

# 2002

INTERIM REPORT  
中期報告

PROACTIVE

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

## **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.*

The Directors of Proactive Technology Holdings Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group” or “Proactive”) for the six months (“Half-Yearly Period”) and three months (“Second Quarter”) ended 30 June 2002, together with the comparative unaudited figures for the last corresponding period (“Last Corresponding Period”) as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	(Unaudited) Six months ended 30 June		(Unaudited) Three months ended 30 June	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	4	<b>15,454</b>	30,278	<b>7,628</b>	16,620
Cost of sales		<b>(5,318)</b>	(14,148)	<b>(2,555)</b>	(8,972)
Gross profits		<b>10,136</b>	16,130	<b>5,073</b>	7,648
Distribution and selling expenses		<b>132</b>	(280)	<b>140</b>	(173)
General and administrative expenses		<b>(13,676)</b>	(26,348)	<b>(7,049)</b>	(15,147)
Loss from operations		<b>(3,408)</b>	(10,498)	<b>(1,836)</b>	(7,672)
Interest income		<b>95</b>	507	<b>56</b>	314
Interest expense		<b>(79)</b>	(249)	<b>(56)</b>	(130)
Provision for impairment in value of investment in an associate		-	(1,300)	-	(1,300)
Share of loss of an associate		<b>(134)</b>	(4)	<b>35</b>	(4)
Loss before taxation and minority interests	5	<b>(3,526)</b>	(11,544)	<b>(1,801)</b>	(8,792)
Taxation	6	<b>(32)</b>	(136)	<b>(20)</b>	(136)
Loss before minority interests		<b>(3,558)</b>	(11,680)	<b>(1,821)</b>	(8,928)
Minority interests		<b>38</b>	-	<b>27</b>	-
Loss attributable to shareholders	4	<b>(3,520)</b>	(11,680)	<b>(1,794)</b>	(8,928)
Dividends	7	-	-	-	-
Loss per share - Basic	8	<b>HK1.52 cents</b>	<b>HK5.03 cents</b>	<b>HK0.77 cents</b>	<b>HK3.85 cents</b>

**CONDENSED CONSOLIDATED BALANCE SHEET**

	<i>Notes</i>	(Unaudited) As at 30 June 2002 HK\$'000	(Audited) As at 31 Dec 2001 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Machinery and equipment	9	9,689	10,813
Development expenditures	10	680	809
Investment in an associate		1,349	1,101
Long-term investment	11	-	770
Total non-current assets		<u>11,718</u>	<u>13,493</u>
<b>CURRENT ASSETS</b>			
Inventories	12	3,569	4,649
Trade receivables	13	3,343	4,014
Prepayments, deposits and other current assets	14	1,631	1,882
Pledged bank deposits		6,241	5,892
Cash and other bank deposits		<u>13,302</u>	<u>17,591</u>
Total current assets		<u>28,086</u>	<u>34,028</u>
<b>CURRENT LIABILITIES</b>			
Short-term bank borrowings	15	(2,796)	(1,177)
Trade payables	16	(1,163)	(3,420)
Accruals and other payables		(5,204)	(8,618)
Receipts in advance		(1,270)	(1,325)
Finance lease obligations – current portion		<u>(166)</u>	<u>(239)</u>
Total current liabilities		<u>(10,599)</u>	<u>(14,779)</u>
Net current assets		<u>17,487</u>	<u>19,249</u>
<b>NON-CURRENT LIABILITIES</b>			
Finance lease obligations – non-current portion		<u>-</u>	<u>(43)</u>
Net assets		<u><b>29,205</b></u>	<u><b>32,699</b></u>
Represented by:			
SHARE CAPITAL	17	23,200	23,200
RESERVES	18	<u>5,621</u>	<u>9,086</u>
Shareholders' equity		28,821	32,286
MINORITY INTERESTS		<u>384</u>	<u>413</u>
		<u><b>29,205</b></u>	<u><b>32,699</b></u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

	<i>Notes</i>	(Unaudited) For six months ended 30 June 2002 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<i>20.a</i>	<u>(6,384)</u>
RETURN ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received		95
Interest paid		<u>(79)</u>
		<u>16</u>
TAXATION		
Hong Kong profits tax refunded		718
Overseas tax paid		<u>(27)</u>
		<u>691</u>
INVESTING ACTIVITIES		
Purchase of machinery and equipment		(484)
Decrease in development expenditures		129
Proceeds from disposal of long-term investment		1
Repayment of advance to long-term investment		526
Translation adjustments		<u>62</u>
		<u>234</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(5,443)</u>
FINANCING		
Repayment of capital element of finance lease obligations	<i>20.b</i>	<u>(116)</u>
INCREASE IN CASH AND CASH EQUIVALENTS		(5,559)
CASH AND CASH EQUIVALENT, beginning of period	<i>20.c</i>	<u>22,306</u>
CASH AND CASH EQUIVALENT, end of period	<i>20.c</i>	<u><u>16,747</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY**

