will also identify reputable and quality technology development partners in PRC in reinforcing our new product development capability while maintaining at low cost structure. During the First Quarter, Proactive has commenced discussion with some potential development partners in Guangzhou PRC and aims to conclude the co-operation within the first half of 2002. In addition, in order not to be too concentrated in telecommunications sector, Proactive is actively enhancing its products for applying to other industry sectors. Following this direction, in 2002, the Company starts marketing Agere Wireless LAN product. Recently, we gained a significant hotel project for wireless broadband access service in Hong Kong via our business partner, Trident Telecom Venture Group. The management expects that this new wireless access product line will contribute positive results for the Group shortly.

Looking forward, the PRC is still identified to be the key growth driver for Proactive. With China's entry into WTO and Beijing to host the Year 2008 Olympic Games, China's economic activities stay heightened with both local and foreign companies exploring this huge potential market for new business opportunities. To support the opening up of China and its rapid economic development, telecommunications remains one of the key focus areas of the Government. Given our well established presence in the PRC, sound experience and knowledge, the management is confident that Proactive is heading in the right direction and that its strategies will improve the Company's competitive position in the industry, in order to achieve better returns for shareholders.

**DIRECTORS' INTEREST IN SHARES**

As at 31 March 2002, the interests of the Directors and their respective associates in the shares in the Company and its associated corporations as recorded in 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:

**Number of Shares of the Company**

Name of directors	Personal Interest	Family Interest	Corporate Interes	Other Interest	Percentage of share	
					Total	outstanding
Mr. Tsang Chi Hin	52,415,466	-	-	-	52,415,466	22.593%
Mr. Lam Kim Chau	52,415,466	-	-	-	52,415,466	22.593%
Mr. Lau Kai Shun, Barry	37,382,664	-	-	-	37,382,664	16.113%
Mr. Wong Wai Ho	10,210,688	-	-	-	10,210,688	4.401%
Mr. Pong Kam Wah	5,000,000	-	-	-	5,000,000	2.155%

Other than disclosed above, as at 31 March 2002, neither the directors nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, 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 year.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE**

The Company has adopted a share option scheme on 3 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 30 June 2000 to 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 \$1.30 per share, during the exercise period from 1 July 2003 to 30 June 2010. As a result of the cessation of employment of certain grantees, 5,060,000 share options granted to them on 30 June 2000 has lapsed since date of grant.

As at 31 March 2002, the outstanding ordinary share options granted to and held by the directors of the Company are as follows:

Name of Director	Date of grant	Subscription price per share	Number of share options at beginning and end of period
Mr. Tsang Chi Hin	30 June 2000	HK\$1.30	1,000,000
Mr. Lam Kim Chau	30 June 2000	HK\$1.30	1,000,000
Mr. Lau Kai Shun, Barry	30 June 2000	HK\$1.30	1,000,000
Mr. Wong Wai Ho	30 June 2000	HK\$1.30	1,000,000
Mr. Pong Kam Wah	30 June 2000	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 or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouse or their children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the First Quarter.

#### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at 31 March 2002 or at any time during the First Quarter.

#### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, 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 Director	Number of issued shares	Percentage of share outstanding
Mr. Tsang Chi Hin	52,415,466	22.593%
Mr. Lam Kim Chau	52,415,466	22.593%
Mr. Lau Kai Shun, Barry	37,382,664	16.113%

#### COMPETING INTERESTS

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

**SPONSOR'S INTERESTS**

As at 31 March 2002, neither Deloitte & Touche Corporate Finance Ltd. ("Deloitte") nor its director or employees or associates, had any beneficial interest in the Company's share capital. Pursuant to the agreement dated 29 May 2001 entered into between the Company and Deloitte, Deloitte has received and will receive a fee for acting as the Company's retained sponsor for the period from 29 May 2001 to 31 December 2002.

**MANAGEMENT CONTRACTS**

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the First Quarter

**AUDIT COMMITTEE**

The Company has established an audit committee on 3 May 2000 and has formulated its written terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly and quarterly reports and to provide advice and comments thereon to the Board.

The members of the audit committee, all being independent non-executive directors, during the First Quarter are Mr. Yang Zhenhan and Ms. Wu Suk Ching, Annie.

**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, 14 May 2002