

The background is a vibrant green with a complex pattern of white, concentric, wavy lines that create a sense of depth and movement. Scattered throughout are small white dots of varying sizes, some appearing as bright points of light. The overall aesthetic is clean, modern, and tech-oriented.

PROACTIVE

寶訊科技控股有限公司

Proactive Technology Holdings Limited

INTERIM REPORT

中期業績報告

2006

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.

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 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

	2006 2nd Quarter HK\$'000	2006 1st Quarter HK\$'000	2005 2nd Quarter HK\$'000
Turnover:			
Telecommunications	884	895	1,356
Computer telephony	1,782	2,183	3,462
	<hr/>	<hr/>	<hr/>
Total turnover	2,666	3,078	4,818
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Gross profit	1,736	1,769	1,723
Gross profit margin	65%	57%	36%
Distribution, selling, general and administrative expenses	1,849	2,253	2,316
Net loss	(58)	(480)	(727)
Net assets value	8,188	8,268	9,736
Cash on hand	7,459	7,428	9,754
Debt-equity ratio	0.46 times	0.52 times	0.69 times
•	The total unaudited consolidated turnover for the three months ended 30 June 2006 (“Second Quarter”) was HK\$2,666,000, representing a decrease of 45% and a decrease of 13% as compared with the last corresponding period ended 30 June 2005 (“Last Corresponding Period”), and last quarter ended 31 March 2006 (“Last Quarter”), respectively.		
•	The gross profit for the Second Quarter amounted to approximately HK\$1,736,000 while the gross profit margin was 65%.		
•	Operating expenditures decreased by 20% to HK\$1,849,000 as compared with Last Corresponding Period.		
•	The net loss narrowed to approximately HK\$58,000.		

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 2006, 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	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	3	5,744	10,891	2,666	4,818
Cost of sales		(2,239)	(5,614)	(930)	(3,095)
Gross Profit		3,505	5,277	1,736	1,723
Distribution and selling expenses		(11)	(16)	(4)	(10)
General and administrative expenses		(4,091)	(5,851)	(1,845)	(2,306)
Loss from operations		(597)	(590)	(113)	(593)
Interest income		70	40	58	27
Interest expenses		(11)	(26)	(3)	(15)
Share of result of an associate		-	(169)	-	(146)
Loss before tax	4	(538)	(745)	(58)	(727)
Income tax expenses	5	-	-	-	-
Loss attributable to equity holders of the parent		(538)	(745)	(58)	(727)
Dividends	6	-	-	-	-
Loss per share - Basic	7	HK(0.23 cents)	HK(0.32 cents)	HK(0.03 cents)	HK(0.31 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 Jun 2006 <i>HK\$'000</i>	(Audited) As at 31 Dec 2005 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Machinery and equipment	8	444	869
Available-for-sale financial asset	9	286	286
		730	1,155
CURRENT ASSETS			
Inventories	10	573	293
Trade receivables	11	1,827	1,940
Amount due from an associate	12	429	706
Prepayments, deposits and other receivables	13	934	708
Pledged bank deposits		2,096	2,000
Cash and other bank deposits		5,363	6,549
		11,222	12,196
CURRENT LIABILITIES			
Short-term bank borrowings	14	129	1,086
Trade payables	15	1,010	741
Accruals and other payables		1,903	2,153
Receipts in advance		722	636
		3,764	4,616
Net current assets		7,458	7,580
Net assets		8,188	8,735
CAPITAL AND RESERVES			
Share capital	16	23,200	23,200
Reserves		(15,012)	(14,465)
Equity attributable to equity holders of the parent		8,188	8,735

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

(Unaudited)