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share Capital HK\$'000	Share Premium HK\$'000	Capital Reserve HK\$'000	Cumulative Translation Adjustment HK\$'000	Accumulated Deficits HK\$'000	Total HK\$'000
As at 1 January 2001	23,200	29,135	3,530	(2)	115	55,978
Loss attributable to shareholders	-	-	-	-	(11,680)	(11,680)
Translation adjustments	-	-	-	(102)	-	(102)
As at 30 June 2001	<u>23,200</u>	<u>29,135</u>	<u>3,530</u>	<u>(104)</u>	<u>(11,565)</u>	<u>44,196</u>
As at 1 January 2002	23,200	29,135	3,530	(150)	(23,429)	32,286
Loss attributable to shareholders	-	-	-	-	(3,520)	(3,520)
Translation adjustments	-	-	-	55	-	55
As at 30 June 2002	<u>23,200</u>	<u>29,135</u>	<u>3,530</u>	<u>(95)</u>	<u>(26,949)</u>	<u>28,821</u>

**NOTES TO THE HALF-YEARLY 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 (as amended). Its shares have been listed on the GEM of the Stock Exchange since 18 May 2000.

**2. Basis of preparation**

This unaudited condensed consolidated interim accounts have been prepared in accordance with Statements of Standard Accounting Practices (“SSAP”) 25 “Interim Financial Reporting” 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 Group has adopted the transitional provision allowed in the GEM Listing Rules, comparative cash flow statement for the Last Corresponding Period was omitted.

The unaudited condensed consolidated interim accounts have been reviewed by the audit committee in accordance with rule 5.25 of the GEM Listing Rules.

### 3. Principal accounting policies

The Group has applied the same principal accounting policies and methods of computation in the unaudited accounts as are applied in its annual financial statements for the year ended 31 December 2001. The principal accounting policies adopted are disclosed in the Group's 2001 Annual Report dated 18 March 2002.

These condensed consolidated interim accounts should be read in conjunction with the 2001 annual accounts.

### 4. Segment information

#### a. 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:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Telecommunications	<b>8,869</b>	20,792	<b>4,089</b>	10,334
Computer telephony	<b>6,025</b>	9,486	<b>3,798</b>	6,286
Others	<b>560</b>	-	<b>(259)</b>	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total turnover	<b>15,454</b>	30,278	<b>7,628</b>	16,620
Interest income from bank deposits	<b>95</b>	507	<b>56</b>	314
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	<b>15,549</b>	30,785	<b>7,684</b>	16,934
	<hr/>	<hr/>	<hr/>	<hr/>

**4. Segment information (Cont'd)**

## b. Loss attributable to shareholders

Loss attributable to shareholders by business segments is as follows:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Telecommunications	<b>3,825</b>	3,130	<b>1,894</b>	(282)
Computer telephony	<b>1,318</b>	(622)	<b>834</b>	(783)
Others	<b>(32)</b>	-	<b>(71)</b>	-
Segment profit (loss)	<b>5,111</b>	2,508	<b>2,657</b>	(1,065)
Unallocated expenses	<b>(8,519)</b>	(13,006)	<b>(4,493)</b>	(6,607)
Loss from operations	<b>(3,408)</b>	(10,498)	<b>(1,836)</b>	(7,672)
Interest income	<b>95</b>	507	<b>56</b>	314
Interest expenses	<b>(79)</b>	(249)	<b>(56)</b>	(130)
Provision for impairment in value of investment in an associate	-	(1,300)	-	(1,300)
Share of loss of an associate	<b>(134)</b>	(4)	<b>35</b>	(4)
Loss before taxation and minority interests	<b>(3,526)</b>	(11,544)	<b>(1,801)</b>	(8,792)
Taxation	<b>(32)</b>	(136)	<b>(20)</b>	(136)
Loss before minority interests	<b>(3,558)</b>	(11,680)	<b>(1,821)</b>	(8,928)
Minority interests	<b>38</b>	-	<b>27</b>	-
Loss attributable to shareholders	<b>(3,520)</b>	(11,680)	<b>(1,794)</b>	(8,928)



## 5. Loss before taxation and minority interests

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

	(Unaudited) Six months ended 30 June		(Unaudited) Three months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>After charging:-</b>				
Staff costs (including director's emolument)	6,649	12,369	3,539	6,310
Retirement benefits scheme costs	279	422	138	211
Write-off of development expenditures	129	39	65	39
Cost of inventories	4,502	13,618	2,153	8,713
Operating lease rentals of premises	1,472	2,013	557	851
Depreciation of machinery and equipment				
- owned equipment leased to customers	705	529	352	259
- other owned assets	1,551	1,592	765	826
- assets held under finance lease	125	125	63	62
Interest expense				
- bank borrowings wholly repayable within five years	64	220	50	116
- finance lease	15	29	6	14
Provision for and write-off of bad and doubtful debts	-	2,119	-	2,080
Provision for and write-off of obsolete and slow-moving inventories	315	664	3	660
Write-off of an advance to long-term investment	243	-	243	-
Net loss on disposal of machinery	41	324	41	45
<b>After crediting:-</b>				
Rental income from leasing of telecommunication and computer telephony systems	2,509	2,360	1,365	1,306
Interest income	95	507	56	314

