

Proactive Technology Holdings Limited

寶訊科技控股有限公司

**PROACTIVE**

FIRST QUARTERLY REPORT

第一季度業績報告

2004

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “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 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

	<b>2004</b> <b>1st Quarter</b> <i>HK\$'000</i>	2003 4th Quarter <i>HK\$'000</i>	2003 1st Quarter <i>HK\$'000</i>
Turnover:			
Telecommunications	<b>1,980</b>	2,837	5,660
Computer telephony	<b>2,310</b>	2,452	2,523
Others	—	—	140
	<u>4,290</u>	<u>5,289</u>	<u>8,323</u>
Total turnover	<b>4,290</b>	5,289	8,323
Gross profit	<b>2,674</b>	3,371	5,703
Gross profit margin	<b>62%</b>	64%	69%
Distribution, selling, general and administrative expenses	<b>3,877</b>	6,205	6,907
Net loss	<b>1,354</b>	3,278	1,707
Net assets value	<b>16,297</b>	17,637	20,736
Cash on hand	<b>10,620</b>	13,308	14,206
Debt-equity ratio	<b>0.37 times</b>	0.34 times	0.48 times
•	The total unaudited consolidated turnover for the three months ended 31 March 2004 (“First Quarter”) was HK\$4,290,000 , representing a decrease of 48% and 19% as compared with the last corresponding period ended 31 March 2003 (“Last Corresponding Period”), and last quarter ended 31 December 2003 (“Last Quarter”), respectively.		
•	The gross profit for the First Quarter amounted to approximately HK\$2,674,000 while the gross profit margin maintained at a level of 62%.		
•	Operating expenditures decreased by 44% to HK\$3,877,000 as compared with Last Corresponding Period.		
•	The net loss amounted to approximately HK\$1,354,000.		

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 of year 2004, together with the comparative unaudited figures for the Last Corresponding Period as follows:

	<i>Notes</i>	<b>(Unaudited)</b>	
		<b>Three months ended 31 March</b>	
		<b>2004</b>	2003
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	3	<b>4,290</b>	8,323
Cost of sales		<b>(1,616)</b>	(2,620)
Gross profit		<b>2,674</b>	5,703
Distribution and selling expenses		<b>(4)</b>	(8)
General and administrative expenses		<b>(3,873)</b>	(6,899)
Loss from operations		<b>(1,203)</b>	(1,204)
Interest income		<b>2</b>	19
Interest expense		<b>(9)</b>	(24)
Share of loss of an associate		<b>(122)</b>	(471)
Loss before taxation	4	<b>(1,332)</b>	(1,680)
Taxation	5	<b>(22)</b>	(27)
Loss attributable to shareholders		<b>(1,354)</b>	(1,707)
Dividends	6	–	–
Loss per share – Basic	7	<b>HK 0.58 cents</b>	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 preparation

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 5.30 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 returns 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)	
	Three months ended 31 March	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Telecommunications	1,980	5,660
Computer telephony	2,310	2,523
Others	-	140
	<hr/>	<hr/>
Total turnover	4,290	8,323
Interest income from bank deposits	2	19
	<hr/>	<hr/>
Total revenue	<u>4,292</u>	<u>8,342</u>

**4. Loss before taxation**

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

	<b>(Unaudited)</b>	
	<b>Three months</b>	
	<b>ended 31 March</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>After charging:</b>		
Staff costs (including directors' emoluments)		
– Salaries and allowances	2,473	2,877
– Retirement benefits scheme costs	110	106
– Less: Amount included in research and development expenditures	<u>(306)</u>	<u>(444)</u>
	2,277	2,539
Research and development expenditures	371	509
Write-off of development expenditures	65	65
Cost of inventories	1,164	2,064
Operating lease rentals of premises	360	994
Interest expenses		
– bank borrowings wholly repayable within five years	9	24
Provision for and write-off of obsolete and slow-moving inventories	–	124
Depreciation of machinery and equipment	450	1,359
Provision for and net loss on disposal of machinery and equipment	–	829
Net exchange loss	<u>10</u>	<u>5</u>
<b>After crediting:</b>		
Rental income		
– leasing of telecommunications and computer telephony equipment	1,098	2,044
Interest income		
– Bank deposits	2	19
Write down of provision for bad and doubtful receivables	<u>–</u>	<u>94</u>

## 5. Taxation

Taxation consists of:

	(Unaudited) Three months ended 31 March	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current taxation		
– Overseas income tax	<u>22</u>	<u>27</u>
	<u>22</u>	<u>27</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 (2003: 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\$1,354,000 (2003: HK\$1,707,000) and on the weighted average number of 232,000,000 (2003: 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 <i>HK\$'000</i>	(Unaudited) Capital reserve <i>HK\$'000</i>	(Unaudited) Cumulative translation adjustments <i>HK\$'000</i>	(Unaudited) Accumulated deficits <i>HK\$'000</i>	(Unaudited) Total <i>HK\$'000</i>
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>
As at 1 January 2004	29,135	3,530	(37)	(38,191)	(5,563)
Loss attributable to shareholders	-	-	-	(1,354)	(1,354)
Translation adjustments	-	-	14	-	14
As at 31 March 2004	<u>29,135</u>	<u>3,530</u>	<u>(23)</u>	<u>(39,545)</u>	<u>(6,903)</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL PERFORMANCE

The Group recorded a turnover of approximately HK\$4,290,000 in the First Quarter of 2004, representing a decrease of 48% from HK\$8,323,000 of last corresponding period in 2003.

