

中期業績報告

2003

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**PROACTIVE**

**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.*

## RESULTS HIGHLIGHTS

	<b>2003</b> <b>2nd Quarter</b> <i>HK\$'000</i>	2003 1st Quarter <i>HK\$'000</i>	2002 2nd Quarter <i>HK\$'000</i>
Telecommunications	<b>5,889</b>	5,660	4,089
Computer telephony	<b>3,512</b>	2,523	3,798
Others	<b>315</b>	140	(259)
Total turnover	<b><u>9,716</u></b>	<u>8,323</u>	<u>7,628</u>
Gross profit	<b>5,296</b>	5,703	5,073
Gross profit margin	<b>55%</b>	69%	67%
Distribution, selling, general and administrative expenses	<b>5,076</b>	6,907	6,909
Net profit (loss)	<b>48</b>	(1,707)	(1,794)
Net assets value	<b>20,785</b>	20,736	29,205
Cash on hand	<b>15,044</b>	14,206	19,543
Debt-equity ratio	<b>0.41 times</b>	0.48 times	0.36 times
Gearing ratio	<b>0 times</b>	0 times	0 times
	<ul style="list-style-type: none"> <li>• The total unaudited consolidated turnover for the three months ended 30 June 2003 (“Second Quarter”) was HK\$9,716,000, representing an increase of HK\$2,088,000 or 27% as compared with the last corresponding period ended 30 June 2002 (“Last Corresponding Period”), and an increase of HK\$1,393,000 or 17% as compared with last quarter ended 31 March 2003 (“Last Quarter”), respectively.</li> <li>• The gross profit for the Second Quarter amounted to approximately HK\$5,296,000 while the gross profit margin maintained at a level of 55%.</li> <li>• Operating expenditures decreased by HK\$1,833,000 or 27% to HK\$5,076,000 as compared with Last Corresponding Period.</li> <li>• Accomplished a net profit of approximately HK\$48,000 for Second Quarter.</li> </ul>		

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 six months (“Half-Yearly Period”) and three months (“Second Quarter”) ended 30 June 2003, together with the comparative unaudited figures for the last corresponding period (“Last Corresponding Period”) as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	(Unaudited) Six months ended 30 June		(Unaudited) Three months ended 30 June	
		2003	2002	2003	2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	4	18,039	15,454	9,716	7,628
Cost of sales		(7,040)	(5,318)	(4,420)	(2,555)
Gross profit		10,999	10,136	5,296	5,073
Distribution and selling expenses		(38)	132	(30)	140
General and administrative expenses		(11,945)	(13,676)	(5,046)	(7,049)
Profit (loss) from operations		(984)	(3,408)	220	(1,836)
Interest income		41	95	22	56
Interest expenses		(55)	(79)	(31)	(56)
Share of loss of an associate		(614)	(134)	(143)	35
Profit (loss) before taxation and minority interests	5	(1,612)	(3,526)	68	(1,801)
Taxation	6	(47)	(32)	(20)	(20)
Profit (loss) before minority interests		(1,659)	(3,558)	48	(1,821)
Minority interests		-	38	-	27
Profit (loss) attributable to shareholders		(1,659)	(3,520)	48	(1,794)
Dividends	7	-	-	-	-
Profit (loss) per share – Basic	8	HK(0.72cents)	HK(1.52cents)	HK0.02cents	HK(0.77cents)

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited)	(Audited)
		As at	As at
		30 June	31 December
		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Machinery and equipment	9	3,358	6,588
Development expenditures	10	422	551
Investment in an associate	11	—	—
Total non-current assets		<u>3,780</u>	<u>7,139</u>
<b>CURRENT ASSETS</b>			
Inventories	12	4,256	4,545
Trade receivables	13	4,643	2,874
Prepayments, deposits and other current assets	14	1,643	2,615
Pledged bank deposits		5,000	5,000
Cash and other bank deposits		<u>10,044</u>	<u>11,305</u>
Total current assets		<u>25,586</u>	<u>26,339</u>
<b>CURRENT LIABILITIES</b>			
Short-term bank borrowings	15	(2,575)	(3,651)
Trade payables	16	(760)	(966)
Accruals and other payables		(3,359)	(4,770)
Receipts in advance		<u>(1,887)</u>	<u>(1,660)</u>
Total current liabilities		<u>(8,581)</u>	<u>(11,047)</u>
Net current assets		<u>17,005</u>	<u>15,292</u>
Net assets		<u>20,785</u>	<u>22,431</u>
Represented by:			
SHARE CAPITAL	17	23,200	23,200
RESERVES		<u>(2,415)</u>	<u>(769)</u>
Shareholders' equity		20,785	22,431
MINORITY INTERESTS		—	—
		<u>20,785</u>	<u>22,431</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

