

PROACTIVE

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

THIRD QUARTERLY REPORT

2003

第 三 季 度 報 告

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	2003	2003	2002
	3rd Quarter	2nd Quarter	1st Quarter	3rd Quarter
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	3,993	5,889	5,660	1,982
Computer telephony	2,687	3,512	2,523	1,985
Others	451	315	140	2,124
Total turnover	7,131	9,716	8,323	6,091
Gross profit	3,792	5,296	5,703	2,613
Gross profit margin	53%	55%	69%	43%
Distribution, selling, general and administrative expenses	3,567	5,076	6,907	6,034
Net profit (loss)	75	48	(1,707)	(3,383)
Net assets value	20,861	20,785	20,736	25,804
Cash on hand	15,101	15,044	14,206	16,901
Debt-equity ratio	0.31 times	0.41 times	0.48 times	0.33 times
Gearing ratio	0 times	0 times	0 times	0 times

- The total unaudited consolidated turnover for the three months ended 30 September 2003 (“Third Quarter”) was HK\$7,131,000, representing an increase of HK\$1,040,000 or 17% as compared with the last corresponding period ended 30 September 2002 (“Last Corresponding Period”), and a decrease of HK\$2,585,000 or 27% as compared with last quarter ended 30 June 2003 (“Last Quarter”), respectively.
- The gross profit for the Third Quarter amounted to approximately HK\$3,792,000 while the gross profit margin maintained at a level of 53%.
- Operating expenditures decreased by HK\$2,467,000 or 41% to HK\$3,567,000 as compared with Last Corresponding Period.
- Accomplished a net profit of approximately HK\$75,000 for the Third Quarter.

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 nine months (“Nine-Month Period”) and three months (“Third Quarter”) ended 30 September 2003, together with the comparative unaudited figures for the last corresponding period (“Last Corresponding Period”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	3	25,170	21,545	7,131	6,091
Cost of sales		(10,379)	(8,796)	(3,339)	(3,478)
Gross profit		14,791	12,749	3,792	2,613
Distribution and selling expenses		(55)	102	(17)	(30)
General and administrative expenses		(15,495)	(19,680)	(3,550)	(6,004)
Profit (loss) from operations		(759)	(6,829)	225	(3,421)
Interest income		56	134	15	39
Interest expenses		(80)	(99)	(25)	(20)
Share of loss of an associate		(738)	(122)	(124)	12
Profit (loss) before taxation and minority interests	4	(1,521)	(6,916)	91	(3,390)
Taxation	5	(63)	(43)	(16)	(11)
Profit (loss) before minority interests		(1,584)	(6,959)	75	(3,401)
Minority interests		-	56	-	18
Profit (loss) attributable to shareholders		(1,584)	(6,903)	75	(3,383)
Dividends	6	-	-	-	-
Profit (loss) per share	7				
- Basic		HK(0.68cents)	HK(2.97cents)	HK0.03cent	HK(1.46cents)

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 (“SSAP”) 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) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Telecommunications	15,542	10,851	3,993	1,982
Computer telephony	8,722	8,010	2,687	1,985
Others	906	2,684	451	2,124
Total turnover	25,170	21,545	7,131	6,091
Interest income from bank deposits	56	134	15	39
Total revenue	25,226	21,679	7,146	6,130

4. Profit (loss) before taxation and minority interests

Profit (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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
After charging:				
Staff costs (including directors' emolument)	7,818	9,608	2,154	2,959
Retirement benefits scheme costs	317	368	102	89
Less: amount included in research and development expenditures	<u>(1,137)</u>	<u>(1,680)</u>	<u>(340)</u>	<u>(574)</u>
	6,998	8,296	1,916	2,474
Research and development expenditures	1,331	1,873	405	638
Write-off of development expenditures	194	194	65	65
Cost of inventories	8,514	7,473	2,662	2,971
Operating lease rentals of premises	1,976	2,323	360	851
Interest expenses				
– bank borrowings wholly repayable within five years	80	84	25	20
– finance lease	–	15	–	–
Provision for and write-off of bad and doubtful debts	428	–	–	–
Provision for and write-off of obsolete and slow-moving inventories	158	315	–	–
Depreciation of machinery and equipment				
– owned assets	3,006	3,661	728	1,405
– assets held under finance lease	–	125	–	–
Write-off of an advance to long-term investment	–	243	–	–
Net loss on disposal of machinery and equipment	377	140	–	99
Net exchange loss	<u>10</u>	<u>49</u>	<u>3</u>	<u>–</u>

