

Proactive Technology Holdings Limited

寶訊科技控股有限公司

PROACTIVE

THIRD QUARTERLY REPORT

第三季度業績報告

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

	2004 3rd Quarter <i>HK\$'000</i>	2004 2nd Quarter <i>HK\$'000</i>	2004 1st Quarter <i>HK\$'000</i>	2003 3rd Quarter <i>HK\$'000</i>
Turnover:				
Telecommunications	1,431	1,823	1,980	3,993
Computer telephony	2,946	1,844	2,310	2,687
Others	—	—	—	451
Total turnover	4,377	3,667	4,290	7,131
Gross profit	1,666	1,874	2,674	3,792
Gross profit margin	38%	51%	62%	53%
Distribution, selling, general and administrative expenses	2,780	3,758	3,877	3,567
Net profit (loss)	(1,062)	(2,081)	(1,354)	75
Net assets value	13,155	14,217	16,297	20,861
Cash on hand	11,041	11,124	10,620	15,101
Debt-equity ratio	0.50 times	0.54 times	0.37 times	0.31 times
•	The total unaudited consolidated turnover for the three months ended 30 September 2004 (“Third Quarter”) was HK\$4,377,000, representing a decrease of 39% but an increase of 19% as compared with the last corresponding period ended 30 September 2003 (“Last Corresponding Period”), and last quarter ended 30 June 2004 (“Last Quarter”), respectively.			
•	The gross profit for the Third Quarter amounted to approximately HK\$1,666,000 while the gross profit was 38%.			
•	Operating expenditures decreased by 22% to HK\$2,780,000 as compared with Last Corresponding Period.			
•	The net loss amounted to approximately HK\$1,062,000.			

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 nine months (“Nine-Month Period”) and three months (“Third Quarter”) ended 30 September 2004, together with the comparative unaudited figures for the last corresponding period (“Last Corresponding Period”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited)		(Unaudited)	
		Nine months ended		Three months ended	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	12,334	25,170	4,377	7,131
Cost of sales		(6,120)	(10,379)	(2,711)	(3,339)
Gross profit		6,214	14,791	1,666	3,792
Distribution and selling expenses		(14)	(55)	(6)	(17)
General and administrative expenses		(10,401)	(15,495)	(2,774)	(3,550)
Profit (loss) from operations		(4,201)	(759)	(1,114)	225
Interest income		6	56	3	15
Interest expenses		(32)	(80)	(12)	(25)
Share of loss of an associate		(219)	(738)	61	(124)
Profit (loss) before taxation	4	(4,446)	(1,521)	(1,062)	91
Taxation	5	(51)	(63)	-	(16)
Profit (loss) attributable to shareholders		(4,497)	(1,584)	(1,062)	75
Dividends	6	-	-	-	-
Profit (loss) per share					
– Basic	7	HK(1.94cents)	HK(0.68cents)	HK(0.46cents)	HK0.03cents

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 statement have been prepared in accordance with Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Institute of Certified Public 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 statement 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 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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	5,234	15,542	1,431	3,993
Computer telephony	7,100	8,722	2,946	2,687
Others	–	906	–	451
Total turnover	12,334	25,170	4,377	7,131
Interest income from bank deposits	6	56	3	15
Total revenue	12,340	25,226	4,380	7,146

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
After charging:				
Staff costs (including directors' emoluments)				
– Salaries and allowances	6,575	8,182	1,424	2,273
– Retirement benefits scheme costs	238	317	63	102
– Less: amount included in research and development expenditures	(557)	(1,137)	81	(340)
	6,256	7,362	1,568	2,035
Research and development expenditures	750	1,331	(17)	405
Write-off of development expenditures	194	194	65	65
Cost of inventories	5,142	8,514	2,442	2,662
Operating lease rentals of premises	925	1,976	277	360
Interest expenses				
– bank borrowings wholly repayable within five years	32	80	12	25
Provision for and write-off of bad and doubtful receivables	110	428	156	–
Provision for and write-off of obsolete and slow-moving inventories	–	158	–	–
Depreciation of machinery and equipment	1,183	3,006	351	728
Net loss on disposal of machinery and equipment	47	377	–	–
Net exchange loss	16	10	3	3
After crediting:				
Rental income				
– leasing of telecommunications and computer telephony equipment	2,286	4,791	539	1,333
Interest income				
– bank deposits	6	56	3	15
Write down provision for bad and doubtful receivables	–	124	–	124
Write down provision for obsolete and slow-moving inventories	–	104	–	104