## 6. Taxation

Taxation consists of:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Current taxation				
- Hong Kong profits tax	-	-	-	-
- Overseas income tax	<b>27</b>	129	<b>15</b>	129
Share of associates taxation	<b>5</b>	7	<b>5</b>	7
	<b>32</b>	136	<b>20</b>	136

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.

## 7. Interim dividends

The directors do not recommend the payment of interim dividend for the Half-Yearly Period (2001: Nil).

## 8. Loss per share

The calculation of the basic loss per share is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$3,520,000 (2001: HK\$11,680,000) and on the weighted average number of 232,000,000 (2001: 232,000,000) shares.

Diluted loss per share is not presented because the effect is anti-dilutive.

## 9. Machinery and equipment

Movements of machinery and equipment (consolidated) during the Half-Yearly Period were:

	(Unaudited) Furniture, fixtures and office equipment HK\$'000	(Unaudited) Computer equipment HK\$'000	(Unaudited) Motor vehicles HK\$'000	(Unaudited) Equipment on lease to customers HK\$'000	(Unaudited) Equipment for development HK\$'000	(Unaudited) Total HK\$'000
<b>Cost</b>						
As at 1 January 2002	4,901	5,402	1,272	4,714	3,060	19,349
Additions	1	483	-	-	-	484
Disposals	(54)	-	-	(1)	-	(55)
Transferred from/(to) inventories, net	-	(275)	-	(30)	269	(36)
Translation differences	2	-	-	-	-	2
As at 30 June 2002	<u>4,850</u>	<u>5,610</u>	<u>1,272</u>	<u>4,683</u>	<u>3,329</u>	<u>19,744</u>
<b>Accumulated depreciation</b>						
As at 1 January 2002	1,719	3,331	834	1,583	1,069	8,536
Provisions	460	587	125	705	504	2,381
Disposals	(14)	-	-	-	-	(14)
Transferred from/(to) inventories, net	-	(151)	-	(387)	(310)	(848)
Translation differences	-	-	-	-	-	-
As at 30 June 2002	<u>2,165</u>	<u>3,767</u>	<u>959</u>	<u>1,901</u>	<u>1,263</u>	<u>10,055</u>
<b>Net book value</b>						
As at 30 June 2002	<u>2,685</u>	<u>1,843</u>	<u>313</u>	<u>2,782</u>	<u>2,066</u>	<u>9,689</u>
As at 1 January 2002	<u>3,182</u>	<u>2,071</u>	<u>438</u>	<u>3,131</u>	<u>1,991</u>	<u>10,813</u>

**10. Development expenditures**

Movement of development expenditures (consolidated) were:

	<b>(Unaudited)</b> <b>Six months</b> <b>ended</b> <b>30 June 2002</b> <b>HK\$'000</b>	<b>(Audited)</b> <b>Year ended</b> <b>31 December</b> <b>2001</b> <b>HK\$'000</b>
Beginning of period	<b>809</b>	1,376
Additions	-	457
Written-off	<b>(129)</b>	<b>(1,024)</b>
	<b><u>680</u></b>	<b><u>809</u></b>

**11. Long-term investment**

Long-term investment (consolidated) consisted of:

	<b>(Unaudited)</b> <b>As at</b> <b>30 June 2002</b> <b>HK\$'000</b>	<b>(Audited)</b> <b>As at</b> <b>31 Dec 2001</b> <b>HK\$'000</b>
Unlisted shares, at cost	-	1
Advance	-	769
	<b><u>-</u></b>	<b><u>770</u></b>

In May 2001, the Group acquired a 10% equity interest in Optech Telecom Limited, a company incorporated in Hong Kong, which is principally engaged in the trading of telecommunications products. In May 2002, the Group disposed its 10% equity interest to an independent third party at cost.

## 12. Inventories

Inventories (consolidated) consisted of:

	<b>(Unaudited)</b> As at <b>30 June 2002</b> HK\$'000	<b>(Audited)</b> As at <b>31 Dec 2001</b> HK\$'000
Telecommunication and computer telephony hardware and software products	5,925	7,005
Less: Provision for obsolete and slow-moving inventories	<u>(2,356)</u>	<u>(2,356)</u>
	<b><u>3,569</u></b>	<b><u>4,649</u></b>

As at 30 June 2002, inventories of approximately HK\$1,595,000 (as at 31 December 2001: HK\$2,897,000) were stated at net realisable value.

