



LEADING THE FUTURE OF TELECOM TECHNOLOGY

PROACTIVE
Interim Report 2001

HIGHLIGHTS FOR INTERIM RESULTS

- The unaudited consolidated turnover for the six months ended 30th June, 2001 was HK\$30,278,000.
- Achieved a gross profit of approximately HK\$16,130,000 for the six months ended 30th June, 2001.
- The Board of Directors (the “Directors”) of Proactive Technology Holdings Limited (the “Company”) do not recommend the payment of an interim dividend for the six months ended 30th June, 2001.

HALF-YEARLY PERIOD AND SECOND QUARTER RESULTS

The Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group" or "Proactive") for six months ("Half-Yearly Period") and three months ("Second Quarter") ended 30th June, 2001, together with the comparative unaudited figures for the previous corresponding periods in 2000 as follows:

	Notes	Six months ended 30th June,		Three months ended 30th June,	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	30,278	30,438	16,620	21,216
Cost of sales		(14,148)	(10,858)	(8,972)	(6,211)
Gross profit		16,130	19,580	7,648	15,005
Other revenue		-	102	-	23
Distribution and selling expenses		(280)	(81)	(173)	(66)
General and administrative expenses		(27,648)	(13,646)	(16,447)	(8,634)
(Loss)/Profit from operations		(11,798)	5,955	(8,972)	6,328
Interest income		507	551	314	509
Interest expense		(249)	(473)	(130)	(253)
Share of loss of associates		(4)	-	(4)	-
(Loss)/Profit before taxation		(11,544)	6,033	(8,792)	6,584
Taxation	3	(136)	(1,217)	(136)	(1,217)
(Loss)/Profit attributable to shareholders		(11,680)	4,816	(8,928)	5,367
Dividends		-	-	-	-
(Loss) / Earning per share - Basic	4	HK(5.03) cents	HK2.45 cents	HK(3.85) cents	HK2.58 cents

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Notes:

1. Basis of presentation

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 25th February, 2000. Its shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18th May, 2000.

On 3rd May, 2000, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation scheme (the "Reorganisation") in preparation for the listing of the Company's Shares on GEM. The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared on the basis that the Company had always been the holding company of the Group.

2. Turnover

Turnover represents (i) net invoiced value for the supply, development and integration of telecommunications and computer telephony products and solutions after allowances for returns and discounts; (ii) rental income for leasing telecommunications and computer telephony equipment; and (iii) fees for consulting and maintenance services.

3. Taxation

The Company is exempted from taxation in Bermuda until March 2016. Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax has been provided by subsidiaries, branch or representative offices based on their estimated taxable profits at the rates of taxation applicable in the respective jurisdictions in which they operate.

4. (Loss) / Earning per share

The calculation of basic (loss) / earning per share is based on the consolidated loss attributable to shareholders for the Half-Yearly Period and the Second Quarter of approximately HK\$11,680,000 and HK\$8,928,000 (2000: net profit of HK\$4,816,000 and HK\$5,367,000) and on the weighted average number of 232,000,000 shares and 232,000,000 shares (2000: 196,817,582 shares and 208,035,165 shares) in issue throughout the Half-Yearly Period and the Second Quarter respectively, on the assumption that the Reorganisation (see note 1) had been completed on 1st January, 2000.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Half-Yearly Period (2000: Nil).

FINANCIAL POSITION

The Group remained at a healthy financial position. As at 30th June, 2001, debt-equity ratio was 0.34 times, net assets of the Group was approximately HK\$44 million. Cash balance as at 30th June, 2001 stood at approximately HK\$26 million, or cash per share of HK\$0.11.

BUSINESS REVIEW AND PROSPECTS

Financial Performance

For the Half-Yearly Period and the Second Quarter ended 30th June, 2001, the Group recorded an unaudited consolidated turnover of HK\$30,278,000 and HK\$16,620,000 respectively as compared to the previous corresponding half-year period's and second quarter's figure of HK\$30,438,000 and HK\$21,216,000 in 2000 respectively. The gross profit fell to HK\$16,130,000 from HK\$19,580,000 in the six months to 30th June, the same corresponding period a year ago. During the period under review, the cost of the internal restructuring of the Group and its subsidiaries and significant investment in market research and development contributed to the downturn in profit. The Group posted a net loss of HK\$11,680,000, or HK5.03 cents loss per share in the Half-Yearly Period, compared to a profit of HK\$4,816,000, or HK2.45 cents earning per share a year earlier.

