

PROACTIVE

寶訊科技控股有限公司

Proactive Technology Holdings Limited

INTERIM REPORT

2005

中期業績報告

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This report, for which the directors (the “Directors”) of Proactive Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to Proactive Technology Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS HIGHLIGHTS

	2005 2nd Quarter HK\$'000	2005 1st Quarter HK\$'000	2004 2nd Quarter HK\$'000
Turnover:			
Telecommunications	1,356	3,279	1,823
Computer telephony	3,462	2,794	1,844
Total turnover	<u>4,818</u>	<u>6,073</u>	<u>3,667</u>
Gross profit	1,723	3,554	1,874
Gross profit margin	36%	59%	51%
Distribution, selling, general and administrative expenses	2,316	3,550	3,758
Net loss	(727)	(18)	(2,081)
Net assets value	9,736	10,383	14,217
Cash on hand	9,754	9,704	11,124
Debt-equity ratio	0.69 times	0.58 times	0.54 times
•	The total unaudited consolidated turnover for the three months ended 30 June 2005 (“Second Quarter”) was HK\$4,818,000, representing an increase of 31% and a decrease of 21% as compared with the last corresponding period ended 30 June 2004 (“Last Corresponding Period”), and last quarter ended 31 March 2005 (“Last Quarter”), respectively.		
•	The gross profit for the Second Quarter amounted to approximately HK\$1,723,000 while the gross profit margin was 36%.		
•	Operating expenditures decreased by 38% to HK\$2,316,000 as compared with Last Corresponding Period.		
•	The net loss narrowed to approximately HK\$727,000.		

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 the three months (“Second Quarter”) ended 30 June 2005, 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 Jun		(Unaudited) Three months ended 30 Jun	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	3	10,891	7,957	4,818	3,667
Cost of sales		(5,614)	(3,409)	(3,095)	(1,793)
Gross Profit		5,277	4,548	1,723	1,874
Distribution and selling expenses		(16)	(8)	(10)	(4)
General and administrative expenses		(5,851)	(7,627)	(2,306)	(3,754)
Profit (loss) from operations		(590)	(3,087)	(593)	(1,884)
Interest income		40	3	27	1
Interest expenses		(26)	(20)	(15)	(11)
Share of loss of an associate		(169)	(280)	(146)	(158)
Profit (loss) before taxation	4	(745)	(3,384)	(727)	(2,052)
Taxation	5	-	(51)	-	(29)
Profit (loss) attributable to shareholders		(745)	(3,435)	(727)	(2,081)
Dividends	6	-	-	-	-
Profit (loss) per share – Basic	7	HK(0.32 cents)	HK(1.48 cents)	HK(0.31 cents)	HK(0.90 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	(Unaudited) As at 30 Jun 2005 HK\$'000	(Audited) As at 31 Dec 2004 HK\$'000
NON-CURRENT ASSETS			
Machinery and equipment	8	1,253	1,328
Development expenditures	9	–	–
Investment in an associate	10	692	861
Other investment	11	286	286
Total non-current assets		<u>2,231</u>	<u>2,475</u>
CURRENT ASSETS			
Inventories	12	951	1,831
Trade receivables	13	2,889	2,461
Prepayments, deposits and other current assets	14	618	1,219
Pledged bank deposits		5,002	5,002
Cash and other bank deposits		4,752	4,761
Total current assets		<u>14,212</u>	<u>15,274</u>
CURRENT LIABILITIES			
Short-term bank borrowings	15	(1,063)	(874)
Trade payables	16	(1,603)	(1,104)
Accruals and other payables		(2,416)	(3,127)
Receipts in advance		(1,625)	(2,242)
Total current liabilities		<u>(6,707)</u>	<u>(7,347)</u>
Net current assets		<u>7,505</u>	<u>7,927</u>
Net assets		<u>9,736</u>	<u>10,402</u>
Represented by:			
SHARE CAPITAL	17	23,200	23,200
RESERVES		(13,464)	(12,798)
Shareholders' equity		<u>9,736</u>	<u>10,402</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