## 13. Trade receivables

Trade receivables (consolidated) consisted of:

	<b>(Unaudited)</b> As at <b>30 June 2002</b> HK\$'000	<b>(Audited)</b> As at <b>31 Dec 2001</b> HK\$'000
Accounts receivable	3,818	3,825
Retention receivable	<u>1,756</u>	<u>2,239</u>
	5,574	6,064
Less: Provision for doubtful receivables	<u>(2,231)</u>	<u>(2,050)</u>
	<b><u>3,343</u></b>	<b><u>4,014</u></b>

The Group normally grants to its customers credit periods ranging from 30 days to 60 days. Aging analysis of trade receivables (consolidated) is as follows:

**13. Trade receivables (Cont'd)**

	(Unaudited) As at 30 June 2002 HK\$'000	(Audited) As at 31 Dec 2001 HK\$'000
0 to 1 months	2,200	2,974
1 to 2 months	340	534
2 to 3 months	49	306
3 to 6 months	2,287	826
6 to 9 months	228	1,212
9 to 12 months	-	79
12 to 15 months	470	133
	<u>5,574</u>	<u>6,064</u>

**14. Prepayments, deposits and other current assets**

Prepayments, deposits and other current assets (consolidated) consisted of:

	(Unaudited) As at 30 June 2002 HK\$'000	(Audited) As at 31 Dec 2001 HK\$'000
Tax recoverable	-	718
Prepayments	121	163
Rental and utility deposits	812	914
Others	698	87
	<u>1,631</u>	<u>1,882</u>

**15. Short-term bank borrowings**

Short-term bank borrowings (consolidated) consisted of:

	(Unaudited) As at 30 June 2002 HK\$'000	(Audited) As at 31 Dec 2001 HK\$'000
Bank overdrafts	532	1,177
Trust receipts bank loans	2,264	-
	<u>2,796</u>	<u>1,177</u>

## 16. Trade payables

The Group is normally granted by its vendor credit periods ranging from 0 days to 30 days. Aging analysis of trade payables (consolidated) is as follows:

	(Unaudited) As at 30 June 2002 HK\$'000	(Audited) As at 31 Dec 2001 HK\$'000
0 to 1 months	290	899
1 to 2 months	82	433
2 to 3 months	33	295
3 to 6 months	251	1,581
6 to 12 months	216	86
Over 12 months	291	126
	<u>1,163</u>	<u>3,420</u>

## 17. Share capital

Movement of share capital during the Half-Yearly Period were:

	(Unaudited) Six months ended 30 June 2002		(Audited) Year ended 31 December 2001	
	No. of shares '000	Nominal value HK\$'000	No. of shares '000	Nominal value HK\$'000
AUTHORISED				
Beginning/End of period/year	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
ISSUED AND FULLY PAID				
Beginning/End of period/year	<u>232,000</u>	<u>23,200</u>	<u>232,000</u>	<u>23,200</u>

**18. Reserves**

Movements of reserves during the Half-Yearly Period were:

	(Unaudited) Share premium HK\$'000	(Unaudited) Capital reserve HK\$'000	(Unaudited) Cumulated translation adjustments HK\$'000	(Unaudited) Accumulated deficits HK\$'000	(Unaudited) Total HK\$'000
As at 1 January 2001	29,135	3,530	(2)	115	32,778
Loss attributable to shareholders	-	-	-	(11,680)	(11,680)
Translation adjustments	-	-	(102)	-	(102)
As at 30 June 2001	<u>29,135</u>	<u>3,530</u>	<u>(104)</u>	<u>(11,565)</u>	<u>20,996</u>
As at 1 January 2002	29,135	3,530	(150)	(23,429)	9,086
Loss attributable to shareholders	-	-	-	(3,520)	(3,520)
Translation adjustments	-	-	55	-	55
As at 30 June 2002	<u>29,135</u>	<u>3,530</u>	<u>(95)</u>	<u>(26,949)</u>	<u>5,621</u>

**19. Commitment**

a. Capital commitments

As at 30 June 2002, the Group had commitments contracted but not provided for in respect of investment in a joint venture of HK\$400,000 (as at 31 December 2001: nil).