Under the adverse market circumstances, the demand for telecommunications products and computer telephony products was decreasing during the period under review. The downturn of the global economy placed price pressures on orders received and customers were more cautious in purchasing telecommunications and computer telephony products. Average selling prices for products reduced by approximately 5% as compared with the same period last year. Therefore, the Group recorded a drop in gross profit ratio from 64% to 53%.

Progressing into the new millennium, the business environment remains uncertain. The Group is taking a more conservative position and implementing various measures to improve the way in order to deal with a number of extraordinary challenges caused by the economic downturn impacting both Hong Kong and the Asia Pacific region.

The definitive edges of the Group included its precise management decisions, orderly restructuring plan, successful marketing strategies, effective cost control policies, strong research and development team as well as the Group's commitment to the development of innovative designs in telecommunications products and computer telephony products. These outstanding attributes are expected to further enhance the Group's competitiveness and market position and help to maintain the impetus for profit growth.

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Telecommunications Business

Telecommunications business remained the Group's core business, accounting for 68.7% of its turnover. For the Half-Yearly Period, turnover for the telecommunications business was HK\$20,792,000, representing a slight decrease of 5.9% compared with the same period of last year.

Regardless of the fall of telecommunications business, the Group's series of enhanced features on its GlobalCall System, which was newly launched in the first quarter ended 31st March, is very much appreciated by the major mobile carriers in Hong Kong. Besides, the newly developed "Web-based Card Administration" has gained widespread support. During the period under review, these newly launch products has secured several contracts with major customers compensating the decrease in sales orders and enabling the Group to maintain its overall turnover of telecommunications sector.

Stepping into the second quarter of 2001, the business environment remained restrained and the overall telecommunications market has slowed down. Taking heed of the ever-changing business environment, the Group enriched its product portfolio by launching higher return, more innovative and market-oriented products to meet the needs of different potential customers. In particular, GlobalCall SwitchManager which is a powerful tool for service providers to monitor telecommunications traffic and network on a real-time basis. Other products are Graphical User Interface based GlobalCall Service Creation Environment and Call Details Record Mediator. The Group is strongly confident that these products will suit specific customers needs to further capitalize on its strong foundations in product development in the telecommunications market.

In line with its marketing strategies, the Group invested approximately HK\$2.9 million and placed tremendous effort on product research and development for the Half-Yearly Period, which was able to maintain the Group's competitive edge in enhancing its existing products and the development of new products. The management believed that the Group is well-positioned to benefit the market deregulation in the telecommunications markets in the Asia Pacific region which leads to accelerated growth in the telecommunications industry in the future.

Computer Telephony Business

During the first half of 2001, the Group's computer telephony business continued to maintain stable and achieved modest results. It recorded consolidated turnover of HK\$9,486,000, representing a 13.7% growth over the previous corresponding period's HK\$8,341,000.

Considering the effect of the global economic slump and cautious customers' plan to trim cost, the Group has implemented various measures to seek business opportunities by developing strategic alliances with various overseas system integrators. During the period under review, the Group has diversified its services from project-based to product-based in which enabled its customers to save the cost of implementation and project management. The Group has worked on joint co-operations with overseas corporations in the region, which has not only maintained the quality of the products and services, but also enabled the Group to generate synergies with its computer telephony business.

During the first half of 2001, the Group's computer telephony business has developed and launched a wide range of products, including PowerAgent CTI Server, Proactive Soft-phone, Integrated Intelligent Wall-panel Display and Active Floor-Plan to satisfy high customer demand for quality and productivity.

With the Group's committed efforts to explore its computer telephony's business, the management will also be continuing to look for new business opportunities to extend its business network with joint co-operations of system integrators at strategic locations in the Asia Pacific region.

Mobile Internet Access and Application ("MIAA") Services

Taking into account of the slack growth in the global market demand for mobile Internet access services and hosting application services, the Group has slowed down the ongoing development of MIAA technologies.

