

Proactive Technology Holdings Limited

寶訊科技控股有限公司

**PROACTIVE**

INTERIM REPORT  
中期業績報告

2004

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)**

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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>2004</b> <b>2nd Quarter</b> <i>HK\$'000</i>	2004 1st Quarter <i>HK\$'000</i>	2003 2nd Quarter <i>HK\$'000</i>
Turnover:			
Telecommunications	<b>1,823</b>	1,980	5,889
Computer telephony	<b>1,844</b>	2,310	3,512
Others	—	—	315
	<u>          </u>	<u>          </u>	<u>          </u>
Total turnover	<b>3,667</b>	4,290	9,716
	<u>          </u>	<u>          </u>	<u>          </u>
Gross profit	<b>1,874</b>	2,674	5,296
Gross profit margin	<b>51%</b>	62%	55%
Distribution, selling, general and administrative expenses	<b>3,758</b>	3,877	5,076
Net profit (loss)	<b>(2,081)</b>	(1,354)	48
Net assets value	<b>14,217</b>	16,297	20,785
Cash on hand	<b>11,124</b>	10,620	15,044
Debt-equity ratio	<b>0.54 times</b>	0.37 times	0.41 times
•	The total unaudited consolidated turnover for the three months ended 30 June 2004 (“Second Quarter”) was HK\$3,667,000 , representing a decrease of 62% and 15% as compared with the last corresponding period ended 30 June 2003 (“Last Corresponding Period”), and last quarter ended 31 March 2004 (“Last Quarter”), respectively.		
•	The gross profit for the Second Quarter amounted to approximately HK\$1,874,000 while the gross profit margin maintained at a level of 51%.		
•	Operating expenditures decreased by 26% to HK\$3,758,000 as compared with Last Corresponding Period.		
•	The net loss amounted to approximately HK\$2,081,000.		

The Directors of Proactive Technology Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group” or “Proactive”) for the six months (“Half-Yearly Period”) and three months (“Second Quarter”) ended 30 June 2004, 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 Jun		(Unaudited) Three months ended 30 Jun	
		2004	2003	2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	7,957	18,039	3,667	9,716
Cost of sales		(3,409)	(7,040)	(1,793)	(4,420)
Gross profit		4,548	10,999	1,874	5,296
Distribution and selling expenses		(8)	(38)	(4)	(30)
General and administrative expenses		(7,627)	(11,945)	(3,754)	(5,046)
Profit (loss) from operations		(3,087)	(984)	(1,884)	220
Interest income		3	41	1	22
Interest expenses		(20)	(55)	(11)	(31)
Share of loss of an associate		(280)	(614)	(158)	(143)
Profit (loss) before taxation	5	(3,384)	(1,612)	(2,052)	68
Taxation	6	(51)	(47)	(29)	(20)
Profit (loss) attributable to shareholders		(3,435)	(1,659)	(2,081)	48
Dividends	7	–	–	–	–
Profit (loss) per share – Basic	8	<b>HK(1.48cents)</b>	HK(0.72cents)	<b>HK(0.90cents)</b>	HK0.02cents

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 Jun 2004 <i>HK\$'000</i>	(Audited) As at 31 Dec 2003 <i>HK\$'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Machinery and equipment	9	1,962	2,527
Development expenditures	10	163	292
Investment in an associate	11	-	234
Other investment	12	286	286
Total non-current assets		<u>2,411</u>	<u>3,339</u>
<b>CURRENT ASSETS</b>			
Inventories	13	3,714	2,541
Trade receivables	14	2,495	3,149
Prepayments, deposits and other current assets	15	2,104	1,250
Pledged bank deposits		5,002	5,002
Cash and other bank deposits		6,122	8,306
Total current assets		<u>19,437</u>	<u>20,248</u>
<b>CURRENT LIABILITIES</b>			
Short-term bank borrowings	16	(1,564)	(496)
Trade payables	17	(1,373)	(1,157)
Accruals and other payables		(3,451)	(3,064)
Receipts in advance		(1,243)	(1,233)
Total current liabilities		<u>(7,631)</u>	<u>(5,950)</u>
Net current assets		<u>11,806</u>	<u>14,298</u>
Net assets		<u>14,217</u>	<u>17,637</u>
Represented by:			
SHARE CAPITAL	18	23,200	23,200
RESERVES		(8,983)	(5,563)
Shareholders' equity		<u>14,217</u>	<u>17,637</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

