

Interim Report 2007



China Railway Logistics Limited
中國鐵路貨運有限公司*

(formerly known as Proactive Technology Holdings Limited)
(incorporated in Bermuda with limited liability)

Stock Code: 8089

** For identification purposes only*

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This report, for which the directors (the “Directors” or “Board”) of China Railway Logistics Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to China Railway Logistics 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.

The Directors of China Railway Logistics Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months (“Half-Yearly Period”) and the three months (“Second Quarter”) ended 30 June 2007, together with the comparative unaudited figures for the last corresponding period in 2006 (“Last Corresponding Period”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Six months ended 30 Jun		(Unaudited) Three months ended 30 Jun	
		2007	2006	2007	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3.a	5,322	5,744	2,664	2,666
Cost of sales		(2,516)	(2,239)	(1,319)	(930)
Gross profit		2,806	3,505	1,345	1,736
Other operating income		5,784	70	5,189	58
Distribution and selling expenses		(13)	(11)	(7)	(4)
General and administrative expenses		(51,835)	(4,091)	(30,702)	(1,845)
Loss from operations		(43,258)	(527)	(24,175)	(55)
Finance costs		(318)	(11)	(318)	(3)
Loss before tax	4	(43,576)	(538)	(24,493)	(58)
Income tax expenses	5	—	—	—	—
Loss attributable to equity holders of the parent	3.b	(43,576)	(538)	(24,493)	(58)
Dividends	6	—	—	—	—
Loss per share					
— Basic	7	HK(13.83 cents)	HK(0.23 cents)	HK(6.97 cents)	HK(0.03 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited)	(Audited)
		As at	As at
	Notes	30 Jun 2007	31 Dec 2006
		HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	3,092	1,236
Available-for-sale financial asset	9	298	286
Deposit for acquisition in an investment	10	201,020	—
		204,410	1,522
CURRENT ASSETS			
Inventories	11	295	210
Trade receivables	12	1,222	1,982
Amount due from an associate	13	—	17
Prepayments, deposits and other receivables		24,663	11,022
Cash and other bank deposits		919,478	4,773
		945,658	18,004
CURRENT LIABILITIES			
Trade payables	14	1,123	878
Accruals and other payables		2,640	2,112
Receipts in advance		1,052	552
Obligations under finance lease	15	180	—
		4,995	3,542
Net current assets		940,663	14,462
Total assets less current liabilities		1,145,073	15,984
NON-CURRENT LIABILITIES			
Obligations under finance lease	15	720	—
		1,144,353	15,984
CAPITAL AND RESERVES			
Share capital	16	489	278
Reserves		1,143,864	15,706
Equity attributable to equity holders of the parent		1,144,353	15,984

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	(Unaudited) Six months ended 30 Jun	
	2007 HK\$'000	2006 HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(37,355)	(122)
NET CASH USED IN INVESTING ACTIVITIES	(198,007)	(107)
NET CASH GENERATED FROM FINANCING ACTIVITIES	1,150,067	—
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	914,705	(229)
CASH AND CASH EQUIVALENTS, beginning of period	4,773	5,463
CASH AND CASH EQUIVALENTS, end of period	919,478	5,234

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share capital	Share premium	Contributed surplus	Share options reserve	Cumulative translation adjustment	Accumulated deficits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2006	23,200	29,135	—	—	51	(43,651)	8,735
Loss attributable to equity holders of the parent	—	—	—	—	—	(538)	(538)
Translation adjustments	—	—	—	—	(9)	—	(9)
As at 30 June 2006	23,200	29,135	—	—	42	(44,189)	8,188
As at 1 January 2007	278	10,719	7,914	—	146	(3,073)	15,984
Issue of new shares, net of share issued expenses	211	1,149,856	—	—	—	—	1,150,067
Equity-settled share based payment expenses	—	—	—	21,851	—	—	21,851
Loss attributable to equity holders of the parent	—	—	—	—	—	(43,576)	(43,576)
Translation adjustments	—	—	—	—	27	—	27
As at 30 June 2007	489	1,160,575	7,914	21,851	173	(46,649)	1,144,353

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 and Hong Kong Accounting Standards 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 Half-Yearly Period and the Last Corresponding Period are consistent with those followed in the preparation of Group's annual audited consolidated financial statements for the year ended 31 December 2006.

3. SEGMENT INFORMATION

a. Turnover

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 by business segments is as follows:

	(Unaudited) Six months ended 30 Jun		(Unaudited) Three months ended 30 Jun	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Telecommunications	1,730	1,779	871	884
Computer telephony	3,592	3,965	1,793	1,782
Total turnover	5,322	5,744	2,664	2,666

3. SEGMENT INFORMATION (cont'd)

b. Loss attributable to equity holders of the parent

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

	(Unaudited) Six months ended 30 Jun		(Unaudited) Three months ended 30 Jun	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Telecommunications	1,228	973	609	424
Computer telephony	2,271	2,605	1,138	1,356
Segment profit	3,499	3,578	1,747	1,780
Other operating income	5,784	70	5,189	58
Unallocated expenses	(52,541)	(4,175)	(31,111)	(1,893)
Loss from operations	(43,258)	(597)	(24,175)	(113)
Finance costs	(318)	(11)	(318)	(3)
Loss before tax	(43,576)	(538)	(24,493)	(58)
Income tax expenses	—	—	—	—
Loss attributable to equity holders of the parent	(43,576)	(538)	(24,493)	(58)

