

2003

FIRST QUARTERLY
REPORT

第一季度業績報告

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”)

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 gazette 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 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

| | 2003 | 2002 | 2002 |
|--|---|--------------|--------------|
| | 1st Quarter | 4th Quarter | 1st Quarter |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Telecommunications | 5,660 | 2,440 | 4,780 |
| Computer Telephony | 2,523 | 1,886 | 2,227 |
| Others | 140 | 441 | 819 |
| Total turnover | <u>8,323</u> | <u>4,767</u> | <u>7,826</u> |
| Gross profit | 5,703 | 3,414 | 5,063 |
| Gross profit margin | 69% | 72% | 65% |
| Distribution, selling, general and administrative expenses | 6,907 | 5,811 | 6,635 |
| Net loss | 1,707 | 2,997 | 1,726 |
| Net assets value | 20,736 | 22,431 | 31,033 |
| Cash on hand | 14,206 | 16,305 | 19,493 |
| Debt-equity ratio | 0.48 times | 0.49 times | 0.38 times |
| Gearing ratio | 0 times | 0 times | 0.007 times |
| | <ul style="list-style-type: none"> ● The total unaudited consolidated turnover for the three months ended 31 March 2003 (“First Quarter”) was HK\$8,323,000, representing an increase of HK\$497,000 or 6% and an increase of HK\$3,556,000 or 75%, as compared with the last corresponding period ended 31 March 2002 (“Last Corresponding Period”) and last quarter ended 31 December 2002 (“Last Quarter”), respectively. ● The gross profit for the First Quarter amounted to approximately HK\$5,703,000 while the gross profit margin maintained at a level of 69%. ● Resulted from the office relocation in March 2003, the Group recorded additional expenditure of about HK\$1,048,000 in the First Quarter. Discounting this factor, operating expenditures decreased by HK\$776,000, or 12% to HK\$5,859,000 as compared with Last Corresponding Period. ● The net loss narrowed to approximately HK\$1,707,000. | | |

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:

| | | (Unaudited) | |
|---|--------------|---------------------------|-----------------|
| | | Three months ended | |
| | | 31 March | |
| | | 2003 | 2002 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Turnover | 3 | 8,323 | 7,826 |
| Cost of sales | | (2,620) | (2,763) |
| Gross profits | | 5,703 | 5,063 |
| Distribution and selling expenses | | (8) | (8) |
| General and administrative expenses | | (6,899) | (6,627) |
| Loss from operations | | (1,204) | (1,572) |
| Interest income | | 19 | 39 |
| Interest expense | | (24) | (23) |
| Share of loss of an associate | | (471) | (169) |
| Loss before taxation and minority interests | 4 | (1,680) | (1,725) |
| Taxation | 5 | (27) | (12) |
| Loss before minority interests | | (1,707) | (1,737) |
| Minority interests | | - | 11 |
| Loss attributable to shareholders | | (1,707) | (1,726) |
| Dividends | 6 | - | - |
| Loss per share – Basic | 7 | HK 0.74 cents | HK 0.74 cents |

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 (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

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 by business segments is as follows:

| | (Unaudited) | |
|--------------------|---------------------------|---------------------|
| | Three months ended | |
| | 31 March | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Telecommunications | 5,660 | 4,780 |
| Computer telephony | 2,523 | 2,227 |
| Others | 140 | 819 |
| | <hr/> | <hr/> |
| Turnover | <u>8,323</u> | <u>7,826</u> |

4. Loss before taxation and minority interests

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

| | (Unaudited) | |
|---|---------------------------|----------|
| | Three months ended | |
| | 31 March | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Staff costs (including directors' emoluments) | 2,751 | 3,110 |
| Retirement benefits scheme costs | 106 | 141 |
| Less: Amount included in research and development expenditures | (444) | (556) |
| | 2,413 | 2,695 |
| Research and development expenditures | 509 | 621 |
| Write-off of development expenditures | 65 | 65 |
| Cost of inventories | 2,064 | 2,349 |
| Operating lease rentals of premises | 994 | 915 |
| Interest expenses | | |
| - bank borrowings wholly repayable within five years | 24 | 15 |
| - finance lease | - | 8 |
| Provision for and write-off of obsolete and slow-moving inventories | 124 | 312 |
| Depreciation of machinery and equipment | | |
| - owned assets | 1,359 | 1,138 |
| - assets held under finance lease | - | 63 |
| Provision for and net loss on disposal of machinery and equipment | 829 | - |
| Net exchange loss | 5 | 36 |