Six months ended

30 Jun

2006

2005

Notes

HK\$'000

HK\$'000

NET CASH (USED IN)/GENERATED FROM OPERATIONS	17.a	<u>(111)</u>	<u>311</u>
Interest paid		<u>(11)</u>	<u>(26)</u>
Net cash (used in)/generated from operating activities		<u>(122)</u>	<u>285</u>
INVESTING ACTIVITIES			
Purchases of machinery and equipment		(72)	(613)
Increase in pledged bank deposits		(96)	–
Proceeds from disposal of machinery and equipment		–	11
Translation adjustments		(9)	79
Interest received		<u>70</u>	<u>40</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(107)</u>	<u>(483)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(229)	(198)
CASH AND CASH EQUIVALENTS, beginning of period		<u>5,463</u>	<u>3,887</u>
CASH AND CASH EQUIVALENTS, end of period	17.b	<u><u>5,234</u></u>	<u><u>3,689</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share capital	Share premium	Capital reserve	Cumulative translation adjustment	Accumulated deficits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2005	23,200	29,135	3,530	(24)	(45,439)	10,402
Loss attributable to equity holders of the parent	-	-	-	-	(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>
As at 1 January 2006	<u>23,200</u>	<u>29,135</u>	-	51	(43,651)	8,735
Loss attributable to equity holders of the parent	-	-	-	-	(538)	(538)
Translation adjustments	-	-	-	(9)	-	(9)
As at 30 June 2006	<u>23,200</u>	<u>29,135</u>	<u>-</u>	<u>42</u>	<u>(44,189)</u>	<u>8,188</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 Group's unaudited condensed consolidated results have been prepared in accordance with the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed consolidated results have been prepared on the historical cost basis. The accounting policies adopted in preparing the unaudited condensed consolidated results for the six months ended 30 June 2006 and the corresponding period in 2005 are consistent with those followed in the preparation of Group's annual financial statements for the year ended 31 December 2005.

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)		(Unaudited)	
	Six months ended		Three months ended	
	30 Jun		30 Jun	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	1,779	4,635	884	1,356
Computer telephony	3,965	6,256	1,782	3,462
Others	-	-	-	-
Total turnover	5,744	10,891	2,666	4,818
Interest income from bank deposits	70	40	58	27
Total revenue	5,814	10,931	2,724	4,845

b. Loss attributable to equity holders of the parent

Loss attributable to equity holders of the parent by business segments is as follows:

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	30 Jun		30 Jun	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	973	970	424	462
Computer telephony	2,605	3,443	1,356	1,139
Others	-	-	-	-
Segment profit	3,578	4,413	1,780	1,601
Unallocated expenses	(4,175)	(5,003)	(1,893)	(2,194)
Loss from operations	(597)	(590)	(113)	(593)
Interest income	70	40	58	27
Interest expenses	(11)	(26)	(3)	(15)
Share of result of an associate	-	(169)	-	(146)
Loss before tax	(538)	(745)	(58)	(727)
Income tax expenses	-	-	-	-
Loss attributable to equity holders of the parent	(538)	(745)	(58)	(727)

4. Loss before tax

Loss before tax was determined after charging and crediting the following items:

	(Unaudited) Six months ended 30 Jun		(Unaudited) Three months ended 30 Jun	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
After charging:				
Staff costs (including directors' emoluments)				
– Salaries and allowances	2,109	3,449	984	1,702
– Retirement benefits scheme costs	80	115	40	60
	<u>2,189</u>	<u>3,564</u>	<u>1,024</u>	<u>1,762</u>
Cost of inventories	2,042	5,304	848	2,969
Operating lease rentals of premises	322	369	80	152
Interest expenses				
– bank borrowings wholly repayable within five years	11	26	3	15
Provision for and write-off of bad and doubtful receivables	(231)	–	(231)	–
Provision for and write-off of obsolete and slow-moving inventories	240	669	240	11
Depreciation of machinery and equipment	168	438	74	208
Net exchange loss	<u>29</u>	<u>86</u>	<u>25</u>	<u>84</u>
After crediting:				
Rental income				
– leasing of telecommunications and computer telephony equipment	476	732	79	344
Interest income				
– bank deposits	<u>70</u>	<u>40</u>	<u>58</u>	<u>27</u>

5. Income tax expenses

The Company is not subject to taxation in Bermuda on its profit or capital gains until March 2016. Hong Kong profits tax has not been provided for the three months ended 30 June 2006 and the corresponding periods in 2005 as the Group did not generate any assessable profits in Hong Kong during these periods. No provision for overseas income tax has been provided for the six months ended 30 June 2006 and the corresponding periods in 2005 as the Group did not generate any assessable profits in other jurisdictions during these periods.