(Unaudited)  
For six months  
ended

	<i>Notes</i>	<b>30 Jun 2004</b> <i>HK\$'000</i>	30 Jun 2003 <i>HK\$'000</i>
NET CASH (OUTFLOW) INFLOW GENERATED FROM OPERATIONS	<i>19.a</i>	<u><b>(3,182)</b></u>	<u>298</u>
Interest paid		<b>(20)</b>	(55)
Overseas taxation paid		<u><b>(60)</b></u>	<u>(43)</u>
Net cash (outflow) inflow from operating activities		<b>(3,262)</b>	200
INVESTING ACTIVITIES			
Purchase of machinery and equipment		<b>(8)</b>	(79)
Proceeds from disposal of machinery and equipment		-	18
Acquisition of interests in an associate		-	(377)
Translation adjustments		<b>15</b>	12
Interest received		<u><b>3</b></u>	<u>41</u>
NET CASH OUTFLOW BEFORE FINANCING		<u><b>(3,252)</b></u>	<u>(185)</u>
FINANCING			
Repayment of capital element of finance lease obligations		<u>-</u>	<u>-</u>
DECREASE IN CASH AND CASH EQUIVALENTS		<b>(3,252)</b>	(185)
CASH AND CASH EQUIVALENTS, beginning of period		<u><b>7,810</b></u>	<u>7,654</u>
CASH AND CASH EQUIVALENTS, end of period	<i>19.b</i>	<u><u><b>4,558</b></u></u>	<u><u>7,469</u></u>

## 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 2003	23,200	29,135	3,530	(105)	(33,329)	22,431
Loss attributable to shareholders	-	-	-	-	(1,659)	(1,659)
Translation adjustments	-	-	-	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>
As at 1 January 2004	23,200	29,135	3,530	(37)	(38,191)	17,637
Loss attributable to shareholders	-	-	-	-	(3,435)	(3,435)
Translation adjustments	-	-	-	15	-	15
As at 30 June 2004	<u>23,200</u>	<u>29,135</u>	<u>3,530</u>	<u>(22)</u>	<u>(41,626)</u>	<u>14,217</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 5.30 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 2003. The principal accounting policies adopted are disclosed in the Group's 2003 Annual Report dated 19 March 2004.

These condensed consolidated interim accounts should be read in conjunction with the 2003 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 Jun</b>		<b>30 Jun</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Telecommunications	<b>3,803</b>	11,549	<b>1,823</b>	5,889
Computer telephony	<b>4,154</b>	6,035	<b>1,844</b>	3,512
Others	–	455	–	315
<b>Total turnover</b>	<b>7,957</b>	18,039	<b>3,667</b>	9,716
Interest income from bank deposits	<b>3</b>	41	<b>1</b>	22
<b>Total revenue</b>	<b>7,960</b>	18,080	<b>3,668</b>	9,738



#### 4. Segment information (cont'd)

b. Profit (loss) attributable to shareholders

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

	(Unaudited) Six months ended		(Unaudited) Three months ended	
	30 Jun		30 Jun	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	736	6,332	17	3,180
Computer telephony	1,781	1,894	867	833
Others	–	(61)	–	(61)
	<u>2,517</u>	<u>8,165</u>	<u>884</u>	<u>3,952</u>
Segment profit				
Unallocated expenses	(5,604)	(9,149)	(2,768)	(3,732)
	<u>(3,087)</u>	<u>(984)</u>	<u>(1,884)</u>	<u>220</u>
Profit (loss) from operations				
Interest income	3	41	1	22
Interest expenses	(20)	(55)	(11)	(31)
Share of loss of an associate	(280)	(614)	(158)	(143)
	<u>(3,384)</u>	<u>(1,612)</u>	<u>(2,052)</u>	<u>68</u>
Profit (loss) before taxation				
Taxation	(51)	(47)	(29)	(20)
	<u>(3,435)</u>	<u>(1,659)</u>	<u>(2,081)</u>	<u>48</u>
Profit (loss) attributable to shareholders				