## 19. Commitment (Cont'd)

### b. Operating lease commitments

The Group has operating lease commitments in respect of premises under various non-cancellable operating lease agreements. The commitments payable under these agreements are analysed as follow:

	(Unaudited) As at 30 June 2002 HK\$'000	(Audited) As at 31 Dec 2001 HK\$'000
Amount payable within a period of:		
- within one year	2,278	2,365
- between one and two years	<u>115</u>	<u>957</u>
	<u><b>2,393</b></u>	<u><b>3,322</b></u>

The commitments payable within the next twelve months are analysed as follows:

	(Unaudited) As at 30 June 2002 HK\$'000	(Audited) As at 31 Dec 2001 HK\$'000
Leases expiring		
- not exceeding one year	2,002	333
- within two years to five years	<u>276</u>	<u>2,032</u>
	<u><b>2,278</b></u>	<u><b>2,365</b></u>

**20. Notes to the condensed consolidated statement of cash flows**

a. Reconciliation of loss before taxation and minority interests to net cash outflow from operating activities:

	<b>(Unaudited)</b> <b>For six months</b> <b>ended</b> <b>30 June 2002</b> <b>HK\$'000</b>
Loss before taxation and minority interests	(3,526)
Interest income	(95)
Interest expenses	79
Share of loss of an associate	134
Depreciation of machinery and equipment	2,381
Net loss on disposal of machinery and equipment	41
Write-off of an advance to long-term investment	243
Decrease in inventories	268
Decrease in trade receivables	671
Increase in prepayments, deposits and other current assets	(467)
Decrease in amount due to an associate	(387)
Decrease in trade payables	(2,257)
Decrease in accruals and other payables	(3,414)
Decrease in receipts in advance	(55)
	<hr/>
Net cash outflow from operating activities	<b>(6,384)</b>

b. Analysis of changes in financing is as follows:

	<b>(Unaudited)</b> <b>Share capital</b> <b>and share</b> <b>premium</b> <b>HK\$'000</b>	<b>(Unaudited)</b> <b>Finance lease</b> <b>Obligation</b> <b>HK\$'000</b>	<b>(Unaudited)</b> <b>Minority</b> <b>Interests</b> <b>HK\$'000</b>
Beginning of period	52,335	282	413
Repayment of capital element of finance lease obligations	-	(116)	-
Share of loss for the Half-Yearly Period	-	-	(38)
Translation difference	-	-	9
	<hr/>	<hr/>	<hr/>
End of period	<b>52,335</b>	<b>166</b>	<b>384</b>

## 20. Notes to the condensed consolidated statement of cash flows (Cont'd)

c. Analysis of cash and cash equivalent is:

	(Unaudited) As at 30 June 2002 HK\$'000	(Audited) As at 31 Dec 2001 HK\$'000
Cash and bank deposits	13,302	17,591
Pledged bank deposits	6,241	5,892
Bank overdrafts	(532)	(1,177)
Trust receipts bank loans	(2,264)	-
	<u>16,747</u>	<u>22,306</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL PERFORMANCE

The Group recorded a turnover of HK\$15,454,000 for the Half-Yearly Period, compared with HK\$30,278,000 of the same period in 2001. Being affected by the slowdown of market, particularly the telecommunications market, turnover attributable to our telecommunications and computer telephony business decreased by 57% and 36% to HK\$8,869,000 (2001: HK\$20,792,000) and HK\$6,025,000 (2001: HK\$9,486,000), and representing 57% and 39% of the Group's total turnover, respectively. The rest, being 4% or HK\$560,000 was attributable to trading of Wireless LAN products. The loss attributable to shareholders of the Group for the Half-Yearly Period was decreased by 70% to HK\$3,520,000 over the Last Corresponding Period (2001: HK\$11,680,000)

Including depreciation, the Group's general and administrative expenses was decreased by 48% to HK\$13,676,000 for the Half-Yearly Period as compared with the Last Corresponding Period (2001: HK\$26,348,000). The decrease was attributable to the followings:

- (i) Staff costs and training expenses dropped by HK\$5.8 million and HK\$0.2 million to HK\$6.9 million and HK\$0.2 million, respectively. The savings were resulted from the Group's net headcount reduction since late 2001;
- (ii) As a result of the decrease in the level of the Group's operating activities, provisions on bad and doubtful debts decreased by HK\$2 million, as compared with the Last Corresponding Period;
- (iii) Other operating expenses of regional offices reduced by HK\$1.4 million after streamlining the operations in Taiwan, Singapore and Australia.

For the Second Quarter, turnover and net loss attributable to shareholders was HK\$7,628,000 and HK\$1,794,000, respectively (2001: HK\$16,620,000 and HK\$8,928,000, respectively). However, as compared with the three months ended 31 March 2002, the First Quarter, the turnover and the net loss attributable to shareholders remained flat (First Quarter ended 31 March 2002: HK\$7,826,000 and HK\$1,726,000, respectively).

**LIQUIDITY AND FINANCIAL RESOURCES**

The Group was principally financed by cash flow generated internally together with the balance of proceeds from IPO and short-term bank borrowings. As at 30 June 2002, the Group had aggregate banking facilities of approximately HK\$10,496,000 (as at 31 December 2001: HK\$13,000,000) from several banks for overdrafts, loans, and trade financing. Unutilised facilities as at the same date amounted to approximately HK\$7,700,000 (as at 31 December 2001: HK\$11,671,000).