		(Unaudited) For six months ended	
	<i>Notes</i>	30 Jun 2005 <i>HK\$'000</i>	30 Jun 2004 <i>HK\$'000</i>
NET CASH (OUTFLOW) INFLOW GENERATED FROM OPERATIONS	18.a	<u>311</u>	<u>(3,182)</u>
Interest paid		(26)	(20)
Overseas taxation paid		<u>-</u>	<u>(60)</u>
Net cash (outflow) inflow from operating activities		285	(3,262)
INVESTING ACTIVITIES			
Purchases of machinery and equipment		(613)	(8)
Proceeds from disposal of machinery and equipment		11	-
Acquisition of interests in an associate		-	-
Translation adjustments		79	15
Interest received		<u>40</u>	<u>3</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(198)</u>	<u>(3,252)</u>
FINANCING			
Repayment of capital element of finance lease obligations		<u>-</u>	<u>-</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(198)	(3,252)
CASH AND CASH EQUIVALENTS, beginning of period		<u>3,887</u>	<u>7,810</u>
CASH AND CASH EQUIVALENTS, end of period	18.b	<u>3,689</u>	<u>4,558</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 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>
As at 1 January 2005	23,200	29,135	3,530	(24)	(45,439)	10,402
Loss attributable to shareholders	-	-	-	-	(745)	(745)
Translation adjustments	-	-	-	79	-	79
As at 30 June 2005	<u>23,200</u>	<u>29,135</u>	<u>3,530</u>	<u>55</u>	<u>(46,184)</u>	<u>9,736</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS:

1. Company information

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

2. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements ("interim financial statements") of the Group have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice No. 34 (Interim Financial Reporting) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Rules Governing the Listing of Securities on Growth Enterprise Market. The interim financial statements have been prepared on the basis of historical cost convention.

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

3. 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) Six months ended 30 Jun		(Unaudited) Three months ended 30 Jun	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	4,635	3,803	1,356	1,823
Computer telephony	6,256	4,154	3,462	1,844
Others	-	-	-	-
Total turnover	10,891	7,957	4,818	3,667
Interest income from bank deposits	40	3	27	1
Total revenue	10,931	7,960	4,845	3,668

b. Profit (loss) attributable to shareholders

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

	(Unaudited) Six months ended 30 Jun		(Unaudited) Three months ended 30 Jun	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	970	736	462	17
Computer telephony	3,443	1,781	1,139	867
Others	-	-	-	-
Segment profit	4,413	2,517	1,601	884
Unallocated expenses	(5,003)	(5,604)	(2,194)	(2,768)
Profit (loss) from operations	(590)	(3,087)	(593)	(1,884)
Interest income	40	3	27	1
Interest expenses	(26)	(20)	(15)	(11)
Share of loss of an associate	(169)	(280)	(146)	(158)
Profit (loss) before taxation	(745)	(3,384)	(727)	(2,052)
Taxation	-	(51)	-	(29)
Profit (loss) attributable to shareholders	(745)	(3,435)	(727)	(2,081)

4. 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 Jun		(Unaudited) Three months ended 30 Jun	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
After charging:				
Staff costs (including directors' emoluments)				
– Salaries and allowances	3,449	5,151	1,702	2,678
– Retirement benefits scheme costs	115	175	60	65
– Less: amount included in research and development expenditures	–	(638)	–	(332)
	3,564	4,688	1,762	2,411
Research and development expenditures	–	767	–	396
Write-off of development expenditures	–	129	–	64
Cost of inventories	5,304	2,700	2,969	1,536
Operating lease rentals of premises	369	648	152	288
Interest expenses				
– bank borrowings wholly repayable within five years	26	20	15	11
Provision for and write-off of bad and doubtful receivables	–	–	–	–
Provision for and write-off of obsolete and slow-moving inventories	669	–	11	–
Depreciation of machinery and equipment	438	832	208	382
Net loss on disposal of machinery and equipment	–	–	–	–
Net exchange loss	86	13	84	3
After crediting:				
Rental income				
– leasing of telecommunications and computer telephony equipment	732	1,747	344	649
Interest income				
– bank deposits	40	3	27	1
Write down provision for loss on disposal of machinery and equipment	–	–	–	–
Write down provision for bad and doubtful receivables	–	46	–	46