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

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

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>30 Jun</b>		<b>30 Jun</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>After charging:</b>				
Staff costs (including directors' emoluments)				
– Salaries and allowances	<b>5,151</b>	5,909	<b>2,678</b>	3,032
– Retirement benefits scheme costs	<b>175</b>	215	<b>65</b>	109
– Less: amount included in research and development expenditures	<b>(638)</b>	(797)	<b>(332)</b>	(353)
	<b>4,688</b>	5,327	<b>2,411</b>	2,788
Research and development expenditures	<b>767</b>	926	<b>396</b>	417
Write-off of development expenditures	<b>129</b>	129	<b>64</b>	64
Cost of inventories	<b>2,700</b>	5,852	<b>1,536</b>	3,788
Operating lease rentals of premises	<b>648</b>	1,616	<b>288</b>	622
Interest expenses				
– bank borrowings wholly repayable within five years	<b>20</b>	55	<b>11</b>	31
Provision for and write-off of bad and doubtful receivables	–	428	–	522
Provision for and write-off of obsolete and slow-moving inventories	–	158	–	34
Depreciation of machinery and equipment	<b>832</b>	2,278	<b>382</b>	919
Net loss on disposal of machinery and equipment	–	377	–	–
Net exchange loss	<b>13</b>	7	<b>3</b>	2
<b>After crediting:</b>				
Rental income				
– leasing of telecommunications and computer telephony equipment	<b>1,747</b>	3,458	<b>649</b>	1,414
Interest income				
– bank deposits	<b>3</b>	41	<b>1</b>	22
Write down provision for loss on disposal of machinery and equipment	–	–	–	452
Write down provision for bad and doubtful receivables	<b>46</b>	–	<b>46</b>	–

## 6. Taxation

Taxation consists of:

	<b>(Unaudited)</b> <b>Six months ended</b> <b>30 Jun</b>		<b>(Unaudited)</b> <b>Three months ended</b> <b>30 Jun</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation				
– Overseas income tax	<u>51</u>	<u>47</u>	<u>29</u>	<u>20</u>
	<u>51</u>	<u>47</u>	<u>29</u>	<u>20</u>

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 (2003: 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\$3,435,000 (2003: HK\$1,659,000) and on the weighted average number of 232,000,000 (2003: 232,000,000) shares.

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

**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 2004	1,190	3,382	3,233	2,390	10,195
Additions	2	-	6	-	8
Disposals	-	-	-	-	-
Transferred from inventories	-	248	735	13	996
Transferred to inventories	-	(38)	(1,283)	(364)	(1,685)
Translation differences	-	-	-	-	-
As at 30 June 2004	<u>1,192</u>	<u>3,592</u>	<u>2,691</u>	<u>2,039</u>	<u>9,514</u>
<b>Accumulated depreciation</b>					
As at 1 January 2004	840	2,825	2,193	1,810	7,668
Provisions	111	284	229	208	832
Disposals	-	-	-	-	-
Transferred to inventories	-	-	(636)	(312)	(948)
Translation differences	-	-	-	-	-
As at 30 June 2004	<u>951</u>	<u>3,109</u>	<u>1,786</u>	<u>1,706</u>	<u>7,552</u>
<b>Net book value</b>					
As at 30 June 2004	<u>241</u>	<u>483</u>	<u>905</u>	<u>333</u>	<u>1,962</u>
As at 1 January 2004	<u>350</u>	<u>557</u>	<u>1,040</u>	<u>580</u>	<u>2,527</u>

## 10. Development expenditures

Movement of development expenditures (consolidated) were:

	(Unaudited) Six months ended 30 Jun 2004 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2003 <i>HK\$'000</i>
Beginning of period	292	551
Additions	–	–
Written-off	<u>(129)</u>	<u>(259)</u>
	<u>163</u>	<u>292</u>

## 11. Investment in an associate

Investment in an associate (consolidated) consisted of:

	(Unaudited) Six months ended 30 Jun 2004 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2003 <i>HK\$'000</i>
Share of net assets	–	–
Amount due from an associate	<u>2,004</u>	<u>2,004</u>
	2,004	2,004
Less: provision for impairment in value	<u>(2,004)</u>	<u>(1,770)</u>
	<u>–</u>	<u>234</u>

The amount due from an associate is unsecured, non-interest bearing and has no fixed repayment terms.

