

2002

THIRD QUARTERLY
REPORT

第三季度業績報告

PROACTIVE

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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”)

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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) 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.

RESULTS HIGHLIGHTS

	2002 3rd Quarter HK\$'000	2002 2nd Quarter HK\$'000	2002 1st Quarter HK\$'000	2001 3rd Quarter HK\$'000
Telecommunications	1,982	4,089	4,780	8,310
Computer telephony	1,985	3,798	2,227	3,987
Others	2,124	(259)	819	-
Total turnover	6,091	7,628	7,826	12,297
Gross profit	2,613	5,073	5,063	9,096
Gross profit margin	43%	67%	65%	74%
Distribution, selling, general and administrative expenses	(6,034)	(6,909)	(6,635)	(11,271)
Net loss	(3,383)	(1,794)	(1,726)	(1,855)
Loss per share – Basic	HK1.46 cents	HK0.77cents	HK0.74cents	HK0.79cents

NINE-MONTH PERIOD AND THIRD QUARTER RESULTS

The Directors of Proactive Technology Holdings Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group” or “Proactive”) for the nine months (“Nine-Month Period”) and three months (“Third Quarter”) ended 30 September 2002, together with the comparative unaudited figures for the last corresponding period (“Last Corresponding Period”) as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	3	21,545	42,576	6,091	12,297
Cost of sales		<u>(8,796)</u>	<u>(17,349)</u>	<u>(3,478)</u>	<u>(3,201)</u>
Gross profits		12,749	25,227	2,613	9,096
Distribution and selling expenses		102	(928)	(30)	(648)
General and administrative expenses		<u>(19,680)</u>	<u>(36,971)</u>	<u>(6,004)</u>	<u>(10,623)</u>
Loss from operations		(6,829)	(12,672)	(3,421)	(2,175)
Interest income		134	637	39	130
Interest expense		(99)	(351)	(20)	(101)
Provision for impairment in value of investment in an associate		-	(1,300)	-	-
Share of (loss) profit of an associate		<u>(122)</u>	<u>34</u>	<u>12</u>	<u>38</u>
Loss before taxation and minority interests	4	(6,916)	(13,652)	(3,390)	(2,108)
Taxation	5	<u>(43)</u>	<u>(114)</u>	<u>(11)</u>	<u>22</u>
Loss before minority interests		(6,959)	(13,766)	(3,401)	(2,086)
Minority interests		<u>56</u>	<u>231</u>	<u>18</u>	<u>231</u>
Loss attributable to shareholders		<u>(6,903)</u>	<u>(13,535)</u>	<u>(3,383)</u>	<u>(1,855)</u>
Dividends	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss per share - Basic	7	<u>HK2.97cents</u>	<u>HK5.83cents</u>	<u>HK1.46cents</u>	<u>HK0.79cents</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 preparation

The unaudited financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and the disclosure requirements of Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). The unaudited financial statements have been reviewed by the audit committee in accordance with rule 5.25 of the GEM Listing Rules.

3. Turnover and revenue

Turnover represents (i) net invoiced value for the supply, development and integration of telecommunications, computer telephony systems and other computer products, 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 and revenue by business segments is as follows:

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	30 September		30 September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	10,851	29,103	1,982	8,310
Computer telephony	8,010	13,473	1,985	3,987
Others	2,684	-	2,124	-
Total turnover	21,545	42,576	6,091	12,297
Interest income from bank deposits	134	637	39	130
Total revenue	21,679	43,213	6,130	12,427

4. Loss before taxation and minority interests

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

	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
After charging:-				
Staff costs (including director's emolument)	9,608	18,184	2,959	5,815
Retirement benefits scheme costs	368	541	89	119
Write-off of development expenditures	194	74	65	35
Cost of inventories	7,473	16,523	2,971	2,905
Operating lease rentals of premises	2,323	3,290	851	1,277
Depreciation of machinery and equipment				
- owned equipment				
leased to customers	1,054	826	349	297
- other owned assets	2,607	2,393	1,056	801
- assets held under finance lease	125	188	-	63
Interest expense				
- bank borrowings wholly repayable within five years	84	310	20	90
- finance lease	15	41	-	12
Provision for and write-off of bad and doubtful debts	-	2,119	-	-
Provision for and write-off of obsolete and slow- moving inventories	315	729	-	65
Write-off of an advance to long-term investment	243	-	-	-
Net loss on disposal of machinery	140	324	99	-

4. Loss before taxation and minority interests (Cont'd)

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	30 September		30 September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
After crediting:-				
Write down provision for bad and doubtful debts	300	59	300	59
Write down provision for obsolete and slow-moving inventories	9	-	9	-
Rental income from leasing of telecommunication and computer telephony systems	4,037	4,013	1,528	1,653
Interest income	<u>134</u>	<u>637</u>	<u>39</u>	<u>130</u>

5. Taxation

Taxation consists of:

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	30 September		30 September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current taxation				
- Hong Kong profits tax	-	-	-	-
- Overseas income tax	36	90	9	(38)
Share of associates taxation	<u>7</u>	<u>24</u>	<u>2</u>	<u>16</u>
	<u>43</u>	<u>114</u>	<u>11</u>	<u>(22)</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 Nine-Month Period (2001: Nil).