According to Ovum, the total number of mobile subscribers in the Asia Pacific region will increase from 104 million at the beginning of 2000 to 260 million by the beginning of 2005, representing an average growth of 20.2% per year over the period. The management predicted that the market demand of MIAA services will start to grow significantly in the next three years and become mature in the next five years. The Group will then benefit from this trend of growth and soon introduce a series of MIAA services platforms with a comprehensive research and development teams and equipments.

Regional Offices Development

Following the commencement of regional business operations, the offices in Singapore and in Australia, which were established in 2000, have contributed positive results to the Group's turnover. Revenue derived from the business in Australia, in particular, attained a turnover of HK\$3,408,000, while the business in Singapore amounted to approximately HK\$2,650,000, which they collectively achieved 20% of the Group turnover for the Half-Yearly Period of 2001.

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Witnessing the global downturn of telecommunications market in the first half of the year, to minimize the capital expenditure, the Group has left aside the plan of setting up the regional offices in other Asian countries as stated in the prospectus. Instead, the management preferred to develop alliances and strategic partnerships with overseas corporations for sales and marketing in the region. These partnerships have not only enabled the Group to generate synergies with its telecommunications and computer telephony business, but also extended the distribution network of its business in the region.

FUTURE PROSPECTS

In view of falling business confidence in the region and the impact of a slowing global telecommunications and technology sector, the management will cautiously monitor the business environment and continue to strengthen its business foundations by focusing on its existing business and implementing prudent cost control strategies to protect the interests of its shareholders.

To enhance its competitiveness and market position in Hong Kong and the Asia Pacific region, the Group has been concentrating on research and development. The professionalism and expertise of the research and development division will enhance the quality of existing products and the ability to develop new products.

The Group's sales and marketing team will also continue to maintain closer business relationships with existing clients, explore the market for potential customers and is committed to improving the sales performance for the second half of 2001.

On the other hand, China's entry into the World Trade Organization ("WTO") is expected to have positive effects for the Group with more business opportunities opening up for foreign firms, generating a favourable business environment and additional business opportunities to the Group. It is expected that there will be a significant increase in the demand for telecommunications services and products in the PRC and the nearby region, resulting in the corresponding increase in the business volumes of the Group's telecommunications and computer telephony services and products. With the vision and commitment of its management, the Group has strengthened its core business foundation and market share for the increasing business opportunities in the Asian market, as well as to generate higher profits and returns to its shareholders.

In the future, the Group is committed to focus its efforts on maintaining positive performance of business and achieve better returns for shareholders.

BUSINESS OBJECTIVES COMPARISON

Scheduled achievements for the period ended 30th June, 2001 as stated in the Prospectus

Actual business progress / change in business objective (if any), during the period ended 30th June, 2001

Telecommunications Product Development and Enhancement

1. Commence developing an GlobalCall IN Service Creation Environment (SCE) tools

Ahead of planned schedule, the Group has already commenced the development of GlobalCall IN SCE during last quarter of 2000 and launched Version 1.0 in the 2nd quarter of 2001 by which several sales contracts has been secured.

The R&D team is currently developing Version 2.0, which is expected to be launched in the 4th quarter of 2001.

2. Launch a new Proactive Switching System (PXS-model 3000)

The Group has successfully launched new Proactive Switching System (PXS-model 3000) in the 2nd quarter of 2001.

3. Commence development of GlobalCall IN service node which runs on LINUX and UNIX environment

The Group has already commenced the development of the product and expected to launch in the 1st quarter of 2002.

Computer Telephony Product Development and Enhancement

1. Launch the traditional Chinese character support call centre products

The product was launched in the 1st quarter of 2001, three months ahead of planned schedule.

2. Enhancement of multi-media call center

The Group has already finished the enhancement with new features, including PowerAgent CTI Server, Proactive Soft-phone, Integrated Intelligent Wall-panel Display, and Active Floor-Plan.

3. Continue the development of automatic speech recognition technology that supports English, Putonghua and Cantonese and the integration of the technology into other commercial applications

Collaborated with technology partners, including InfoTalk, Naunce and Sonexis, the Group has currently undergone the development of the product, which is expected to be launched in the 3rd quarter of 2001.

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4. Enhancement of product features of unified messaging products
With the popular usage of the unified messaging products, the Group has continued to enhance its product features to meet the demand of customers.