## 12. Other Investment

Other investment represents the cost of a nominee membership in a golf club in the People's Republic of China.

**13. Inventories**

Inventories (consolidated) consisted of:

	(Unaudited) As at <b>30 Jun 2004</b> <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2003 <i>HK\$'000</i>
Telecommunications and computer telephony hardware and software products	<b>6,540</b>	5,367
Less: Provision for obsolete and slow-moving inventories	<u><b>(2,826)</b></u>	<u>(2,826)</u>
	<u><b>3,714</b></u>	<u>2,541</u>

As at 30 June 2004, inventories of approximately HK\$1,001,000 (as at 31 December 2003: HK\$1,001,000) were stated at net realizable value.

**14. Trade receivables**

Trade receivables (consolidated) consisted of:

	(Unaudited) As at <b>30 Jun 2004</b> <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2003 <i>HK\$'000</i>
Accounts receivable	<b>3,204</b>	3,443
Retention receivable	<u><b>1,113</b></u>	<u>1,528</u>
	<b>4,317</b>	4,971
Less: Provision for doubtful receivables	<u><b>(1,822)</b></u>	<u>(1,822)</u>
	<u><b>2,495</b></u>	<u>3,149</u>

**14. 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 Jun 2004</b> <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2003 <i>HK\$'000</i>
0 to 1 month	1,168	838
1 to 2 months	497	1,060
2 to 3 months	137	207
3 to 6 months	271	620
6 to 9 months	34	3
9 to 12 months	112	154
12 to 15 months	2,098	2,089
	<u>4,317</u>	<u>4,971</u>

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

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

	(Unaudited) As at <b>30 Jun 2004</b> <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2003 <i>HK\$'000</i>
Prepayments	140	185
Rental and utility deposits	388	439
Others	1,576	626
	<u>2,104</u>	<u>1,250</u>

**16. Short-term bank borrowings**

Short-term bank borrowings (consolidated) consisted of:

	(Unaudited) As at <b>30 Jun 2004</b> <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2003 <i>HK\$'000</i>
Bank overdrafts	870	182
Trust receipts bank loans	694	314
	<u>1,564</u>	<u>496</u>

**17. 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 Jun 2004</b> <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2003 <i>HK\$'000</i>
0 to 1 month	365	443
1 to 2 months	446	111
2 to 3 months	112	110
3 to 6 months	-	1
6 to 12 months	4	-
Over 12 months	446	492
	<u>1,373</u>	<u>1,157</u>

**18. Share capital**

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

	(Unaudited) Six months ended <b>30 Jun 2004</b>		(Audited) Year ended 31 Dec 2003	
	No. of shares '000	Nominal value <i>HK\$'000</i>	No. of shares '000	Nominal value <i>HK\$'000</i>
AUTHORISED				
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				
End of period/year	<u>232,000</u>	<u>23,200</u>	<u>232,000</u>	<u>23,200</u>



## 19. 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:

	(Unaudited) For six months ended 30 Jun 2004 <i>HK\$'000</i>	(Unaudited) For six months ended 30 Jun 2003 <i>HK\$'000</i>
Loss before taxation and minority interests	(3,384)	(1,612)
Interest income	(3)	(41)
Interest expenses	20	55
Share of loss of an associate	280	614
Depreciation of machinery and equipment	832	2,278
Net loss on disposal of machinery and equipment	-	377
Write-off development expenditures	129	129
Operating (loss) profit before working capital changes	(2,126)	1,800
(Increase) decrease in inventories	(1,432)	926
Decrease (increase) in trade receivables	654	(2,006)
(Increase) decrease in prepayments, deposits and other current assets	(900)	972
Increase (decrease) in trade payables	216	(206)
Increase (decrease) in accruals and other payables	396	(1,415)
Increase in receipts in advance	10	227
Net cash (outflow) inflow generated from operations	(3,182)	298

- b. Analysis of cash and cash equivalents is:

	(Unaudited) As at 30 Jun 2004 <i>HK\$'000</i>	(Unaudited) As at 30 Jun 2003 <i>HK\$'000</i>
Cash and bank deposits	6,122	10,044
Bank overdrafts	(870)	(1,048)
Trust receipts bank loans	(694)	(1,527)
	4,558	7,469

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL PERFORMANCE

The Group recorded a turnover of approximately HK\$7,957,000 in the first half of 2004, representing a decrease of 56% from HK\$18,039,000 of last corresponding period in 2003.