		(Unaudited)	
		For six months ended	
		30 June	31 December
		2003	2002
Notes		HK\$'000	HK\$'000
<b>NET CASH INFLOW (OUTFLOW)</b>			
	<b>GENERATED FROM OPERATIONS</b>	<b>298</b>	<b>(6,255)</b>
	Interest paid	(55)	(79)
	Hong Kong profit tax refunded	-	718
	Overseas taxation paid	(43)	(27)
	Net cash inflow (outflow) from operating activities	<b>200</b>	<b>(5,643)</b>
<b>INVESTING ACTIVITIES</b>			
	Purchase of machinery and equipment	(79)	(484)
	Proceeds from disposal of machinery and equipment	18	-
	Proceeds from disposal of long-term investment	-	1
	Repayment of advance to long-term investment	-	526
	Purchase of interests in an associate	(377)	-
	Translation adjustments	12	62
	Interest received	41	95
	<b>NET CASH OUTFLOW BEFORE FINANCING</b>	<b>(185)</b>	<b>(5,443)</b>
<b>FINANCING</b>			
	Repayment of capital element of finance lease obligations	-	(116)
	<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(185)</b>	<b>(5,559)</b>
	<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>12,654</b>	<b>22,306</b>
	<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>12,469</b>	<b>16,747</b>
		18.b	

**CONDENSE CONSOLIDATED STATEMENT OF CHANGE IN EQUITY**

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Cumulative translation adjustment <i>HK\$'000</i>	Accumulated deficits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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>
As at 1 January 2003	23,200	29,135	3,530	(105)	(33,329)	22,431
Loss attributable to shareholders	-	-	-	-	(1,659)	(1,659)
Translation adjustment	-	-	-	13	-	13
As at 30 June 2003	<u>23,200</u>	<u>29,135</u>	<u>3,530</u>	<u>(92)</u>	<u>(34,988)</u>	<u>20,785</u>

**NOTES:****1. Company information**

The Company was incorporated in Bermuda on 25 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on the GEM of the Stock Exchange since 18 May 2000.

**2. Basis of preparation**

The unaudited condensed consolidated interim accounts have been prepared in accordance with Statements of Standard Accounting Practice (“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 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 2002. The principal accounting policies adopted are disclosed in the Group’s 2002 Annual Report dated 18 March 2003.

These condensed consolidated interim accounts should be read in conjunction with the 2002 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:

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	30 June		30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	<b>11,549</b>	8,869	<b>5,889</b>	4,089
Computer telephony	<b>6,035</b>	6,025	<b>3,512</b>	3,798
Others	<b>455</b>	560	<b>315</b>	(259)
Total turnover	<b>18,039</b>	15,454	<b>9,716</b>	7,628
Interest income from bank deposits	<b>41</b>	95	<b>22</b>	56
Total revenue	<b>18,080</b>	15,549	<b>9,738</b>	7,684

4. Segment information (Cont'd)

b. Profit (loss) attributable to shareholders

Profit (loss) attributable to shareholders by business segments is as follows:

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	30 June		30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	6,332	3,825	3,180	1,894
Computer telephony	1,894	1,318	833	834
Others	(61)	(32)	(61)	(71)
Segment profit	8,165	5,111	3,952	2,657
Unallocated expenses	(9,149)	(8,519)	(3,732)	(4,493)
Profit (loss) from operations	(984)	(3,408)	220	(1,836)
Interest income	41	95	22	56
Interest expenses	(55)	(79)	(31)	(56)
Share of loss of an associate	(614)	(134)	(143)	35
Profit (loss) before taxation and minority interests	(1,612)	(3,526)	68	(1,801)
Taxation	(47)	(32)	(20)	(20)
Profit (loss) before minority interests	(1,659)	(3,558)	48	(1,821)
Minority interests	–	38	–	27
Profit (loss) attributable to shareholders	(1,659)	(3,520)	48	(1,794)