Turnover attributable to our telecommunication business decreased by 65% to HK\$1,980,000 as compared with same period in last year, representing 46% of the total turnover. On the other hand, turnover attributable to our computer telephony business decreased by 8% to HK\$2,310,000, representing 54% of the total turnover.

The gross profit and gross profit margin for the First Quarter was HK\$2,674,000 and 62% respectively.

The unaudited consolidated loss attributable to shareholders for the First Quarter amounted to HK\$1,354,000.

### BUSINESS REVIEW

#### Hong Kong

The business recovery of telecommunications and IT sector in early 2004 was still in a sluggish pace. The sector was still undergone some sort of re-structuring and re-formation, which led to a suspicious outlook in present and future demand with reluctance to drive on investment both in basic infrastructure and value-added services. Such an unfavorable factor carried about adverse and inferior outcome and the market situation was very obscure. The future of market was filled up with ambiguity and uncertainty. This situation is even deteriorated by the seasonal impacts that a cautious step was being taken on placing orders in the beginning of the year. The business generated by the sector was thus suffered severely during the period.

The group thus keeps on undertaking strict, prudential and tight cost control of operation in order to sustain an effective operation yet maintain robust team mentality for capturing the opportunities derived by possible upcoming economy recovery in the future.

## Beijing PRC

Driven by the business demand, the newly setup Joint Venture, the Beijing Teletron Systems Integration (“BJTISI”), was growing in a healthy and steady pace. The project and engineering team was well developed, which empowered the JV to realise sizeable business in Beijing. The system installed and commissioned in Beijing Labour and Social Security Bureau kept expanding and new order for Phase II was placed and Phase III project was being discussed with more up-to-dated features. The installed call center project was deemed to be the leading kind in PRC. We are now planning to cooperate with the Bureau to expand the service coverage to other provinces and cities. This may generate enormous business opportunities in the future.

## FUTURE PROSPECTS

Regardless of the ongoing business downturn with an uncertain outlook for recovery, the Group is well equipped ourselves to deal with the present adverse market situation and retain an effective and efficient team with persistence to confront with prolonged ambiguous market demand in the future.

We expect that the future of the telecommunication and IT market is still very obscure and such situation may last till this year. The market sectors, including the government, public utilities, telecom and enterprises are still exercising tight budget and expense control, which will in turn generate unfavourable effects to the market place. The Group strategizes to be prudential in managing a slim and effective operation with robust morale and then, expanding our operation to Mainland China to develop the fruitful market there.

Due to the Olympics 2008, Beijing has to implement enormous amount of immense construction projects to facilitate Beijing with sufficient and up-to-date infrastructure for the event. Some gigantic tenders will be discussed and placed within this couple of years. The management has confidence that our strategy is crucial to make ourselves effective and retains flexibility to cater for future business growth, especially possessing the capability of capturing the tremendous opportunities in Beijing.

## DIRECTORS' INTEREST IN SHARES

As at 31 March 2004, the interests or short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of 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 Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### Long position 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 above, as at 31 March 2004, none of the directors and chief executives had interests or short position in any shares, underlying shares and debentures 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 Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**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, 6,760,000 share options granted to them on 30 June 2000 have lapsed since date of grant.

Pursuant to resolutions at a special general meeting of the shareholders held on 13 November 2002, the Company 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. As at 31 March 2004, no share option has been granted under the New Share Option Scheme. The options already granted under the Share Option Scheme are unaffected.

As at 31 March 2004, the share options granted to and held by the directors of the Company are as follows:

<b>Name of directors</b>	<b>Date of grant</b>	<b>Subscription price Per share</b>	<b>Number of share options at beginning and end of period</b>
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
			9,800,000

Save as disclosed above, at no time during the year 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 year.

## 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 the end of year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, persons who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or was, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

### Long position in shares

Name	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%
Pacific Technology Partners L.P.	20,735,232	Investment manager	Corporate	8.938%

Save as disclosed above, no other shareholders or other persons had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFC, or was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

## COMPETING INTERESTS

Mr. Tsang Chi Hin is the chairman of the Company and a director of Beijing Teletron Systems Integration Company Limited which is also engaged in the provision of telecommunications and computer telephony solutions. The Directors believe that there is a risk that such business may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Tsang in the telecommunications and computer telephony industry will complement the development of the Group's business.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had an interest in business which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with the Group.

## 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 year.

## BOARD PRACTICE AND PROCEDURES

The Company has complied with the board practice and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 March 2004.

## 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 5.28 to 5.33 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 year 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 year.

By order of the Board  
**TSANG CHI HIN**  
*Chairman*

Hong Kong, 10 May 2004

# PROACTIVE

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

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