Turnover attributable to our telecommunication business decreased by 67% to HK\$3,803,000 (2003: HK\$11,549,000), representing 48% of the total turnover. On the other hand, turnover attributable to our computer telephony business decreased by 31% to HK\$4,154,000 (2003: HK\$6,035,000), representing 52% of the total turnover.

The gross profit and gross profit margin for the Half-Yearly Period was HK\$4,548,000 and 57% respectively (2003: HK\$10,999,000 and 61% respectively).

The unaudited consolidated loss attributable to shareholders for the Half-Yearly Period amounted to HK\$3,435,000.

### 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 30 June 2004, 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 pledges of the Group's time deposit of approximately HK\$5,002,000 (as at 31 December 2003: HK\$5,002,000). Unutilised bank facilities as at the same date amounted to approximately HK\$4,458,000 (as at 31 December 2003: HK\$5,536,000).

As at 30 June 2004, the Group's working capital and net assets was approximately HK\$11,806,000 and HK\$14,217,000, respectively. Cash balance as at 30 June 2004 stood at approximately HK\$11,124,000 or cash per share HK\$0.05. The debt-equity ration and gearing ration was 0.54 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**

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 dominated in Hong Kong dollars and United States dollars. As Hong Kong dollars is closely linked with United States dollars, foreign currency exposure to the Group shall be minimal.

## **CONTINGENT LIABILITIES**

As at 30 June 2004, the Group had contingent liabilities of HK\$177,000 (as at 31 December 2004: HK\$177,000).

## **STAFF**

The Group (excluding its associates) had approximately 21 full-time employees in Hong Kong as at 30 June 2004. During the Half-Yearly Period, the Group has incurred staff cost (including directors' emoluments) of approximately HK\$5,326,000.

As at 30 June 2004, 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, 2004, the estimated amount provided for such purpose amounted to HK\$670,000.

## BUSINESS REVIEW

### Hong Kong

Regardless the recent on-going recovery on retailing and tourism market sectors, the telecommunications and IT sector in the first half of 2004 was still in the progress of recession and not yet well recovered from the slump market situation. The market was still on the way of re-structuring and re-formation, which led to an obscured outlook in future demand. The drive on investment both in basic infrastructure and value-added services was inevitably suffered, which formed a vicious cycle for luring customer needs and creating new market niches. Instead of developing some sort of innovative services for attracting new customer base, the industry tends to cut the prices for expanding their market pieces. Such unfavorable factor thus generated adverse and inferior outcome and eventually the whole industry was in a prolonged slump market situation.

Based on such an adversely external market situation, the group has to keep ourselves slim in operation and some major re-construction was undertaken during the second quarter. The aim is to have stricter and tighter control of operation in order to sustain an effective operation, which will benefit the financial status in the second half of 2004.

### Beijing PRC

Due to the Beijing Olympics in 2008, the Beijing Government is investing tremendously in re-developing the basic infrastructure. The famous tourist place is also modernized to welcome the anticipated influx of tourists in future. Our newly developed Joint Venture, the Beijing Teletron Systems Integration (“BJTSI”), just completed a modernization project for Great Wall to reform the Automatic Fare Collection (AFC) system, which replaced the manual system by the Beijing Municipal Administration and Communication Card. Such a reformation is just a beginning and will spread out to nearly all scenery points within the coming few years.

The demand for infrastructure reformation is also a major subject for welcoming Beijing Olympics especially the modernization of mass transportation. The Metro No. 1, 2 and 8 will be reformed to adopt modernized AFC system to supersede the legacy system. BJTSI is well liaising and cooperating with some reputable partners to follow up the tender with total value around RMB500 million. In fact, the similar system will be expanded to overall Metro within a couple of years.

The system installed and commissioned in Beijing Labour and Social Security Bureau kept expanding and Phase II project was completed successfully and Phase III project was being discussed with more up-to-dated features. The installed call center project was deemed to be the leading kind in PRC. We are now planning to cooperate with the Bureau to expand the service coverage to other provinces and cities. This may generate enormous business opportunities in the future.