## 5. Profit (loss) before taxation and minority interests

Profit (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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>After charging:</b>				
Staff costs (including directors' emolument)	5,664	6,649	2,913	3,539
Retirement benefits scheme costs	215	279	109	138
Less: amount included in research and development expenditures	(797)	(1,106)	(353)	(550)
	<u>5,082</u>	<u>5,822</u>	<u>2,669</u>	<u>3,127</u>
Research and development expenditures	926	1,235	417	614
Write-off of development expenditures	129	129	64	65
Cost of inventories	5,852	4,502	3,788	2,153
Operating lease rentals of premises	1,616	1,472	622	557
Interest expenses				
– bank borrowings wholly repayable within five years	55	64	31	50
– finance lease	–	15	–	6
Provision for and write-off of bad and doubtful debts	428	–	522	–
Provision for and write-off of obsolete and slow-moving inventories	158	315	34	3
Depreciation of machinery and equipment				
– owned assets	2,278	2,256	919	1,117
– assets held under finance lease	–	125	–	63
Write-off of an advance to long-term investment	–	243	–	243
Net loss on disposal of machinery and equipment	377	41	–	41
Net exchange loss	<u>7</u>	<u>49</u>	<u>2</u>	<u>13</u>
<b>After crediting:</b>				
Rental income from leasing of telecommunications and computer telephony systems	3,458	2,509	1,414	1,365
Interest income from bank deposit	41	95	22	56
Write down provision for loss on disposal of machinery and equipment	<u>–</u>	<u>–</u>	<u>452</u>	<u>–</u>

**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>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation				
– Hong Kong profits tax	–	–	–	–
– Overseas income tax	<b>47</b>	27	<b>20</b>	15
Share of associate's taxation	–	5	–	5
	<b>47</b>	32	<b>20</b>	20

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 (2002: Nil).

**8. Loss per share**

The calculation of the basic per share for the Half-Yearly Period is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,659,000 (2002: HK\$3,520,000) and on the weighted average number of 232,000,000 (2002: 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 <i>HK\$'000</i>	(Unaudited) Computer equipment <i>HK\$'000</i>	(Unaudited) Equipment on lease to customers <i>HK\$'000</i>	(Unaudited) Equipment for development <i>HK\$'000</i>	(Unaudited) Total <i>HK\$'000</i>
<b>Cost</b>					
As at 1 January 2003	4,831	5,585	4,774	2,936	18,126
Additions	56	23	–	–	79
Disposals	(3,700)	(2,219)	–	–	(5,919)
Transferred from inventories	–	54	211	193	458
Transferred to inventories	–	(152)	(1,316)	(688)	(2,156)
Translation differences	1	1	–	–	2
As at 30 June 2003	<u>1,188</u>	<u>3,292</u>	<u>3,669</u>	<u>2,441</u>	<u>10,590</u>
<b>Accumulated depreciation</b>					
As at 1 January 2003	3,283	4,257	2,519	1,479	11,538
Provisions	784	502	589	403	2,278
Disposals	(3,343)	(2,181)	–	–	(5,524)
Transferred to inventories	–	(123)	(617)	(321)	(1,061)
Translation differences	–	1	–	–	1
As at 30 June 2003	<u>724</u>	<u>2,456</u>	<u>2,491</u>	<u>1,561</u>	<u>7,232</u>
<b>Net book value</b>					
As at 30 June 2003	<u>464</u>	<u>836</u>	<u>1,178</u>	<u>880</u>	<u>3,358</u>
As at 1 January 2003	<u>1,548</u>	<u>1,328</u>	<u>2,255</u>	<u>1,457</u>	<u>6,588</u>

**10. Development expenditures**

Movement of development expenditures (consolidated) were:

	(Unaudited) Six months ended 30 June 2003 <i>HK\$'000</i>	(Audited) Year ended 31 December 2002 <i>HK\$'000</i>
Beginning of period	551	809
Additions	–	–
Written-off	<u>(129)</u>	<u>(258)</u>
	<u>422</u>	<u>551</u>

**11. Investment in an associate**

Investment in an associate (consolidated) consisted of:

	(Unaudited) As at 30 June 2003 <i>HK\$'000</i>	(Audited) Year ended 31 December 2002 <i>HK\$'000</i>
Unlisted shares, at cost	377	–
Advance	<u>1,399</u>	–
	1,776	–
Accumulated share of loss	<u>(614)</u>	–
	1,162	–
Less: provision for impairment in value	<u>(1,162)</u>	–
	<u>–</u>	<u>–</u>

In February 2003, the Group entered into an agreement to invest a 40% interest in a new joint venture company, Beijing Teletron Systems Integration Company Limited (“BTSI”), which is engaged in the development and trading of telecommunication and computer telephony business in the mainland China. In addition, the Group has advanced to BTSI an amount of HK\$1,399,000, which is unsecured and non-interest bearing during the loan period from the date of grant and has no pre-determined repayment terms.

