

PROACTIVE

寶訊科技控股有限公司

Proactive Technology Holdings Limited

THIRD QUARTERLY REPORT

2005

第三季度報告

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.

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This report, 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS HIGHLIGHTS

	2005 3rd Quarter HK\$'000	2005 2nd Quarter HK\$'000	2005 1st Quarter HK\$'000	2004 3rd Quarter HK\$'000
Turnover:				
Telecommunications	1,137	1,356	3,279	1,431
Computer telephony	4,412	3,462	2,794	2,946
Others	—	—	—	—
Total turnover	<u>5,549</u>	<u>4,818</u>	<u>6,073</u>	<u>4,377</u>
Gross profit	1,841	1,723	3,554	1,666
Gross profit margin	33%	36%	59%	38%
Distribution, selling, general and administrative expenses	2,533	2,316	3,550	2,780
Net profit (loss)	(807)	(727)	(18)	(1,062)
Net assets value	8,930	9,736	10,383	13,155
Cash on hand	8,782	9,754	9,704	11,041
Debt-equity ratio	0.85 times	0.69 times	0.58 times	0.50 times
•	The total unaudited consolidated turnover for the three months ended 30 September 2005 (“Third Quarter”) was HK\$5,549,000, representing an increase of 27% and an increase of 15% as compared with the three months ended 30 September 2004 (“Last Corresponding Period”), and the three months ended 30 June 2005 (“Last Quarter”), respectively.			
•	The gross profit for the Third Quarter amounted to approximately HK\$1,841,000 while the gross profit margin was 33%.			
•	Operating expenditures decreased by 9% to HK\$2,533,000 as compared with Last Corresponding Period.			
•	The net loss amounted to approximately HK\$807,000.			

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 2005, together with the comparative unaudited figures for the last corresponding period (“Last Corresponding Period”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	3	16,440	12,334	5,549	4,377
Cost of sales		(9,322)	(6,120)	(3,708)	(2,711)
Gross profit		7,118	6,214	1,841	1,666
Distribution and selling expenses		(25)	(14)	(9)	(6)
General and administrative expenses		(8,375)	(10,401)	(2,524)	(2,774)
Profit (loss) from operations		(1,282)	(4,201)	(692)	(1,114)
Interest income		81	6	41	3
Interest expenses		(53)	(32)	(27)	(12)
Share of loss of an associate		(298)	(219)	(129)	61
Profit (loss) before taxation	4	(1,552)	(4,446)	(807)	(1,062)
Taxation	5	-	(51)	-	-
Profit (loss) attributable to shareholders		(1,552)	(4,497)	(807)	(1,062)
Dividends	6	-	-	-	-
Earnings (loss) per share					
– Basic	7	HK(0.67 cents)	HK(1.94cents)	HK(0.35 cents)	HK(0.46cents)

NOTES TO THE FINANCIAL STATEMENTS

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. Its shares have been listed on the GEM of the Stock Exchange since 18 May 2000.

2. Basis of preparation and principle accounting policies

The unaudited condensed consolidated quarterly financial statements (“quarterly financial statements”) of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). The quarterly financial statements have been prepared under historical cost convention.

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards and HKFRS which are effective for Accounting periods beginning on or after 1 January 2005. The adoption of these HKFRS has no material impact on the operating result and financial position of the Group.

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 are as follows:

	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Telecommunications	5,772	5,234	1,137	1,431
Computer telephony	10,668	7,100	4,412	2,946
Others	—	—	—	—
Total turnover	16,440	12,334	5,549	4,377
Interest income from bank deposits	81	6	41	3
Total revenue	16,521	12,340	5,590	4,380

4. Profit (loss) before taxation

Profit (loss) before taxation was determined after charging and crediting the following items:

	(Unaudited) Nine months ended 30 September 2005		(Unaudited) Three months ended 30 September 2005	
	HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
After charging:				
Staff costs (including directors' emoluments)				
– Salaries and allowances	4,980	6,575	1,531	1,424
– Retirement benefits scheme costs	167	238	52	63
– Less: amount included in research and development expenditures	–	(557)	–	81
	5,147	6,256	1,583	1,568
Research and development expenditures	–	750	–	(17)
Write-off of development expenditures	–	194	–	65
Cost of inventories	8,908	5,142	3,604	2,442
Operating lease rentals of premises	622	925	169	277
Interest expenses				
– bank borrowings wholly repayable within five years	53	32	27	12
Provision for and write-off of bad and doubtful receivables	68	110	68	156
Provision for and write-off of obsolete and slow-moving inventories	669	–	–	–
Depreciation of machinery and equipment	550	1,183	112	351
Net loss on disposal of machinery and equipment	–	47	–	–
Net exchange loss	86	16	–	3
After crediting:				
Rental income				
– leasing of telecommunications and computer telephony equipment	969	2,286	237	539
Interest income				
– bank deposits	81	6	41	3
Write down provision for bad and doubtful receivables	–	–	–	–
Write down provision for obsolete and slow-moving inventories	–	–	–	–

5. Taxation

Taxation consists of:

	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Current taxation				
– Overseas income tax	–	51	–	–
	–	51	–	–

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 (2004: Nil).