As at 30 June 2002, the Group had consolidated net current assets of approximately HK\$17,487,000 (as at 31 December 2001: HK\$19,249,000). Cash and bank deposits stood at approximately HK\$19.5 million as at 30 June 2002, or cash per share of HK\$0.084, of which approximately HK\$10.3 million and HK\$7.8 million was denominated in Hong Kong dollars and United States dollars respectively. The total short-term bank borrowings was approximately HK\$2,796,000 and the gearing ratio (total non-current liability to total assets less current liability) was 0 times (as at 31 December 2001: 0.001 times).

As at 30 June 2002, the Group had capital commitment of about HK\$400,000 in respect of investment in a joint venture (as at 31 December 2001: nil).

The Directors are of opinion that, the Group has sufficient working capital for its present requirements.

**SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

Other than the 33-1/3 per cent and 60 per cent holding in the issued ordinary share capital of Proactive Cyberspace Company Limited and Proactive Technology (Taiwan) Limited, there were no other significant investment as at 30 June 2002. There were no material acquisitions or disposals of subsidiaries during the Half-Yearly Period.

**EXPOSURE TO FLUCTUATION IN EXCHANGE RATES**

The reporting currency adopted by the Group was Hong Kong dollars. Majority of the Group's sales, receivables, bank borrowings and expenditures were denominated in Hong Kong dollars and United States dollars. As Hong Kong dollars is closely linked with United States dollars, therefore, foreign currency exposure to the Group shall be minimal.

**CONTINGENT LIABILITIES**

As at 30 June 2002, the Group had no contingent liabilities (as at 31 December 2001: nil).

**STAFF**

The Group (excluding its associate) had approximately 39 full-time employees in Hong Kong, elsewhere in the PRC, Australia, Singapore and Taiwan as at 30 June 2002. During the Half-Yearly Period, the Group has incurred staff cost (including directors' emoluments) of approximately HK\$6,928,000.

As at 30 June 2002, six employees had completed the required number of years of service under the Employment Ordinance to be eligible for long service payments on termination of their employment with the Group. The Group is only liable to make such payments where termination meets the required circumstances specified in the Employment Ordinance. As at 30 June 2002, the estimated amount not provided for such purpose amounted to approximately HK\$508,000.

## **BUSINESS REVIEW**

### **TELECOMMUNICATION BUSINESS**

Turnover of the telecommunications business for the Half-Yearly Period was HK\$8,869,000, remaining as the major business of the Group which accounted for 57% of the total group turnover. Turnover of the telecommunications business of the Second Quarter was HK\$4,089,000 which declined 15% as compared with the previous quarter (First Quarter 2002: HK\$4,780,000).

The telecommunications market continued to be very tough. Capital investment and spending constraints have intensified and remained in place for much longer than anyone would have experienced or predicted in this industry. Despite this, there are improvements in the operating fundamentals of our business. The Group's fixed costs continued to decrease while the overall gross profit margin maintained at over 60% in the last two quarters. During this prolonged market downturn, we have been concentrating on working closely with our premier customers to position the full breadth of our products and services, significantly reducing our cost structure to achieve breakeven figure, so that Proactive will be well-positioned to capitalize on the market when it rebounds.

We believe that telecommunication is a solid and a long-term growth industry, and the industry has proven itself since the invention of telephony for voice communications and telegraph for data communications over the past hundred years. The current industry challenge was a result of the consolidation of the bubble investment over the last decade. In the telecommunications industry, researches have shown that wireless communications will be the key growth area in the near future. The number of mobile users in China has reported a strong growth as recently announced by China Mobile and China Unicom. In Hong Kong, a total of six Mobile Virtual Network Operator ("MVNO") licenses were awarded in the past few months. The management believes that MVNO and new forms of Virtual Mobile carriers will be the next growth areas in the local telecommunication market.

In May 2002, Proactive has entered into a strategic partnership agreement with Cell Communications Technology Co., Ltd. ("Cell"), a leading telecommunications research and development institution in Southern China in Guangdong Province. Cell is a spin-off enterprise of the Guangzhou SouthChina University of Technology. Pursuant to the strategic alliance, Proactive and Cell will co-operate in sales and marketing as well as technology and product development. We believe that this alliance will strengthen our R&D capabilities in the future edge while maintaining the development expenses in a well-controlled position. Most importantly, we have a good partner in penetrating into the China telecommunications market with broadened product portfolio and technology solution set.

## **COMPUTER TELEPHONY BUSINESS**

Turnover of the computer telephony business for the Half-Yearly Period was HK\$6,025,000 which accounted for 39% of the total group turnover. The turnover of computer telephony business for the Second Quarter was HK\$3,798,000 which has a significant growth of 71% as compared with the previous quarter (First Quarter 2002: HK\$2,227,000).

The revenue growth of computer telephony growth continued to be challenged by constrained customers' spending on IT products. The small-to-medium enterprise customers, in particular, delayed purchases in the past two quarters. But we are pleased with the responses from large enterprise customers who have deployed our call centre products to keep on improving their customer services and corporate communications standards.