5. Taxation

Taxation consists of:

	(Unaudited) Six months ended 30 Jun		(Unaudited) Three months ended 30 Jun	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Current taxation				
– Overseas income tax	–	51	–	29
	–	51	–	29

The Company is not subject to taxation in Bermuda on its profit or capital gains until March 2016. No Hong Kong profits tax has been provided, as the Group had no assessable profit arising in or derived from Hong Kong. Overseas income tax has been provided by subsidiaries, branches or representative offices based on their estimated taxable profits at the rates of taxation applicable in the respective jurisdictions in which they operate.

6. Interim dividends

The directors do not recommend the payment of interim dividends for the Half-Yearly Period (2004: Nil).

7. Loss per share

The calculation of the basic loss per share for the Half-Yearly Period is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$745,000 (2004: HK\$3,435,000) and on the weighted average number of 232,000,000 (2004: 232,000,000) shares.

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

8. 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>
Cost					
As at 1 January 2005	1,050	3,387	2,264	1,674	8,375
Additions	32	149	91	341	613
Disposals	–	–	(224)	–	(224)
Transferred from inventories	–	–	–	–	–
Transferred to inventories	–	(8)	(1,100)	(572)	(1,680)
Translation differences	–	–	–	–	–
As at 30 June 2005	<u>1,082</u>	<u>3,528</u>	<u>1,031</u>	<u>1,443</u>	<u>7,084</u>
Accumulated depreciation					
As at 1 January 2005	980	3,211	1,388	1,468	7,047
Provisions	63	98	168	109	438
Disposals	–	–	(213)	–	(213)
Transferred to inventories	–	–	(937)	(504)	(1,441)
Translation differences	–	–	–	–	–
As at 30 June 2005	<u>1,043</u>	<u>3,309</u>	<u>406</u>	<u>1,073</u>	<u>5,831</u>
Net book value					
As at 30 June 2005	<u>39</u>	<u>219</u>	<u>625</u>	<u>370</u>	<u>1,253</u>
As at 1 January 2005	<u>70</u>	<u>176</u>	<u>876</u>	<u>206</u>	<u>1,328</u>

9. Development expenditures

Movement of development expenditures (consolidated) were:

	(Unaudited) Six months ended 30 Jun 2005 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2004 <i>HK\$'000</i>
Beginning of period	-	292
Additions	-	-
Written-off	-	(292)
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

10. Investment in an associate

Investment in an associate (consolidated) consisted of:

	(Unaudited) Six months ended 30 Jun 2005 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2004 <i>HK\$'000</i>
Share of net assets	29	198
Amount due from an associate	2,433	2,433
	<u>2,462</u>	<u>2,631</u>
Less: provision for impairment in value	(1,770)	(1,770)
	<u>692</u>	<u>861</u>

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

11. Other investment

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

12. Inventories

Inventories (consolidated) consisted of:

	(Unaudited) As at 30 Jun 2005 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2004 <i>HK\$'000</i>
Telecommunications and computer telephony hardware products	3,277	3,507
Less: Provision for obsolete and slow-moving inventories	<u>(2,326)</u>	<u>(1,676)</u>
	<u>951</u>	<u>1,831</u>

13. Trade receivables

Trade receivables (consolidated) consisted of:

	(Unaudited) As at 30 Jun 2005 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2004 <i>HK\$'000</i>
Accounts receivable	3,665	3,130
Retention receivable	<u>1,096</u>	<u>1,203</u>
	4,761	4,333
Less: Provision for doubtful receivables	<u>(1,872)</u>	<u>(1,872)</u>
	<u>2,889</u>	<u>2,461</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 30 Jun 2005 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2004 <i>HK\$'000</i>
0 to 1 month	1,389	876
1 to 2 months	445	303
2 to 3 months	158	322
3 to 6 months	419	567
6 to 9 months	142	80
9 to 12 months	2	51
Over 12 months	2,206	2,134
	4,761	4,333

14. Prepayments, deposits and other current assets

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

	(Unaudited) As at 30 Jun 2005 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2004 <i>HK\$'000</i>
Prepayments	154	406
Rental and utility deposits	256	503
Others	208	310
	618	1,219

15. Short-term bank borrowings

Short-term bank borrowings (consolidated) consisted of:

	(Unaudited) As at 30 Jun 2005 HK\$'000	(Audited) Year ended 31 Dec 2004 HK\$'000
Bank overdrafts	493	393
Trust receipts bank loans	570	481
	<u>1,063</u>	<u>874</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 Jun 2005 HK\$'000	(Audited) Year ended 31 Dec 2004 HK\$'000
0 to 1 month	652	418
1 to 2 months	342	236
2 to 3 months	256	-
3 to 6 months	306	-
6 to 12 months	-	-
Over 12 months	47	450
	<u>1,603</u>	<u>1,104</u>

17. Share capital

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

	(Unaudited) Six months ended 30 Jun 2005		(Audited) Year ended 31 Dec 2004	
	No. of shares '000	Nominal value HK\$'000	No. of shares '000	Nominal value HK\$'000
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>

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:

	(Unaudited) For six months ended 30 Jun	
	2005 HK\$'000	2004 HK\$'000
Loss before taxation and minority interests	(745)	(3,384)
Interest income	(40)	(3)
Interest expenses	26	20
Share of loss of an associate	169	280
Depreciation of machinery and equipment	438	832
Write-off development expenditures	–	129
Provision for Stock / Fixed Asset	669	–
Operating (loss) profit before working capital changes	517	(2,126)
(Increase) decrease in inventories	450	(1,432)
(Increase) decrease in trade receivables	(428)	654
(Increase) decrease in prepayments, deposits and other current assets	766	(900)
(Increase) decrease in amount due from associates	(169)	–
Increase (decrease) in trade payables	499	216
Increase (decrease) in accruals and other payables	(707)	396
Increase (decrease) in receipts in advance	(617)	10
Net cash (outflow) inflow generated from operations	<u>311</u>	<u>(3,182)</u>

b. Analysis of cash and cash equivalents is:

	(Unaudited) As at 30 Jun	
	2005 HK\$'000	2004 HK\$'000
Cash and bank deposits	4,752	6,122
Bank overdrafts	(493)	(870)
Trust receipts bank loans	(570)	(694)
	<u>3,689</u>	<u>4,558</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group recorded a turnover of approximately HK\$10,891,000 in the first half of 2005, representing an increase of 37% from HK\$7,957,000 of last corresponding period in 2004.

Turnover attributable to our telecommunication business decreased by 22% to HK\$4,635,000 (2004: HK\$3,803,000), representing 43% of the total turnover. On the other hand, turnover attributable to our computer telephony business increased by 51% to HK\$6,256,000 (2004: HK\$4,154,000), representing 57% of the total turnover.

The gross profit and gross profit margin for the Half-Yearly Period was HK\$5,277,000 and 48% respectively (2004: HK\$4,548,000 and 57% respectively).

The unaudited consolidated loss attributable to shareholders for the Half-Yearly Period amounted to HK\$745,000.

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 2005, the Group had aggregated banking facilities of approximately HK\$6,200,000 (as at 31 December 2004: 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 2004: HK\$5,002,000). Unutilised bank facilities as at the same date amounted to approximately HK\$4,552,000 (as at 31 December 2004: HK\$5,148,000).