The underlying value of the investment in an associates is, in the opinion of the Company’s Directors, not less than its carrying value as at 30 June 2003.

**12. Inventories**

Inventories (consolidated) consisted of:

	(Unaudited) As at <b>30 June 2003</b> <i>HK\$'000</i>	(Audited) Year ended 31 December 2002 <i>HK\$'000</i>
Telecommunications and computer telephony hardware and software products	<b>6,671</b>	6,860
Less: Provision for obsolete and slow-moving inventories	<u><b>(2,415)</b></u>	<u>(2,315)</u>
	<u><b>4,256</b></u>	<u>4,545</u>

As at 30 June 2003, inventories of approximately HK\$2,046,000 (as at 31 December 2002: HK\$3,281,000) were stated at net realizable value.

**13. Trade receivables**

Trade receivables (consolidated) consisted of:

	(Unaudited) As at <b>30 June 2003</b> <i>HK\$'000</i>	(Audited) Year ended 31 December 2002 <i>HK\$'000</i>
Accounts receivable	<b>4,535</b>	3,597
Retention receivable	<u><b>2,248</b></u>	<u>1,152</u>
	<b>6,783</b>	4,749
Less: Provision for doubtful receivables	<u><b>(2,140)</b></u>	<u>(1,875)</u>
	<u><b>4,643</b></u>	<u>2,874</u>

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

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:

	(Unaudited) As at <b>30 June</b> <b>2003</b> <i>HK\$'000</i>	(Audited) Year ended 31 December 2002 <i>HK\$'000</i>
0 to 1 month	2,662	1,470
1 to 2 months	329	301
2 to 3 months	87	273
3 to 6 months	1,068	456
6 to 9 months	1,348	894
9 to 12 months	-	775
12 to 15 months	1,289	580
	<u><b>6,783</b></u>	<u>4,749</u>

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

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

	(Unaudited) As at <b>30 June</b> <b>2003</b> <i>HK\$'000</i>	(Audited) Year ended 31 December 2002 <i>HK\$'000</i>
Prepayments	63	30
Rental and utility deposits	435	744
Others	1,145	1,841
	<u><b>1,643</b></u>	<u>2,615</u>



**15. Short-term bank borrowings**

Short-term bank borrowings (consolidated) consisted of:

	(Unaudited) As at <b>30 June 2003</b> <i>HK\$'000</i>	(Audited) Year ended 31 December 2002 <i>HK\$'000</i>
Bank overdrafts	<b>1,048</b>	1,206
Trust receipts bank loans	<b>1,527</b>	2,445
	<b><u>2,575</u></b>	<b><u>3,651</u></b>

**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 <b>30 June 2003</b> <i>HK\$'000</i>	(Audited) Year ended 31 December 2002 <i>HK\$'000</i>
0 to 1 month	<b>139</b>	234
1 to 2 months	<b>22</b>	143
2 to 3 months	<b>66</b>	–
3 to 6 months	<b>–</b>	133
6 to 12 months	<b>47</b>	37
Over 12 months	<b>486</b>	419
	<b><u>760</u></b>	<b><u>966</u></b>

**17. Share capital**

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

	<b>(Unaudited)</b>		<b>(Audited)</b>	
	<b>Six months ended</b>		<b>Year ended</b>	
	<b>30 June 2003</b>		<b>31 December 2002</b>	
	<b>No. of</b>	<b>Nominal</b>	<b>No. of</b>	<b>Nominal</b>
	<b>shares</b>	<b>value</b>	<b>shares</b>	<b>value</b>
	<b>'000</b>	<b>HK\$'000</b>	<b>'000</b>	<b>HK\$'000</b>
<b>AUTHORISED</b>				
End of period/year	<u><b>1,000,000</b></u>	<u><b>100,000</b></u>	<u><b>1,000,000</b></u>	<u><b>100,000</b></u>
<b>ISSUED AND FULLY PAID</b>				
End of period/year	<u><b>232,000</b></u>	<u><b>23,200</b></u>	<u><b>232,000</b></u>	<u><b>23,200</b></u>