Our call centre technology partner "Rockwell FirstPoint Contact" has delayed their new contact center product launch which posed an adverse impact on our performance in the Second Quarter. However, the new product is expected to be rolled-out in the coming quarter which should help us in gaining new sales orders.

Our enterprise solution technology partner, Captaris, launched a new communications product "Infinite Mobile Delivery – IMD" in the Second Quarter. This newest release of IMD software supports Microsoft Exchange 2000, enables users to leverage their mobile devices, such as palm-sized, Pocket PC, GPRS handset, WAP phone, Symbian and other PDA devices to access and manage their e-mail inbox, calendar, personal contacts and tasks plus access to their Global Address Book. As mobile access to corporate desktop information is becoming more and more important for professionals to enhance productivity today. IMD for Microsoft Exchange 2000 brings the full complement of benefits found in today's corporate information environment to the mobile work force. In addition, the IMD product offers a RealSpeak™ text-to-speech engine that provides a natural language voice rendering email message. The RealSpeak™ engine for IMD is available now in American English, with support for additional languages available in the future. Proactive and the technology owner, the Captaris, will join forces to promote this innovative product in the coming few quarters aggressively.

In summary, we believe that, when our enterprise customers begin to invest again in new communications capabilities, we'll be ready to help them realize the benefits of converged voice and data call centre solutions and mobile access products with the industry's best IP telephony and mobile technology.

## **REGIONAL DEVELOPMENT**

We believe that demand for our telecommunications and computer telephony product in the Asia Pacific region will still be low in the near future. Telecommunications market contraction is on a global basis and the enterprise IT demand had also decreased sharply. In this situation, the management maintains the view as in the last quarter to suppress all regional expansion plans in the Asia Pacific region.

## FUTURE PROSPECTS

Due to the continuing market decline and the uncertainty of turning point in the telecommunications and the enterprise communications markets, the Group has committed to further trim down our operation structure. We target to cut operation and overhead expenses further in the coming quarters. The management target is to turn the company to become profitable again at the end of this year.

We plan to scale down our research and development operation in Hong Kong. Our general direction is to shift ourselves to become a product and applications design house with the core development teams in Hong Kong and in working closely with software and system integration (SI) institutes in the PRC for new product and applications development in future. The new direction is to leverage our international experience and product innovation in Hong Kong and coupled with the relatively low development cost from our partners in China. The major challenge with this directional shift is to keep creating and designing more innovative applications and products while maintaining the quality for all deliverables. We believe that the new structure will benefit the company in long term and will reflect positive contributions in our financial performance in future.

The Group will mainly focus on its business in Hong Kong and Beijing in the near future. As we anticipate that Beijing will have a high long-term growth potential due to the WTO and the Olympic 2008, we plan to allocate more resources in Beijing in the coming two quarters. In May 2002, we have entered into a memorandum of understanding with the Beijing Enterprise Holding with respect to establishing a joint venture company in Beijing, Beijing Teletron Systems Integration Co., Ltd. to develop the telecommunications and enterprise communications business in Beijing. Proactive will hold 40% equity of the new joint venture while the rest of 60% will be held by Beijing Enterprise and the management. With this new business arm in Beijing, we expect we can speedup the market development for Beijing and the near-by market in a much faster pace. The management considers this new joint venture in Beijing will be the key contributor and the profit star for the Group in the future.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of actual business progress of the Group compared with the business objectives set out in the Company's Prospectus for the six-month period ended 30 June 2002.

**Scheduled achievements as stated in the Prospectus for six-month period ended 30 June 2002**

**Actual business progress/change in business objective (if any), during the six-month period ended 30 June 2002**

### *Telecommunications product development and enhancement*

1. Launch the GlobalCall IN service node which runs on UNIX environment

1. The launch of GlobalCall IN runs on UNIX environment will delay to next half of 2002.

- |  |  |
|--|--|
| <p>2. Continue the development of IP gatekeeper switch product</p>                               | <p>2. Pending due to market demand decline and constraint in R&amp;D budget.</p> |
| <p>3. Continue the development of GlobalCall IN service node which runs on LINUX environment</p> | <p>3. Pending until the GlobalCall IN UNIX version completed.</p>                |
| <p>4. Commence developing a soft switch media gateway products</p>                               | <p>4. Pending due to market demand decline and constraint in R&amp;D budget.</p> |

***Computer telephony product development and enhancement***

- |  |  |
|--|--|
| <p>1. Launch the simplified Chinese character support call centre</p>  | <p>1. The product has been launched and one of the Group's customers is already using this product in Beijing, the PRC</p>               |
| <p>2. Continue the development of automatic speech recognition technology that supports Malay and commence the development of technology that supports other languages</p> | <p>2. Pending due to decrease in market demand</p>   |
| <p>3. Commence developing an IP based PBX product</p>  | <p>3. The Group will use other technology partners product rather than developing its own product so as to reduce the financial risk</p> |
| <p>4. Commence developing localised character support call centre products for other Asia Pacific countries</p>  | <p>4. Pending due to decrease in market demand</p>   |