5. Income tax expenses (cont'd)

As at 30 June 2006, there were no significant deferred tax liabilities for which a recognition or provision would have been required (2005: Nil).

6. Interim dividends

The directors do not recommend the payment of interim dividends for the Half-Yearly Period (2005: 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 equity holders of the parent of approximately HK\$538,000 (2005: HK\$745,000) and on the weighted average number of 232,000,000 (2005: 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 2006	1,082	3,542	847	1,287	6,758
Additions	–	72	–	–	72
Disposals	–	–	(183)	–	(183)
Transferred from inventories	–	–	–	–	–
Transferred to inventories	–	–	(443)	–	(443)
As at 30 June 2006	<u>1,082</u>	<u>3,614</u>	<u>221</u>	<u>1,287</u>	<u>6,204</u>
Accumulated depreciation					
As at 1 January 2006	1,052	3,364	364	1,109	5,889
Provisions	3	57	68	40	168
Disposals	–	–	(53)	–	(53)
Transferred to inventories	–	–	(244)	–	(244)
As at 30 June 2006	<u>1,055</u>	<u>3,421</u>	<u>135</u>	<u>1,149</u>	<u>5,760</u>
Net book value					
As at 30 June 2006	<u>27</u>	<u>193</u>	<u>86</u>	<u>138</u>	<u>444</u>
As at 1 January 2006	<u>30</u>	<u>178</u>	<u>483</u>	<u>178</u>	<u>869</u>

9. Available-for-sale financial asset

The assets represents a nominee membership in a golf club in the People's Republic of China. They are measured at cost less impairment at each balance sheet date. The fair value was approximated to the corresponding carrying amount.

10. Inventories

Inventories consisted of:

	(Unaudited) As at 30 Jun 2006 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2005 <i>HK\$'000</i>
Telecommunications and computer telephony hardware products	873	1,999
Less: Provision for obsolete and slow-moving inventories	<u>(300)</u>	<u>(1,706)</u>
	<u>573</u>	<u>293</u>

11. Trade receivables

Trade receivables consisted of:

	(Unaudited) As at 30 Jun 2006 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2005 <i>HK\$'000</i>
Account receivables	2,181	3,087
Retention receivables	<u>1,342</u>	<u>1,355</u>
	3,523	4,442
Less: Accumulated impairment	<u>(1,696)</u>	<u>(2,502)</u>
	<u>1,827</u>	<u>1,940</u>

11. 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 is as follows:

	(Unaudited) As at 30 Jun 2006 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2005 <i>HK\$'000</i>
0 to 1 month	1,222	1,597
1 to 2 months	243	391
2 to 3 months	398	197
3 to 6 months	67	747
6 to 9 months	106	65
9 to 12 months	640	32
Over 12 months	847	1,413
	<u>3,523</u>	<u>4,442</u>

12. Amount due from an associate

The amount is unsecured, non-interest bearing and repayable on demand.

13. Prepayments, deposits and other receivables

Prepayments, deposits and other receivables consisted of:

	(Unaudited) As at 30 Jun 2006 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2005 <i>HK\$'000</i>
Prepayments	207	203
Rental and utility deposits	153	260
Others	574	245
	<u>934</u>	<u>708</u>

14. Short-term bank borrowings

Short-term bank borrowings (consolidated) consisted of:

	(Unaudited) As at 30 Jun 2006 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2005 <i>HK\$'000</i>
Bank overdrafts	129	510
Trust receipts bank loans	–	576
	<u>129</u>	<u>1,086</u>

15. 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 2006 <i>HK\$'000</i>	(Audited) Year ended 31 Dec 2005 <i>HK\$'000</i>
0 to 1 month	573	362
1 to 2 months	218	161
2 to 3 months	36	82
3 to 6 months	132	–
6 to 12 months	–	90
Over 12 months	51	46
	<u>1,010</u>	<u>741</u>