**18. Notes to the condensed consolidated cash flow statements**

a. Reconciliation of loss before taxation and minority interests to net cash inflow (outflow) generated from operations:

	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>For six months ended</b>	<b>For six months ended</b>
	<b>30 June 2003</b>	<b>30 June 2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss before taxation and minority interests	<b>(1,612)</b>	<b>(3,526)</b>
Interest income	<b>(41)</b>	<b>(95)</b>
Interest expenses	<b>55</b>	<b>79</b>
Share of loss of an associate	<b>614</b>	<b>134</b>
Depreciation of machinery and equipment	<b>2,278</b>	<b>2,381</b>
Net loss on disposal of machinery and equipment	<b>377</b>	<b>41</b>
Write-off of an advance to long-term investment	<b>-</b>	<b>243</b>
Write-off development expenditures	<b>129</b>	<b>129</b>
Operating profit (loss) before working capital changes	<b>1,800</b>	<b>(614)</b>
Decrease in inventories	<b>926</b>	<b>268</b>
(Increase) decrease in trade receivables	<b>(2,006)</b>	<b>671</b>
Decrease (increase) in prepayments, deposits and other current assets	<b>972</b>	<b>(467)</b>
Decrease in amount due to an associate	<b>-</b>	<b>(387)</b>
Decrease in trade payables	<b>(206)</b>	<b>(2,257)</b>
Decrease in accruals and other payables	<b>(1,415)</b>	<b>(3,414)</b>
Increase (decrease) in receipts in advance	<b>227</b>	<b>(55)</b>
Net cash inflow (outflow) generated from operations	<u><b>298</b></u>	<u><b>(6,255)</b></u>

**18. Notes to the condensed consolidated cash flow statements (Cont'd)**

b. Analysis of cash and cash equivalents is:

	(Unaudited) As at <b>30 June 2003</b> <i>HK\$'000</i>	(Audited) Year ended 30 June 2002 <i>HK\$'000</i>
Cash and bank deposits	<b>10,044</b>	13,302
Pledged bank deposits	<b>5,000</b>	6,241
Bank overdrafts	<b>(1,048)</b>	(532)
Trust receipts bank loans	<b>(1,527)</b>	(2,264)
	<b><u>12,469</u></b>	<b><u>16,747</u></b>

**MANAGEMENT DISCUSSION AND ANALYSIS****FINANCIAL PERFORMANCE**

The Group recorded a turnover of approximately HK\$18,039,000 for the Half-Yearly Period, representing an increase of 17% from HK\$15,454,000 for the same period in 2002.

For the Half-Yearly Period, turnover attributable to our telecommunications business increased by 30% to HK\$11,549,000 (2002: HK\$8,869,000), representing 64% (2002: 57%) of the Group's total turnover. In the same period, turnover attributable to our computer telephony business increased to HK\$6,035,000 (2002: HK\$6,025,000), representing 33% (2002: 39%) of the Group's total turnover. About HK\$455,000 (2002: HK\$560,000) or 3% (2002: 4%) was attributable to sale of Wireless LAN products.

As compared with the Last Quarter, turnover of the Group's telecommunications business and computer telephony business increased by 4% (2003 Q1: HK\$5,660,000) and 39% (2003 Q1: HK\$2,523,000), respectively.

The gross profit and gross profit margin for the Half-Yearly Period was HK\$10,999,000 and 61%, respectively (2002: HK\$10,136,000 and 66%, respectively).

The unaudited consolidated loss attributable to shareholders for the Half-Yearly Period amounted to HK\$1,659,000, representing a decrease of 47% over the Last Corresponding Period of HK\$3,520,000.

**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 borrowings.

As at June 2003, the Group had aggregated banking facilities of approximately HK\$6,200,000 (as at 31 December 2003: HK\$6,200,000) from several banks for overdrafts, loans and trading financing which were secured by pledge of the Group's time deposit of about HK\$5,000,000 (as at 31 December: HK\$5,000,000) at banks. Unutilized facilities as at the same date amounted to approximately HK\$3,420,000 (as at 31 December 2002: HK\$2,371,000).