***MIAA Services development and enhancement***

- |  |  |
|--|--|
| <p>1. Launch the MIAA Services in Korea and Thailand</p>                           | <p>1. Pending due to the high uncertainties in WAP and related mobile internet technology and market in Korea and Thailand</p> |
| <p>2. Launch the mobile Internet security technology product for MIAA Services</p> | <p>2. Pending due to the high uncertainties in WAP and related mobile internet technology and market</p>                       |
| <p>3. Continue the development of the MIAA Services based on GPRS technology</p>   | <p>3. Pending due to the high uncertainties in WAP and related mobile internet technology and market</p>                       |

***Market penetration***

- |  |   |
|--|---|
| <p>1. Set up regional offices in Japan and New Zealand</p> | <p>1. Pending due to decrease in market demand in Japan and New Zealand</p> |
|--|---|



2. Continue the marketing activities for the Group's products by organising workshops and participating in trade exhibitions in Asia Pacific region

2. The Company will participate in the ITU Asia 2002 in Hong Kong at December 2002

### ***Resources employment***

1. Employ additional staff for the Group's operation

1. The Group has cut down the number of employees due to the market downturn in the industry

## **USE OF PROCEEDS**

The proceeds from the issue of new shares for the listing on the GEM of the Stock Exchange, after deduction of related expenses, amounted to approximately HK\$52,129,000 and have been applied as follows:

	<b>Original plan HK\$'000</b>	<b>Amount utilised up to 30 June 2002 HK\$'000</b>
Establishment and expansion of the Group's Hong Kong and overseas offices	11,000	<b>8,071</b>
Marketing activities of the Group's products including organising workshops and participating in trade exhibitions	15,000	<b>1,686</b>
Establishment and expansion of a research centre in Australia	7,000	<b>160</b>
Expansion of the research centre in Hong Kong	10,000	<b>4,896</b>
Investments	-	<b>770</b>
Additional working capital of the Group	9,000	<b>22,958</b>
	<u>52,000</u>	<u><b>38,541</b></u>

In view of the economic recession, the Directors have carefully evaluated the situation and reallocated the funding as additional working capital for financing the Group's ongoing operations. In addition, the unused proceeds were placed on the short-term deposits with financial institutions in Hong Kong.

## DIRECTORS' INTEREST IN SHARES

As at 30 June 2002, the interests of the Directors and their respective associates in the shares in the Company and its associated corporations as recorded in 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	Number of Shares of the Company				Percentage of share Total outstanding
	Personal interest	Family Interest	Corporate interest	Other interest	
Mr. Tsang Chi Hin	52,415,466	-	-	-	52,415,466 22.593%
Mr. Lam Kim Chau	52,415,466	-	-	-	52,415,466 22.593%
Mr. Lau Kai Shun, Barry	37,382,664	-	-	-	37,382,664 16.113%
Mr. Wong Wai Ho	10,210,688	-	-	-	10,210,688 4.401%
Mr. Pong Kam Wah	5,000,000	-	-	-	5,000,000 2.155%

Other than disclosed above, as at 30 June 2002, neither the directors nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, 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 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, 5,310,000 share options granted to them on 30 June 2000 has lapsed since date of grant.

As at 30 June 2002, the outstanding ordinary share options granted to and held by the directors of the Company are as follows:

<b>Name of Director</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

Save as disclosed above, at no time during the Half-Yearly 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 Half-Yearly 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 interest, whether directly or indirectly, subsisted at 30 June 2002 or at any time during the Half-Yearly Period.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2002, 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

<b>Name of Director</b>	<b>Number of issued shares</b>	<b>Percentage of share outstanding</b>
Mr. Tsang Chi Hin	52,415,466	22.593%
Mr. Lam Kim Chau	52,415,466	22.593%
Mr. Lau Kai Shun, Barry	37,382,664	16.113%

## **COMPETING INTERESTS**

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

**SPONSOR'S INTERESTS**

As at 30 June 2002, neither Deloitte & Touche Corporate Finance Ltd. ("Deloitte") nor its director or employees or associates, had any beneficial interest in the Company's share capital. Pursuant to the agreement dated 29 May 2001 entered into between the Company and Deloitte, Deloitte has received and will receive a fee for acting as the Company's retained sponsor for the period from 29 May 2001 to 31 December 2002.

**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 Half-Yearly Period.

**BOARD PRACTICE AND PROCEDURES**

The Company has complied with the board practice and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules throughout the Half-Yearly 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 Half-Yearly 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 Half-Yearly Period.

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

Hong Kong, 13 August 2002