	(Unaudited)		(Unaudited)	
	Nine months ended 30 September		Three months ended 30 September	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
After crediting:				
Rental income from leasing of telecommunications and computer telephony systems	4,791	4,037	1,333	1,528
Interest income from bank deposit	56	134	15	39
Write down provision for bad and doubtful debts	124	300	124	300
Write down provision for obsolete and slow moving inventories	104	9	104	9

5. Taxation

Taxation consists of:

	(Unaudited)		(Unaudited)	
	Nine months ended 30 September		Three months ended 30 September	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation				
– Hong Kong profits tax	–	–	–	–
– Overseas income tax	63	36	16	9
Share or associate's taxation	–	7	–	2
	63	43	16	11

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. Interim dividends

The directors do not recommend the payment of interim dividend for the Nine-Month Period (2002: Nil).

7. Loss per share

The calculation of the basic per share for the Nine-Month Period is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,584,000 (2002: HK\$6,903,000) 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 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 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>
As at 1 January 2003	29,135	3,530	(105)	(33,329)	(769)
Loss attributable to shareholders	-	-	-	(1,584)	(1,584)
Translation adjustments	-	-	14	-	14
As at 30 September 2003	<u>29,135</u>	<u>3,530</u>	<u>(91)</u>	<u>(34,913)</u>	<u>(2,339)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

For the Third Quarter, turnover and gross profit was HK\$7,131,000 and HK\$3,792,000 respectively. Net profit attributable to shareholders was amounted to HK\$75,000 for the Third Quarter, representing an increase of 56% as compared with the Second Quarter's HK\$48,000.

The Group recorded a turnover of HK\$25,170,000 for the Nine-Month Period, which was an increase of 17% as compared with HK\$21,545,000 of the same period in year 2002.

The gross profit and gross profit margin for the Nine-Month Period was HK\$14,791,000 and 59%, respectively (2002: HK\$12,749,000 and 59%, respectively). The loss attributable to shareholders of the Group for the Nine-Month Period was decreased by 77% to HK\$1,584,000 (2002: HK\$6,903,000) over the Last Corresponding Period.

Including depreciation expenses, the Group's general and administrative expenses decreased by 21% to HK\$15,495,000 for the Nine-Month Period as compared with the Last Corresponding Period (2002: HK\$19,680,000). The decrease was mainly contributed by the reduction of office rent, staff cost.

As at 30 September 2003, the Group had consolidated net current assets of approximately HK\$17,893,000. Cash and bank deposits maintained at approximately HK\$15,101,000 as at 30 September 2003, or cash per share of HK\$0.065.

BUSINESS REVIEW

The telecommunications and IT market situation in Hong Kong are still uncertain and weak in demand. No significant growth signal can be observed in this quarter. The Group's strategy is to maintain good and effective control of the operations in order to well position ourselves to capture growth opportunities in future. The Hong Kong team will continue its focus on creating new opportunities via new business applications areas.

The business operation in Beijing and Shanghai remained active and encouraging in this quarter. With the announcement of the recent CEPA arrangement in the telecommunications sectors by the central government, we foresee that the business potential in providing value-added services in the Mainland market becomes a high growth potential area in the coming few years. We continue to be confident in gaining this significant business potential via our existing operations in Shanghai and Beijing, especially in the service provision areas.

DIRECTORS' INTEREST IN SHARES

As at 30 September 2003, the interests and short positions of the Directors in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares

Name of director	Number of shares	Capacity	Type of interests	Percentage of interests
Mr. Tsang Chi Hin	52,415,466	Beneficial owner	Personal	22.593%
Mr. Lam Kim Chau	52,415,466	Beneficial owner	Personal	22.593%
Mr. Lau Kai Shun Barry	30,182,664	Beneficial owner	Personal	13.010%
Mr. Wong Wai Ho	10,210,688	Beneficial owner	Personal	4.401%
Mr. Pong Kam Wah	5,000,000	Beneficial owner	Personal	2.155%

Save as disclosed in this paragraph, as at 30 September 2003, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Parts XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the Directors were not aware of any other persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Parts XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

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, 6,460,000 share options granted to them on 30 June 2000 have 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 30 September 2003. The options already granted under the Share Option Scheme are unaffected.

As at 30 September 2003, the outstanding ordinary share options granted to and held by the directors of the Company are as follows:

Name of directors	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 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 interests, whether directly or indirectly, subsisted at 30 September 2003 or at any time during the Nine-Month Period.

COMPETING INTERESTS

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

SPONSOR'S INTERESTS

Pursuant to the agreement dates 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 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, 13 November 2003