7. Loss per share

The calculation of the basic loss per share for the Nine-Month Period is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$6,903,000 (2001: HK\$13,535,000) 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 Nine-Month Period were:

	(Unaudited) Share Premium HK\$'000	(Unaudited) Capital reserve HK\$'000	(Unaudited) Cumulative translation adjustment HK\$'000	(Unaudited) Accumulated deficits HK\$'000	(Unaudited) Total HK\$'000
As at 1 January 2001	29,135	3,530	(2)	115	32,778
Loss attributable to shareholders	-	-	-	(13,535)	(13,535)
Translation adjustments	-	-	(38)	-	(38)
As at 30 September 2001	<u>29,135</u>	<u>3,530</u>	<u>(40)</u>	<u>(13,420)</u>	<u>19,205</u>
As at 1 January 2002	29,135	3,530	(150)	(23,429)	9,086
Loss attributable to shareholders	-	-	-	(6,903)	(6,903)
Translation adjustments	-	-	55	-	55
As at 30 September 2002	<u>29,135</u>	<u>3,530</u>	<u>(95)</u>	<u>(30,332)</u>	<u>2,238</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group recorded a turnover of HK\$21,545,000 for the Nine-Month Period, compared with HK\$42,576,000 of the same period in 2001. The telecommunications market has been continuously slowed down. Turnover attributable to our telecommunications business decreased by 63% to HK\$10,851,000 (2001: HK\$29,103,000), representing 50% (2001: 68%) of the Group's total turnover. On the other hand, turnover attributable to our computer telephony business decreased by 41% to HK\$8,010,000 (2001: HK\$13,473,000), representing 37% (2001: 32%) of the Group's total turnover. The remaining, being 13% or HK\$2,684,000 (2001: nil) was attributable to sale of Wireless LAN products.

The gross profit and gross profit margin for the Nine-Month Period was HK\$12,749,000 and 59%, respectively (2001: HK\$25,227,000 and 59%, respectively). The loss attributable to shareholders of the Group for the Nine-Month Period was decreased by 49% to HK\$6,903,000 (2001: \$13,535,000) over the Last Corresponding Period.

The Group's general and administrative expenses decreased by 47% to HK\$19,680,000 for the Nine-Month Period as compared with the Last Corresponding Period (2001: HK\$36,971,000). The decrease was attributable to the following:

- (i) Staff costs and staff related expenses dropped by approximately HK\$9 million. The savings were resulted from the Group's net headcount reduction since late 2001;
- (ii) As a result of the decrease in the level of the Group's operating activities, provision on bad and doubtful debts decreased by approximately HK\$2.4 million, as compared with the Last Corresponding Period;
- (iii) Other operating expenses of regional offices reduced by HK\$2.2 million after streamlining the operations in Taiwan, Singapore and Australia.

For the Third Quarter, turnover and net loss attributable to shareholders were HK\$6,091,000 and HK\$3,383,000, respectively (2001: HK\$12,297,000 and HK\$1,855,000, respectively). The Third Quarter's gross profit amounted to HK\$2,613,000, down 71% from the same period's figure of HK\$9,096,000 in 2001, and the Group recorded a decrease in gross profit margin from 74% to 43%. The decrease was due to the drop of sales orders in telecommunications and computer telephony businesses, coupled with the increase of revenue from sale of Wireless LAN products which has a lower gross margin. Comparing with the Second Quarter, turnover for the Third Quarter decreased by 20% (Second Quarter 2002: HK\$7,628,000). The general and administrative expenses decreased by 15% to HK\$6,004,000 for the Third Quarter from HK\$7,049,000 of the Second Quarter, however, the net loss attributable to shareholders increased by 89% to HK\$3,383,000 as compared with Second Quarter's HK\$1,794,000 as a result of the fall in revenue.

As at 30 September 2002, the Group had consolidated net current assets of approximately HK\$15,895,000. Cash and bank deposits stood at approximately HK\$17 million as at 30 September 2002, or cash per share of HK\$0.073, of which approximately HK\$8.7 million and HK\$7.1 million were denominated in Hong Kong dollars and United States dollars respectively. The total short-term bank borrowings were approximately HK\$535,000 and the gearing ratio (total non-current liability to total assets less current liability) was 0 times (as at 31 December 2001: 0.001 times). The Directors are of opinion that, the Group has sufficient working capital for its present requirements.

BUSINESS REVIEW

TELECOMMUNICATION BUSINESS

Turnover of the telecommunications business for the Nine-Month Period was HK\$10,851,000 (2001: HK\$29,103,000), accounting for 50% (2001: 68%) of the Group's total turnover. Turnover of the telecommunications business of the Third Quarter was HK\$1,982,000 (2001: HK\$8,310,000; Second Quarter 2002: HK\$4,089,000), representing 33% (2001: 68%; Second Quarter 2002: 54%) of the Group's total turnover for the Third Quarter. It was declined by 76% as compared with the same period of 2001 or 52% as compared with the Second Quarter.