### **FUTURE PROSPECTS**

The Group is exercising very strict and tight cost control to deal with the present adverse market situation. We are maintaining high team morale, working efficiently to confront with prolonged ambiguous market demand in the future.

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

Due to the Beijing Olympics 2008, Beijing has to implement enormous amount of immense construction projects to facilitate Beijing with sufficient and up-to-date infrastructure for the event. The management has confidence that our strategy is crucial to make ourselves effective and pace a crucial way for capture future business opportunities.

## DIRECTORS' INTEREST IN SHARES

As at 30 June 2004, the interests or short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### Long position in shares

Name of director	Number of shares	Capacity	Type of interests	Percentage of interests
Mr. Tsang Chi Hin	52,415,466	Beneficial owner	Personal	22.593%
Mr. Lam Kim Chau	52,415,466	Beneficial owner	Personal	22.593%
Mr. Lau Kai Shun Barry	30,182,664	Beneficial owner	Personal	13.010%
Mr. Wong Wai Ho	10,210,688	Beneficial owner	Personal	4.401%
Mr. Pong Kam Wah	5,000,000	Beneficial owner	Personal	2.155%

Save as disclosed above, as at 30 June 2004, none of the directors and chief executives had interests or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Parts XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

The Company has adopted a share option scheme on 3 May 2000 ("Share Option Scheme"), pursuant to which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. Pursuant to the Share Option Scheme, options were granted on 30 June 2000 to executive directors and other employees of the Group to subscribe for an aggregate of 19,420,000 shares in the Company at a price of \$1.30 per share, during the exercise period from 1 July 2003 to 30 June 2010. As a result of the cessation of employment of certain grantees, 8,860,000 share options granted to them on 30 June 2000 have lapsed since date of grant.

Pursuant to resolutions at a special general meeting of the shareholders held on 13 November 2002, the Company terminated the Share Option Scheme and adopted a new share option scheme ("New Share Option Scheme") in order to comply with the new requirements of Chapter 23 of the GEM Listing Rules effected on 1 October 2001. As at 30 June 2004, no share option has been granted under the New Share Option Scheme. The options already granted under the Share Option Scheme are unaffected.

As at 30 June 2004, the share options granted to and held by the directors of the Company are as follows:

Name of directors	Date of grant	Subscription price Per share	Number of share options at beginning and end of period
Mr. Tsang Chi Hin	30 June 2000	HK\$ 1.30	1,000,000
Mr. Lam Kim Chau	30 June 2000	HK\$ 1.30	1,000,000
Mr. Lau Kai Shun, Barry	30 June 2000	HK\$ 1.30	1,000,000
Mr. Wong Wai Ho	30 June 2000	HK\$ 1.30	1,000,000
Mr. Pong Kam Wah	30 June 2000	HK\$ 1.30	5,800,000
			9,800,000

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouse or their children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interests, whether directly or indirectly, subsisted as at 30 June 2004 or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, persons who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or was , directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

### Long position in shares

Name	Number of shares	Capacity	Type of interests	Percentage of interests
Mr. Tsang Chi Hin	52,415,466	Beneficial owner	Personal	22.593%
Mr. Lam Kim Chau	52,415,466	Beneficial owner	Personal	22.593%
Mr. Lau Kai Shun Barry	30,182,664	Beneficial owner	Personal	13.010%
Pacific Technology Partners L.P.	20,735,232	Investment manager	Corporate	8.938%

Save as disclosed above, no other shareholders or other persons had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFC, or was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

## COMPETING INTERESTS

Mr. Tsang Chi Hin is the chairman of the Company and a director of Beijing Teletron Systems Integration Company Limited which is also engaged in the provision of telecommunications and computer telephony solutions. The Directors believe that there is a risk that such business may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Tsang in the telecommunications and computer telephony industry will complement the development of the Group's business.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had an interest in business which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with the Group.



## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## BOARD PRACTICE AND PROCEDURES

The Company has complied with the board practice and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 30 June 2004.

## COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six month ended 30 June 2004. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the six months ended 30 June 2004.

## AUDIT COMMITTEE

The Company has established an audit committee on 3 May 2000 and has formulated its written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, 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 year are Mr. Yang Zhenhan, Mr. Leung Lok Ming and Mr. Lo Wa Kei, Roy.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

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

Hong Kong, 13 August 2004

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