MIAA Services Development and Enhancement

1. Extend market coverage of the MIAA Services in Hong Kong
The Group has succeeded to maintain the market coverage in Hong Kong.
2. Launch the MIAA Services in the PRC and Singapore
Due to the softening of market demand for MIAA Services in the Asia Pacific region, the management has slowed down the development of MIAA Services.
3. Commence the development of mobile Internet security technology product for MIAA Services
The Group has currently co-operated with Captaris in developing and providing new mobile delivery solutions for enterprises customers.

Market Penetration

1. Set up regional offices in Malaysia and the Philippines
The management reviewed the strategy and resolved to slow down the business development in these two regions.
2. Employ additional staff for the Group's operations in Malaysia and Philippines
Therefore, the setting up of regional offices is deferred and, therefore, no material expenditure incurred. It will be re-considered in the 1st quarter of 2002.
3. Continue the promotion for the Group's products by organizing workshops and participating in trade exhibitions in the Asia Pacific region
The Group spent approximately HK\$80,000 for sales and marketing events which mainly co-operated with partners, such as Intel, Lucent and Nuera to organize three marketing seminars in HK, Shanghai and Taipei with regard to promotion of the Group's business and latest products for the major customers of the Group.

DIRECTORS' INTEREST IN SHARES

As at 30th June, 2001, the interests of the Directors and their respective associates in the Company and its associated corporations as recorded in the 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	Personal Interest	Number of Shares of the Company			Total
		Family Interest	Corporate Interest	Other Interest	
Mr. Tsang Chi Hin	52,415,466	-	-	-	52,415,466
Mr. Lam Kim Chau	52,415,466	-	-	-	52,415,466
Mr. Lau Kai Shun, Barry	37,382,664	-	-	-	37,382,664
Mr. Wong Wai Ho	10,210,688	-	-	-	10,210,688
Mr. Pong Kam Wah	7,500,000	-	-	-	7,500,000

Other than disclosed above, as at 30th June, 2001, neither the Directors nor their associates, had any interest in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and 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 Half-yearly Period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has adopted a share option scheme on 3rd 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 30th June, 2000 to the 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 option period from 1st July, 2003 to 30th June, 2010. As a result of the cessation of employment of certain grantees, 3,060,000 share options granted to them on 30th June, 2000 has lapsed since date of grant.

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As at 30th June, 2001, the outstanding ordinary share options granted to the Directors are as follows:

Name of Directors	Subscription price per share	Number of share options
Mr. Tsang Chi Hin	HK\$1.30	1,000,000
Mr. Lam Kim Chau	HK\$1.30	1,000,000
Mr. Lau Kai Shun, Barry	HK\$1.30	1,000,000
Mr. Wong Wai Ho	HK\$1.30	1,000,000
Mr. Pong Kam Wah	HK\$1.30	5,800,000

Save as disclosed above, at no time during the Half-Yearly Period was the Company or any of its subsidiaries a party to any arrangements to enable any of the Directors to acquire benefits by means of, the acquisition of share (debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2001, 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 shareholder	Number of shares
Mr. Tsang Chi Hin	52,415,466
Mr. Lam Kim Chau	52,415,466
Mr. Lau Kai Shun, Barry	37,382,664

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

With effect from 14th May, 2001, Pacific Challenge Capital Limited has resigned as continuing sponsor of the Company. On 29th May, 2001, Deloitte & Touche Corporate Finance Limited ("Deloitte") was appointed as the continuing sponsor of the Company. Pursuant to the agreement entered into between the Company and Deloitte, Deloitte has received and will receive a fee for acting as the Company's sponsor for the period from 29th May, 2001 to 31st December, 2002.

As at 30th June, 2001, none of the directors, employees nor associates of Deloitte had any interest in any securities of the Company or any of its associated corporations.

AUDIT COMMITTEE

The Company has established an audit committee on 3rd May, 2000 and has formulated its written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee now comprises two independent non-executive Directors, who are Wu Suk Ching, Annie and Yang Zhenhan.

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 Half-yearly Period.

By order of the Board

Tsang Chi Hin

Chairman

Hong Kong, 13th August, 2001

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 traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded 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 gazetted 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.