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

| | (Unaudited) | |
|---|--------------------|----------|
| | Three months ended | |
| | 31 March | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| After charging:- (Cont'd) | | |
| Rental income from leasing of telecommunications and computer telephony equipment | 2,044 | 1,144 |
| Interest income from bank deposits | 19 | 39 |
| Write down of provision for bad and doubtful receivables | 94 | - |
| | <u>94</u> | <u>-</u> |

5. Taxation

Taxation consists of:

| | (Unaudited) | |
|------------------------------|--------------------|-----------|
| | Three months ended | |
| | 31 March | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Current taxation | | |
| - Hong Kong profits tax | - | - |
| - Overseas income tax | 27 | 12 |
| Share of associates taxation | - | - |
| | <u>27</u> | <u>12</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 (2002: 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\$1,707,000 (2002: HK\$1,726,000) and on the weighted average number of 232,000,000 (2002: 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:

| | (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 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> |
| As at 1 January 2003 | 29,135 | 3,530 | (105) | (33,329) | (769) |
| Loss attributable to shareholders | - | - | - | (1,707) | (1,707) |
| Translation adjustments | - | - | 12 | - | 12 |
| As at 31 March 2003 | <u>29,135</u> | <u>3,530</u> | <u>(93)</u> | <u>(35,036)</u> | <u>(2,464)</u> |

BUSINESS REVIEW AND PROSPECTS**FINANCIAL PERFORMANCE**

During the First Quarter, the Group generated a consolidated turnover of approximately HK\$8,323,000, representing an increase of 6% from HK\$7,826,000 of Last Corresponding Period.

Turnover attributable to our telecommunications business increased by 18% to HK\$5,660,000 (2002: HK\$4,780,000), representing 68% (2002: 61%) of the Group's total turnover. On the other hand, turnover attributable to our computer telephony business increased by 13% to HK\$2,523,000 (2002: HK\$2,227,000), representing 30% (2002: 28%) of the Group's total turnover. About HK\$140,000 (2002: HK\$819,000) or 2% (2002: 11%) was attributable to sale of Wireless LAN products.

As compared with the Last Quarter, turnover of the Group's telecommunications business and computer telephony business increased by 132% (2002 Q4: HK\$2,440,000) and 34% (2002 Q4: HK\$1,886,000), respectively.

The gross profit and gross profit margin for the First Quarter was HK\$5,703,000 and 69%, respectively (2002: HK\$5,063,000 and 65%, respectively). The unaudited consolidated loss attributable to shareholders for the First Quarter amounted to approximately HK\$1,707,000, representing a decrease of 1% and 43% over the Last Corresponding Period of HK\$1,726,000 and the Last Quarter of HK\$2,997,000, respectively.

In March 2003, the Group has relocated its Hong Kong headquarter. In this connection, the Group incurred additional expenditures of about HK\$1,048,000 in the First Quarter. Discounted this factor, the Group's general and administrative expenses for the First Quarter decreased by HK\$776,000 or 12% as compared with the Last Corresponding Period. The decrease was mainly attributable to the drop of staff costs of about HK\$394,000, resulted from the net headcount reduction.

As at 31 March 2003, the Group's working capital and net assets was approximately HK\$15,285,000 and HK\$20,736,000, respectively. Cash balance as at 31 March 2003 stood at approximately HK\$14,206,000, or cash per share of HK\$0.06. The debt-equity ratio and gearing ratio was 0.48 times and 0 times, respectively.