As at 30 June 2005, the Group's working capital and net assets was approximately HK\$7,505,000 and HK\$9,736,000 respectively. Cash balance as at 30 June 2005 stood at approximately HK\$9,754,000 or cash per share HK\$0.04. The debt-equity ratio and gearing ratio was 0.69 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 significant investments held, 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 2005, 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 2005. During the Half-Yearly Period, the Group has incurred staff cost (including directors' emoluments) of approximately HK\$3,564,000.

As at 30 June 2005, 5 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 2005, the estimated amount provided for such purpose amounted to approximately HK\$450,000 (31 December 2004: HK\$450,000).

BUSINESS REVIEW

Regardless the gradual recovery of the telecom and IT market, the progress is still not in a rapid pace. The current telecom market is still in an over-competition status and some sorts of merging and acquisition are still carried on (i.e. PCCW acquired Sunday recently). The telecom operators thus tend to exercise some tight cost controlling measures on expenses, which unlikely creates sufficient buying power to carry a positive outcome to the market demand.

The Group thus keeps on scrutinizing cost control of the operation and implementing effective management on controlling the company. Besides, we are expanding our sales forces on carrying out some product lines such as the GN Netcom, of which the business has grown several folds during these few years. This product is complement to the call center business and the customer bases range from banking industry, forwarders and multi-national corporations.

The Phase III call center project from Beijing Labor Bureau is being implemented and well established to connect multi-media means including voice, SMS, web based and carrying remote agents features. The project has been carried out since 2003 and has 60 seats with various advanced features.

FUTURE PROSPECTS

The Group is diversifying our business to cover more product lines such as Data Domain and PRO-mini Portable Stereo Speaker. The aim is to extend the target market to enterprise and consumer sectors. The former is an innovative storage product and is ideal for telecom operators and financial sectors for data storage and recovery. The latter is a new developed product and suits for the use of popular audio players.

Our Joint Venture entity in Beijing is on the automatic fare collection (AFC) system for the tourist spots. Within these few years, all famous tourist spots including Palace and Summer Palace will utilize the advanced e-payment card for entrance. This is a must-do project for implementing the Digital Beijing for facing the upcoming Olympics Games in Beijing.

The business outlook for the second half of 2005 is moderate in terms of the growth of market demand and pace of recovery. The Group will keep on capturing more business opportunities both in Hong Kong and in Beijing and effectively streamlining the operation and management.

DIRECTORS' INTEREST IN SHARES

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

Long position in shares

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

The Company has adopted a share option scheme on 3 May 2000 ("Share Option Scheme"), pursuant to which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. Pursuant to the Share Option Scheme, options were granted on 30 June 2000 to executive directors and other employees of the Group to subscribe for an aggregate of 19,420,000 shares in the Company at a price of \$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, 8,960,000 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 2005, no share option has been granted under the New Share Option Scheme. The options already granted under the Share Option Scheme are unaffected.

As at 30 June 2005, 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 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.

The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables, which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

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 2005 or at any time during the Half-Yearly Period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, persons who have an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO 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 Half-Yearly Period.

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.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

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

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 Second Quarter. Having made specific enquiry of all directors, the Company's directors have complied with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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 reports 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 Zheuhan, Mr. Robert Brainin Issenman, Mr. Leung Lok Ming and Mr. Lo Wa Kei, Roy.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the code provisions set out in the CG Code throughout the half-yearly period, except that (i) there is no division of roles of chairman and chief executive officer that they are performed by Mr. Tsang Chi Hin; and (ii) the Company has not disclose the terms of reference of the audit committee, the nomination committee and the remuneration committee of the Company by including such information on the Company's website. Appropriate actions will be taken by the Company to comply with the CG Code.

By order of the Board

TSANG CHI HIN

Chairman

Hong Kong, 12 August 2005

寶訊科技控股有限公司

Proactive Technology Holdings Limited

14/F, Bangkok Bank Building,
18 Bonham Strand West Street,
Sheung Wan, Hong Kong
香港上環文咸西街18號
盤谷銀行大廈14樓

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INTERIM REPORT