7. Earnings (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\$1,552,000 (2004: HK\$4,497,000) and on the weighted average number of 232,000,000 (2004: 232,000,000) shares.

Diluted loss per share is not presented as there was no dilutive potential ordinary share during these periods.

8. Reserves

	(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 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>
As at 1 January 2005	29,135	3,530	(24)	(45,439)	(12,798)
Loss attributable to shareholders	–	–	–	(1,552)	(1,552)
Translation adjustments	–	–	80	–	80
As at 30 September 2005	<u>29,135</u>	<u>3,530</u>	<u>56</u>	<u>(46,991)</u>	<u>(14,270)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group recorded a turnover of approximately HK\$16,440,000 for the Nine-Month Period, representing an increase of 33% from HK\$12,334,000 of last corresponding period in 2004.

The gross profit and gross profit margin for the Nine-Month Period was HK\$7,118,000 and 43% respectively (2004: HK\$6,214,000 and 50% respectively).

The unaudited consolidated loss attributable to shareholders for the Nine-Month Period amounted to HK\$1,552,000.

BUSINESS REVIEW

The progress of the recovery of the IT and telecom market is still in a sluggish pace. The Group thus keeps on controlling the cost and expenses of operation and implementing effective management on controlling the Company.

Our Joint Venture entity in Beijing has just completed the Phase III call center project for Beijing Labor Bureau. The project was first established in Beijing in 2003 and is a web-based multi-media contact center with advanced features.

Our call center technology is proven to be successfully utilised in Labor Bureau and the call center business in Beijing was expanded to other government sector such as Police and Environment Protection Bureau. We have also completed the installation of the automatic fare collection (AFC) systems for various tourist spots such as the Great Wall, which allows tourists to use e-payment as a means for entry ticketing. The project will extend to other famous tourist spots within the coming few years.

FUTURE PROSPECTS

For the business outlook, the overall market environment is not very optimistic. The Group will still keep on scrutinizing cost control of the operation and adjust themselves promptly to capture more business opportunities.

DIRECTORS' INTEREST IN SHARES

As at 30 September 2005, the interests and short positions of the Directors and their respective associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") adopted by the Company, or to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares

Name of director	Type of interests	Capacity	Number of shares	Percentage of interests
Mr. Tsang Chi Hin	Personal	Beneficial owner	52,415,466	22.593%
Mr. Lam Kim Chau	Personal	Beneficial owner	52,415,466	22.593%
Mr. Wong Wai Ho	Personal	Beneficial owner	10,210,688	4.401%
Mr. Li Siu Ming	Personal	Beneficial owner	657,119	0.283%

Save as disclosed above, as at 30 September 2005, none of the directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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, 15,760,000 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 30 September 2005, 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 2005, the 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 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. Wong Wai Ho	30 June 2000	HK\$ 1.30	1,000,000
			3,000,000

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 2005 or at any time during the Nine-Month Period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, 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	Type of interests	Capacity	Number of shares	Percentage of interests
Mr. Tsang Chi Hin	Personal	Beneficial owner	52,415,466	22.593%
Mr. Lam Kim Chau	Personal	Beneficial owner	52,415,466	22.593%
Century Dragon Development Limited	Corporate	Beneficial owner	27,000,000	11.638%
Pacific Technology Partners L.P.	Corporate	Investment manager	20,735,232	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 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 as at 30 September 2005.

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.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

Throughout the Nine-month Period, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which were in force prior to 1 January 2005. Except that from 1 July 2005, actions were taken to comply with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules ("CG Code"), which has become effective for accounting periods commencing on or after 1 January 2005 to replace the Board Practices and Procedures as set out in Rules 5.35 to 5.45 of the GEM Listing Rules.

SECURITIES TRANSACTION BY DIRECTORS

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-month Period. Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings and its code of conduct regarding securities transactions throughout the Nine-month Period.

AUDIT COMMITTEE

The Company has established an audit committee on 3 May 2000. The previous terms of reference of the audit committee were established with reference to Rule 5.29 of the GEM Listing Rules. New written terms of reference were adopted on 12 August 2005 in compliance with code provision C.3.3 of the CG Code. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly and quarterly reports and to provide advice and comments with respect to internal control to the Board.

The members of the audit committee, all being independent non-executive directors, during the Nine-Month Period are Mr. Leung Lok Ming and Mr. Lo Wa Kei, Roy and Mr. Chan Ho Wah Terence.

The audit committee has reviewed this quarterly report of the Group.

OTHER BOARD COMMITTEES

In addition to the audit committee, the Company has established a remuneration committee and a nomination committee on 12 August 2005.

These board committees were formed to ensure maintenance of high corporate governance standards.

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, 10 November 2005