The telecommunications market continued to decline in Hong Kong, PRC and other regions and there has been no recovery signs in the last few months. The Company believes that the market is undergoing a structural economic contraction. The broadband service, including both residential and commercial broadband, is considered to be the only market segment which still has growth potential in the near future. Our strategy is to keep a thin operation while maintaining enough resources to focus on those very few growing niche sectors and applications.

COMPUTER TELEPHONY BUSINESS

Turnover of the computer telephony business for the Nine-Month Period was HK\$8,010,000 (2001: HK\$13,473,000), accounting for 37% (2001: 32%) of the Group's total turnover. Turnover of the computer telephony business of the Third Quarter was HK\$1,985,000 (2001: HK\$3,987,000; Second Quarter 2002: HK\$3,798,000), representing 33% (2001: 32%; Second Quarter 2002: 50%) of the Group's total turnover for the Third Quarter. It declined by 50% as compared with the same period of 2001 or 48% as compared with the Second Quarter.

The computer telephony market in Hong Kong was still tough in the last quarters. Commercial enterprises have very tight spending budget on information technology products. The Hong Kong Government is the only active spender in the last few quarters. We have been awarded several sales contracts from the government in the last few months and we expect that there will be some sizable tenders for information technology products to be issued for bidding in the coming quarter. The Company will aggressively focus on obtaining more sales orders in Hong Kong.

Besides, call centre market demand in PRC is blooming. Proactive is actively promoting its call centre products and solutions in the PRC. Due to the large population and market nature in the PRC, the potential call centre cases (in terms of size and amount) are much bigger than that in the Hong Kong market. Our direction is to work closely with our partners in Beijing and Shanghai to penetrate into the PRC call centre and computer telephony market.

OTHERS - WIRELESS LAN BUSINESS

Turnover from sale of Wireless LAN products for the Nine-Month Period was HK\$2,684,000, (2001: nil) accounting for 13% (2001: nil) of the Group's total turnover. Turnover for the Third Quarter was HK\$2,124,000, representing 34% of the Group's total turnover for the Third Quarter.

We believe that the Wireless LAN product has strong growth potential in the future. The Wireless LAN fulfills the last mile need for wireless broadband at service provider side and also fulfills the mobility need at the end user side. We have developed a unique Hot Spot and billing technology and solution for our Wireless LAN product offerings. The Company will continue to assign more resources to explore business opportunities in Hong Kong and PRC market. As of 30 September 2002, we have signed up with nine channel and system integration partners in HK and the PRC to market our Wireless LAN. Through these partners, we have successfully deployed our Wireless LAN product and solution to various service providers in HK & PRC including, Media Syndication Limited, China Telecom, China Mobile & Unicom in various PRC cities.

REGIONAL DEVELOPMENT

We believe that the demand for telecommunications and computer telephony products in the Asia Pacific region will still be low. In this situation, the management maintains the view as in the last quarter to suppress all regional expansion plans in the Asia Pacific Region.

FUTURE PROSPECTS

In view of the continuous downturn in the telecommunications industry, the management believes that it will be in the best interests of the Group to adopt a more conservative approach in the use of both financial and human resources. Despite the Group's plan to put on hold the regional expansion and certain product development plans, the Group has continued to carry out its business objectives as set before. The Group continues to be an active systems integrator in the telecommunications and computer telephony markets in Hong Kong and PRC. During the past few months, the Group has received new sales orders for software development and customisation. The Group continues to provide hardware & software systems and maintenance support services to existing customers. The management ascertained that the Group is aggressively looking for new sales orders and business opportunities through direct selling and cooperation with technology partners in Hong Kong and PRC.

Since July 2002, the Group has increased its efforts in the promotion of its Wireless LAN product through technology partners and has renewed maintenance orders from 26 existing customers. The Group has also tendered for interactive voice response systems and call center projects for the Hong Kong Government. In addition, the Group has cooperated with more technology partners to strengthen the marketing of its products. Besides, the Group has obtained new equipment distributorships through negotiations with equipment vendors to increase its range of telecommunications and computer telephony solutions. The Group will maintain its focus on the telecommunication and computer telephony businesses in Hong Kong in the near future.

DIRECTORS' INTEREST IN SHARES

As at 30 September 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 GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of directors	Number of shares of the Company				Total	Percentage of share outstanding
	Personal interest	Family interest	Corporate interest	Other interest		
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 30 September 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 Nine-Month Period.

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, 5,510,000 share options granted to them on 30 June 2000 have lapsed since date of grant.

As at 30 September 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 option 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 Nine-Month Period 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 Nine-Month Period.

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 30 September 2002 or at any time during the Nine-Month Period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 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 any interest in business, which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

As at 30 September 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 Nine-Month Period.

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 Nine-Month Period 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 Nine-Month Period.

By order of the Board
TSANG CHI HIN
Chairman

Hong Kong, 12 November 2002

Proactive

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

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