BUSINESS REVIEW

Hong Kong

Hong Kong operation remains the major business and revenue contributor for the Group in the First Quarter and it attributed approximately 96% in the Group's turnover and 97% of the Group's gross profit. This situation and position will continue in the foreseeable coming future. Telecommunications business remained flat at low level. No signs of recovery could be observed this quarter, but equally it was nevertheless good that no signs of getting worse were noted. The demand for Computer Telephony products in enterprise market was weak in the First Quarter. Most of the sales orders came from service demand. Hardware and capital investment for new applications and expansion in commercial sector were still limited.

The Group successfully controlled and further reduced its expenses by relocating its Hong Kong office in March 2003 to a right-sized premises. This positive impact on the Group's financial performance should be reflected in the coming few quarters. Tight budget and expenses control will continue within this year as one of the management's prime objectives in 2003.

Beijing, PRC

Following the completion of capital injection into the new joint venture company, Beijing Teletron Systems Integration Company Limited ("BTSI"), at early 2003, BTSI has been successfully awarded the first sizable project to provide a call centre for Beijing Labour and Social Security Bureau to serve the entire Beijing working public population in the First Quarter. The first phase of this project is target to be completed in the next quarter. Further development phases are under planning and discussion with us actively. BTSI has been expanding in good pace and has already recruited over 15 staff as at end of the First Quarter in preparing the team to cater for more new business and projects in future. The business outlook at Beijing and neighbouring areas for the Group is positive.

FUTURE PROSPECTS

The Group persists on its expenses control direction in 2003 with right mix and match in productivity and future vitality. The management has great confidence in achieving the target of a profitable turnaround this year.

Further investment to strengthen the PRC business, especially in Beijing through the well-established associated company is the key for the Group's growth in the near future. It is the Group's target that its PRC business can attribute positive financial contribution to the Group in the near future.

The Group continues to explore and to develop a broader revenue model by expanding product portfolio and service business operation through business alliance and partnership with strategic technology vendors. New product and service lines are planned to launch in the next two quarters. Besides, the Group is developing some new and innovative applications for telecommunications and enterprise markets. These applications are expected to bring in positive impact on our performance in 2003.

The recent outbreak of severe acute respiratory syndrome (SARS) brought unexpected risks and uncertainties to the world, in particular Hong Kong and the PRC. Its impact on the society has not been fully reflected while we have observed the damage to the business sectors and the economy is obviously devastating. However, the Group's business focus - telecommunications and IT is rather distant from the most badly-hurt sectors such as retailing and travelling. On the contrary, the impact on telecommunications should be positive due to the shift in demand from business travels and meetings, to the use of telephone and videoconferences. But, in view of the present and potential negative impacts on other commercial sectors, which may eventually happen in the coming one or two quarters, the management do anticipate that the impact of this outbreak to the Group's business would be neutralized.

DIRECTORS' INTEREST IN SHARES

As at 31 March 2003, 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:

| Name of directors | Number of shares of the Company | | | | Percentage of share | |
|-------------------------|---------------------------------|-----------------|--------------------|----------------|---------------------|-------------|
| | Personal interest | Family interest | Corporate interest | Other interest | 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 2003, 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 HK\$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, 5,860,000 share options granted to them on 30 June 2000 has lapsed since date of grant.

Pursuant to resolutions passed on 13 November 2002 by the shareholders of the Company, the Company has terminated the Share Option Scheme and adopted a new share option scheme (“New Share Option Scheme”) in order to comply with the new requirements of Chapter 23 of the GEM Listing Rules effected on 1 October 2001. No share option has been granted under the New Share Option Scheme as at 31 March 2003. The options already granted under the Share Option Scheme are unaffected.

As at 31 March 2003, 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 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 2003 or at any time during the First Quarter.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, 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 competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

Pursuant to the agreement dated 29 May 2001 entered into between the Company and Deloitte & Touche Corporate Finance Ltd. ("Deloitte"), the appointment of Deloitte as the Company's retained sponsor according to the Rule 6.01 of the GEM Listing Rules ceased on 31 December 2002. The Company had no retained sponsor with effect from 1 January 2003. Accordingly, no additional disclosure is made.

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, 13 May 2003

Proactive

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