16. Share capital

	(Unaudited) Six months ended 30 Jun 2006		(Audited) Year ended 31 Dec 2005	
	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>

17. 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	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Loss before taxation and minority interests	(538)	(745)
Interest income	(70)	(40)
Interest expenses	11	26
Share of loss of an associate	–	169
Loss on disposal of fixed assets	129	–
Depreciation of machinery and equipment	168	438
Provision for account receivable	(231)	–
Provision for Investment	234	–
Provision for Stock/Fixed Asset	240	669
Loss profit before working capital changes	(57)	517
(Increase) decrease in inventories	(320)	450
(Increase) decrease in trade receivables	344	(428)
(Increase) decrease in prepayments, deposits and other current assets	(226)	766
(Increase) decrease in amount due from associates	43	(169)
Increase (decrease) in trade payables	269	499
Increase (decrease) in accruals and other payables	(250)	(707)
Increase (decrease) in receipts in advance	86	(617)
Net cash (used in)/generated from operations	<u>(111)</u>	<u>311</u>

- b. Analysis of cash and cash equivalents is:

	(Unaudited) As at 30 Jun	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Cash and bank deposits	5,363	4,752
Bank overdrafts	(129)	(493)
Trust receipts bank loans	–	(570)
	<u>5,234</u>	<u>3,689</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group recorded a turnover of approximately HK\$5,744,000 in the first half of 2006, representing an decrease of 47% from HK\$10,891,000 of last corresponding period in 2005.

Turnover attributable to our telecommunication business decreased by 62% to HK\$1,779,000 (2005: HK\$4,635,000), representing 31% of the total turnover. On the other hand, turnover attributable to our computer telephony business decreased by 37% to HK\$3,965,000 (2005: HK\$6,256,000), representing 69% of the total turnover.

The gross profit and gross profit margin for the Half-Yearly Period was HK\$3,505,000 and 61% respectively (2005: HK\$5,277,000 and 48% respectively).

The unaudited consolidated loss attributable to equity holders of the parent for the Half-Yearly Period amounted to HK\$538,000.

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 2006, the Group had aggregated banking facilities of approximately HK\$2,000,000 (as at 31 December 2005: HK\$7,000,000) from a bank for overdrafts, loans and trading financing, which was secured by pledges of the Group's time deposit of approximately HK\$2,096,000 (as at 31 December 2005: HK\$2,000,000). Unutilised bank facilities as at the same date amounted to approximately HK\$1,871,000 (as at 31 December 2005: HK\$5,914,000).

As at 30 June 2006, the Group's working capital and net assets was approximately HK\$7,458,000 and HK\$8,188,000 respectively. Cash balance as at 30 June 2006 stood at approximately HK\$7,459,000 or cash per share HK\$0.03. The debt-equity ratio and gearing ratio was 0.46 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, therefore foreign currency exposure to the Group shall be minimal.

CONTINGENT LIABILITIES

As at 30 June 2006, the Group had no contingent liabilities (as at 31 December 2005: Nil)

STAFF

The Group (excluding its associates) had approximately 20 full-time employees in Hong Kong as at 30 June 2006. During the Half-Yearly Period, the Group has incurred staff cost (including directors' emoluments) of approximately HK\$2,248,000.

As at 30 June 2006, 9 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 2006, the estimated amount provided for such purpose amounted to approximately HK\$250,000 (31 December 2005: HK\$250,000).

BUSINESS REVIEW AND FUTURE PROSPECTS

The market demand keeps sluggish and thus the Group has to exercise strict control on costs and expenses of operation.

Our Joint Venture entity in Beijing has passed the acceptance test concerning the Call Center Project for Environmental Protection Bureau which comprises 20 seats and advanced multi-media call center features. During these years, our technical solution was proven to be successfully installed in various governmental departments such as Labor Bureau, Police and Transport One card System and Environmental Protection Bureau. These projects are deemed to be those successful good reference projects and act as showcases in the government sectors.