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	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
After charging:				
Staff costs (including directors' emoluments)				
— Salaries and allowances	6,796	2,109	2,914	984
— Equity-settled shared based payment expenses	21,851	—	21,851	—
— Retirement benefits scheme costs	136	80	74	40
	28,783	2,189	2,988	1,024
Cost of inventories	2,387	2,042	1,252	848
Operating lease rentals of premises	923	322	452	80
Interest expenses				
— bank borrowings wholly repayable within five years	318	11	318	3
Provision for and write-off of bad and doubtful receivables	1,726	(231)	1,726	(231)
Provision for and write-off of obsolete and slow-moving inventories	110	240	110	240
Depreciation of machinery and equipment	267	168	175	74
Net exchange (gain)/loss	(296)	29	295	25
After crediting:				
Rental income				
— leasing of telecommunications and computer telephony equipment	1,116	476	607	79
Interest income				
— bank deposits	4,274	70	4,145	58

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 Second Quarter and the Last Corresponding Period 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 Half-Yearly Period and the Last Corresponding Period as the Group did not generate any assessable profits in other jurisdictions during these periods.

As at 30 June 2007, there were no significant deferred tax liabilities for which a recognition or provision would have been required (2006: Nil).

6. INTERIM DIVIDENDS

The Directors do not recommend the payment of interim dividends for the Half-Yearly Period (2006: 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\$43,576,000 (2006: HK\$538,000) and on the weighted average number of 314,970,422 (2006: 232,000,000) shares.

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

8. PROPERTY, PLANT & EQUIPMENT

For the Half-Yearly Period, property, plant and equipment amounting to approximately HK\$2,793,000 were acquired (2006: HK\$72,000).

9. AVAILABLE-FOR-SALE FINANCIAL ASSET

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

10. DEPOSIT FOR ACQUISITION IN AN INVESTMENT

The assets represents the deposit of the capital contribution for China Railway Television Freight and Logistics Transport Co. Ltd and the acquisition was completed on July 2007.

11. INVENTORIES

Inventories consisted of:

	(Unaudited) As at 30 Jun 2007 HK\$'000	(Audited) Year ended 31 Dec 2006 HK\$'000
Telecommunications and computer telephony hardware products	405	873
Less: Provision for obsolete and slow-moving inventories	(110)	(300)
	295	573

12. TRADE RECEIVABLES

Trade receivables consisted of:

	(Unaudited) As at 30 Jun 2007 HK\$'000	(Audited) Year ended 31 Dec 2006 HK\$'000
Account receivables	2,326	2,181
Retention receivables	622	1,342
	2,948	3,523
Less: Accumulated impairment	(1,726)	(1,696)
	1,222	1,827

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 2007 HK\$'000	(Audited) Year ended 31 Dec 2006 HK\$'000
0 to 1 month	1,136	1,222
1 to 2 months	191	243
2 to 3 months	69	398
3 to 6 months	18	67
6 to 9 months	92	106
9 to 12 months	—	640
Over 12 months	1,442	847
	2,948	3,523

13. AMOUNT DUE FROM AN ASSOCIATE

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

14. TRADE PAYABLES

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

	(Unaudited) As at 30 Jun 2007 HK\$'000	(Audited) Year ended 31 Dec 2006 HK\$'000
0 to 1 month	667	441
1 to 2 months	202	218
2 to 3 months	12	36
3 to 6 months	20	132
6 to 12 months	170	—
Over 12 months	52	51
	1,123	878

15. OBLIGATIONS UNDER FINANCE LEASE

	(Unaudited) As at 30 Jun 2007 HK\$'000	(Audited) Year ended 31 Dec 2006 HK\$'000
Within one year	180	—
In the second to fifth year inclusive	720	—
	900	—

16. SHARE CAPITAL

	(Unaudited)		(Audited)	
	Six months ended		Year ended	
	30 Jun 2007		31 Dec 2006	
	No. of	Nominal	No. of	Nominal
	shares	value	shares	value
	'000	HK\$'000	'000	HK\$'000
AUTHORISED				
End of period/year	100,000,000	100,000	100,000,000	100,000
ISSUED AND FULLY PAID				
End of period/year	489,314	489	278,400	278

17. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	(Unaudited)	(Audited)
	As at	Year ended
	30 Jun 2007	31 Dec 2006
	HK\$'000	HK\$'000
Within one year	1,658	1,412
In the second to fifth year inclusive	1,468	1,073
	3,126	2,485

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$5,322,000 in the Half-Yearly Period, representing a decrease of approximately 7% from HK\$5,744,000 of Last Corresponding Period.