As at 30 June, the Group's working capital and net assets was approximately HK\$17,005,000 and HK\$20,785,000, respectively. Cash balance as at 30 June 2003 stood at approximately HK\$15,044,000 or cash per share HK\$0.06. The debt-equity ratio and gearing ratio was 0.41 times and 0 times respectively.

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

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

In February 2003, the Group entered into an agreement to invest a 40% interest in a new joint venture company, Beijing Teletron Systems Integration Company Limited, which will be engaged in the development and trading of telecommunications and computer telephony business in the Mainland China.

Besides, the Group hold a 100% interest in Proactive Technology (Taiwan) Limited since 2002.

Saved as disclosed above, 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 2003, the Group had no contingent liabilities (as at 31 December 2002: nil).

## **STAFF**

The Group (excluding its associate) had approximately 35 full-time employees in Hong Kong, elsewhere in the PRC, Australia, Singapore and Taiwan as at 30 June 2003. During the Half-Yearly Period, the Group has incurred staff cost (including directors' emoluments) of approximately HK\$5,879,000.

As at 30 June 2003, five 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 2003, the estimated amount not provided for such purpose amounted to approximately HK\$598,000.

## **BUSINESS REVIEW**

### **Group Operations**

The Group successfully turned around to a profitable position in this Quarter from two consecutive loss-making years since 2000. In this Quarter, we are excited to see continuing progress on our income statement and on our balance sheet. The cash level has recorded a net increase of approximately HK\$800,000 as compared with the last quarter. This operations improvement has proved to be a successful result of our continuous cost reduction actions over the past few quarters. We will continue to operate on a modest, slim and efficient approach to achieve further improvement in the second half period of this year.

### **Hong Kong Business**

The Hong Kong operations remained as the major business and revenue contributor for the Group in this Quarter. We believe such situation and position will last for at least a few quarters. The outlook of the telecommunications market in Hong Kong is still uncertain and difficult. Competition in the mobile and fixed network market is still intense. Focuses of the carriers and operators are on further cost reductions and real profitable new services only. Immediate return on investment is the only drive for capital spending. It is very clear that customers are no longer buying technology for technology's sake. Customers want investments to drive new business models that improve business performance and deliver bottom-line results. In the current environment, demand for infrastructure and hardware equipment is minimum, however innovative application services for generating revenue through software technology and development still exist. The Group will continue

to create real business values through application innovations for our customers, focusing on the growth opportunities and leveraging our leadership in technology and valuable customer relationship.

### **Mainland China Business**

The business progress of our joint venture company in Beijing, Beijing Teletron System Integration Company Limited (“BTISI”) is good. Despite the serious impact of SARS this quarter in Beijing, inquiries and discussions on our products and solutions are growing impressively. Quite a number of major business opportunities in discussion are with good progress. The completion of the phase 1 call centre project for the Beijing Labour and Social Security Bureau was delayed due to the SARS; and it should be able to complete in the next quarter. With such a successful completion of this phase 1 project, there are other related potential opportunities that should be able to generate remarkable business returns in the coming few quarters. The business outlook of our Beijing operations remains to be positive and encouraging.

### **FUTURE PROSPECTS**

The economy is slowly recovering after the SARS in the next quarter. With the added advantages brought out by the “Mainland and Hong Kong Closer Economic Partnership Arrangement” (CEPA) signed between Hong Kong and the Mainland in 29 June 2003, Hong Kong should be able to have direct benefits at the manufacturing, professional services and financial sectors. The general outlook for the economy is becoming more positive than the last quarter in Hong Kong. IT and communications spending from commercial sectors should be picking up gradually in parallel with the revival of the local economy in the later half of the year. The company will continue to operate in the best cost-efficiency mode in order to further enhance our financial position and market leadership in the second half period of the year.

In the past two quarters, the demand for communications between Hong Kong and Mainland China has a significant growth in nearly all telecommunications service areas including, IDD, data communications, Internet, IP Virtual Private Network (IP-VPN), video conferencing, telephony conferencing, roaming etc. Especially, the demand for video and telephony conferencing services has been boosting a lot during the period of SARS event. The company will further strengthen our Mainland China operations and expand our direct business coverage in Shanghai in the coming two quarters in order to set a firm foundation to capture the long term growing demand for cross border communications. In addition, the company continued to deploy applications and solutions to help customers evolve and expand existing business potentials where it is needed. The company would also continue to focus on new opportunities to grow its services business with business alliances and technology partners in future.