5. Taxation

Taxation consists of:

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	30 September		30 September	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation				
– Overseas income tax	51	63	–	16
	51	63	–	16

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 dividends for the Nine-Month Period (2003: 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\$4,497,000 (2003: HK\$1,584,000) 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

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share	Capital	Cumulative	Accumulated	Total
	premium	reserve	translation	deficits	
	HK\$'000	HK\$'000	adjustment	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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>
As at 1 January 2004	29,135	3,530	(37)	(38,191)	(5,563)
Loss attributable to shareholders	-	-	-	(4,497)	(4,497)
Translation adjustments	-	-	15	-	15
As at 30 September 2004	<u>29,135</u>	<u>3,530</u>	<u>(22)</u>	<u>(42,688)</u>	<u>(10,045)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group recorded a turnover of approximately HK\$12,334,000 for the Nine-Month Period, representing a decrease of 51% from HK\$25,170,000 of last corresponding period in 2003.

The gross profit and gross profit margin for the Nine-Month Period was HK\$6,214,000 and 50% respectively (2003: HK\$14,791,000 and 59% respectively).

The unaudited consolidated loss attributable to shareholders for the Nine-Month Period amounted to HK\$4,497,000.

BUSINESS REVIEW

Hong Kong

Despite of the improving economic conditions in this quarter with the rising of property price, number of inbound tourists and recovery of retails markets, not much light is seen in the telecommunications and IT sectors. The local telecommunication operators seem to continue freezing the spending on the infrastructure and value-added service platforms. So there is no improvement on the food chain of the telecommunications sector, and this situation is expected to continue until early next year.

In view of this market environment, we shall maintain a slim operation and a tight cost control.

Beijing PRC

After the successful installation and commission of the Phase I and II of the call center system in the Beijing Labour and Social Security Bureau, we have recently been awarded the order for the Phase III. Given this project is the first kind in the labour bureau, we start working with the Bureau to expand the service coverage to other provinces and cities, and we expect to generate more new prospects.

FUTURE PROSPECTS

The Group continues the strict and tight cost control to deal with the present adverse market situation. However we are working hard to raise the team morale and productivity to face the hard fighting in such a difficult market environment.

Due to the over-competition of the IT and telecommunication sectors in HK, the future of the market will still be very obscure and such situation may last till this year. Not limited to the IT and telecommunication sector, the other sectors including the government, public utilities, and enterprises are still exercising tight budget and expense control, which will obviously in turn create unfavorable effects to the overall market. The Group is strategizing to manage in a way of slim and effective operation and keep on expanding our operation to Mainland China to develop the fruitful market there.

DIRECTORS' INTEREST IN SHARES

As at 30 September 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 30 September 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, 8,860,000 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 30 September 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 30 September 2004, the 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
			9,800,000

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 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 30 September 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 Nine-Month Period.

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 30 September 2004.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the nine months ended 30 September 2004. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the nine months ended 30 September 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, Nine-Month 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, Mr. Leung Lok Ming and Mr. Lo Wa Kei, Roy.

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 2004

As at the date hereof, the Company's executive directors are Mr Tsang Chi Hin, Mr Lam Kim Chau, Mr Lau Kai Shun, Barry, Mr Wong Wai Ho and Mr Pong Kam Wah, the Company's non-executive director is Mr Chow Dah Jen, David and the Company's independent non-executive directors are Mr Yang Zhenhan, Mr Robert Brainin Issenman, Mr. Leung Lok Ming and Mr. Lo Wa Kei, Roy.

PROACTIVE

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

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