For the business outlook, the market outlook is still sluggish. The Group will keep on scrutinizing cost control of the operation and adjust ourselves promptly to capture more business opportunities.

DIRECTORS' INTEREST IN SHARES

As at 30 June 2006, 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	22.59%
Mr. Li Siu Ming	657,119	Beneficial owner	Personal	0.28%

Save as disclosed above, as at 30 June 2006, 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 HK\$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, 17,760,000 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 2006, 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 2006, the share options granted to and held by the director(s) 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
			<u>1,000,000</u>

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 2006 or at any time during the Half-Yearly Period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, 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	22.59%
Mr. Yang Yongxia	40,000,000	Beneficial owner	Held by controlled corporation (Note 1)	17.24%
Mr. Wu Wai Leung	27,000,000	Beneficial owner	Held by controlled corporation (Note 2)	11.64%
Mr. So Chi Ming	11,736,000	Beneficial owner	Held by controlled corporation (Note 3)	5.06%

Note 1: 40,000,000 shares are owned by Gorgeous Overseas Limited (“Gorgeous Overseas”). Gorgeous Overseas is a company incorporated in the British Virgin Islands and is wholly-owned by Mr. Yang Yongxia. By virtue of SFO, Mr. Yang Yongxia was deemed to be interested in these shares.

Note 2: 27,000,000 shares are owned by Century Dragon Development Limited (“Century Dragon”). Century Dragon is a company incorporated in the British Virgin Islands and is wholly-owned by Mr. Wu Wai Leung. By virtue of SFO, Mr. Wu Wai Leung was deemed to be interested in these shares.

Note 3: 11,736,000 shares are owned by Homerun Business Development Limited (“Homerun Business”). Homerun Business is a company incorporated in the British Virgin Islands and is wholly-owned by Mr. So Chi Ming. By virtue of SFO, Mr. So Chi Ming was deemed to be interested in these shares.

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 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 as at 30 June 2006.

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 RULE 5.34 OF THE GEM LISTING RULES

Throughout the Half-Yearly Period, the Company has complied with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

SECURITIES TRANSACTION BY DIRECTORS

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. The previous terms of reference of the audit committee were established with reference to Rule 5.29 of the GEM Listing Rules. New written terms of reference were adopted on 12 August 2005 in compliance with code provision C.3.3 of the CG Code. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports and to provide advice and comments with respect to internal control of the Board.

The members of the audit committee, all being independent non-executive directors, throughout the Half-Yearly Period are Mr. Leung Lok Ming, Mr. Szeto Yat Kong and Mr. Chan Ho Wah, Terence. The audit committee has reviewed the half-yearly results for the six months ended 30 June 2006 of the Group.

OTHER BOARD COMMITTEES

In addition to the audit committee, the Company has established a remuneration committee and a nomination committee on 12 August 2005.

These board committees were formed to ensure maintenance of high corporate governance standards.

INTERNAL CONTROL

The Board believes that the system of internal controls maintained by the Company is sufficient to provide reasonable assurances that assets are adequately safeguarded against loss from unauthorized use; all transactions are proper authorized and proper accounting records are maintained.

The Company to perform internal control of the Company to engages an external professional firm (the "Reviewer") who reports primarily to the Chairman and the Board. The Reviewer has identified the Company's main business processes and such reviews, findings and recommendations are reported to the Board directly.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the code provisions of Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules throughout the Half-Yearly period, except that there is no division of roles of chairman and chief executive officer that they are performed by Mr. Tsang Chi Hin. The reasons for such deviation from the code provisions had been stated in the Company's 2005 annual report.

By order of the Board
TSANG CHI HIN
Chairman

Hong Kong, 11 August 2006

As at the date hereof, the Company's executive directors are Mr. Tsang Chi Hin and Mr. Li Siu Ming and the Company's independent non-executive directors are Mr. Leung Lok Ming, Mr. Szeto Yat Kong and Mr. Chan Ho Wah Terence.