**DIRECTORS' INTEREST IN SHARES**

As at 30 June 2003, the interests and short positions of the Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

**Long positions in shares**

Name of director	Number of shares	Capacity	Type of interests	Percentage of interests
Mr. Tsang Chi Hin	52,415,466	Beneficial owner	Personal	22.593%
Mr. Lam Kim Chau	52,415,466	Beneficial owner	Personal	22.593%
Mr. Lau Kai Shun Barry	37,382,664	Beneficial owner	Personal	16.113%
Mr. Wong Wai Ho	10,210,688	Beneficial owner	Personal	4.401%
Mr. Pong Kam Wah	5,000,000	Beneficial owner	Personal	2.155%

Save as disclosed in this paragraph, as at 30 June 2003, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Parts XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

**SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2003, the Directors were not aware of any other persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Parts XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE**

The Company has adopted a share option scheme on 3 May 2000 (“Share Option Scheme”), pursuant to which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. Pursuant to the Share Option Scheme, options were granted on 30 June 2000 to executive directors and other employees of the Group to subscribe for an aggregate of 19,420,000 shares in the Company at a price of \$1.30 per share, during the exercise period from 1 July 2003 to 30 June 2010. As a result of the cessation of employment of certain grantees, 6,460,000 share options granted to them on 30 June 2000 have lapsed since date of grant.

Pursuant to resolutions passed on 13 November 2002 by the shareholders of the Company, the Company has 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. No share option has been granted under the New Share Option Scheme as at 30 June 2003. The options already granted under the Share Option Scheme are unaffected.

As at 30 June 2003, the outstanding ordinary share options granted to and held by the directors of the Company are as follows:

Name of directors	Date of grant	Subscription price Per share	Number of share options at beginning and end of period
Mr. Tsang Chi Hin	30 June 2000	HK\$ 1.30	1,000,000
Mr. Lam Kim Chau	30 June 2000	HK\$ 1.30	1,000,000
Mr. Lau Kai Shun, Barry	30 June 2000	HK\$ 1.30	1,000,000
Mr. Wong Wai Ho	30 June 2000	HK\$ 1.30	1,000,000
Mr. Pong Kam Wah	30 June 2000	HK\$ 1.30	5,800,000

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 interests, whether directly or indirectly, subsisted at 30 June 2003 or at any time during the Half-Yearly Period.



**COMPETING INTERESTS**

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

**SPONSOR'S INTERESTS**

Pursuant to the agreement dated 29 May 2001 entered into between the Company and Deloitte & Touche Corporate Finance Ltd. ("Deloitte"), the appointment of Deloitte as the Company's retained sponsor according to the Rule 6.01 of the GEM Listing Rules ceased on 31 December 2002. The Company had no retained sponsor with effect from 1 January 2003. Accordingly, no additional disclosure is made.

**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.

**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.

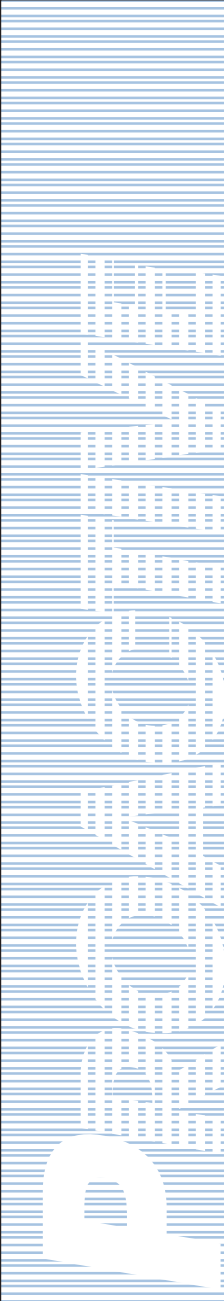
The members of the audit committee, all being independent non-executive directors, during the Half-Yearly Period are Mr. Yang Zhenhan and Ms. Wu Suk Ching, Annie.

**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 2003



中 期 業 績 報 告      I N T E R I M      R E P O R T

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