Turnover attributable to our telecommunication business decreased by approximately 3% to HK\$1,730,000 (2006: HK\$1,779,000), representing approximately 33% of the total turnover. On the other hand, turnover attributable to our computer telephony business decreased by approximately 9% to HK\$3,592,000 (2006: HK\$3,965,000), representing approximately 67% of the total turnover.

The gross profit and gross profit margin for the Half-Yearly Period were HK\$2,806,000 and 53% respectively (2006: HK\$3,505,000 and 61% respectively).

The unaudited consolidated loss attributable to equity holders of the parent for the Half-Yearly Period amounted to HK\$43,576,000 (2006: HK\$538,000), which is mainly due to the substantial general and administrative expenses amounted to approximately HK\$51,835,000, in which approximately HK\$21,851,000 and HK\$10,661,000 were attributed by the share-based employee compensation and the legal and professional services for the recent substantial capital fund raising activities respectively during the Half-Yearly Period.

BUSINESS REVIEW AND FUTURE PROSPECTS

In 2006, the Directors and senior management undertook a comprehensive reassessment of its existing business model to ascertain whether it should continue to operate as an IT and telecommunications company. The Directors believed it is in the shareholders' best interest that the Company stems its losses and exits the market as and when appropriate, although the Company will continue to operate its existing IT and telecom business in a pragmatic way. The Company instead would, and has already commenced to, focus on a new and exciting opportunity in the growing field of logistics transportation in the PRC. Through the acquisition, the Group will conduct the railway cargo transportation agency services, logistics and transportation management and consultancy services, equipment rental, project investment and consultancy, storage services and technology import and export (separate applications in accordance with relevant State regulations required for business(es) falling under specific regulations) in PRC. Details of the acquisition were set out in the circular of the Company dated 25 May 2007.

LIQUIDITY AND FINANCIAL RESOURCES

The Group was principally financed by cash flow generated internally together with the balance of proceeds from the recent substantial capital fund raising activities.

As at 30 June 2007, the Group's working capital and net assets were approximately HK\$940,663,000 and HK\$1,145,073,000 respectively. Cash balance as at 30 June 2007 stood at approximately HK\$919,478,000 or cash per share HK\$1.88. The debt-equity ratio and gearing ratio were 0.0049 times and 0.06% respectively.

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

CAPITAL STRUCTURE

On 26 March 2007, 13 June 2007 and 25 June 2007, the Company issued a total of 55,000,000, 49,766,000 and 11,148,000 ordinary shares of the Company ("Shares") to raise approximately HK\$383 million, HK\$630 million and HK\$155 million respectively. The intended use of proceeds from the fund raising was to be used for financing future operation costs and expenses for the acquisition of the sale shares and sale loan of Eternity Profit Investments Limited (the "Acquisition").

In addition, on 28 June 2007, the Company had issued 95,000,000 new Shares and allotment to Shellybeach Investments Limited ("Shellybeach") as the consideration shares for the Acquisition pending the completion of the Acquisition.

As a result, the total number of issued share capital was 489,314,000 shares as at 30 June 2007.

CHARGES ON GROUP ASSETS

As at 30 June 2007, property, plant and equipment of the Group with net book value of approximately HK\$1,185,000 (2006: Nil) was held under finance lease.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 12 March 2007, Dragon Billion Limited ("Dragon Billion"), a wholly owned subsidiary of the Company entered into an agreement to acquire from Shellybeach, the Sale Shares of 50,000 ordinary shares of US\$1.00 each in the issued share capital of Eternity Profit Investments Limited ("Eternity Profit"), representing the entire issued share capital of Eternity Profit and the all obligations, liabilities and debts owing or incurred by the all obligations, liabilities and debts owing or incurred by Eternity Profit to Shellybeach, for a total consideration of HK\$681,450,000. Dragon Billion has satisfied the consideration for the acquisition by cash of HK\$6,000,000 and procured the Company to allot and issue to Shellybeach the Shares of 95,000,000 at HK\$7.11 of each Share. This acquisition constitutes a very substantial acquisition on the part of the Company under the GEM Listing Rules and is subject to the approval of the shareholders at the special general meeting of the Company. The respective resolution was passed by the shareholders on 20 June 2007 and the completion of the Acquisition has taken place. Details of the Acquisition were set out in the circular of the Company dated 25 May 2007.

Save as disclosed above, 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 2007, the Group did not have any contingent liabilities.

EMPLOYEE INFORMATION, AND REMUNERATION POLICIES

The Group had approximately 35 full-time employees (30 June 2006: 20) in Hong Kong and PRC as at 30 June 2007. As an equal opportunity employer, the Group's remuneration and bonus policies are determined with reference to the performance and experience of individual employees. During the Half-Yearly Period, the Group had incurred staff costs (including directors' emoluments) of approximately HK\$28,783,000 (30 June 2006: HK\$2,189,000).

The Company has adopted a share option scheme pursuant to which options may be granted to full time employees (including executive directors) of the Group to subscribe for shares in the Company. As at 30 June 2007, 13,390,000 share options have been granted under the existing share option scheme of the Company.

As at 30 June 2007, 9 employees (30 June 2006: 9) 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 2007, the estimated amount provided for such purpose amounted to approximately HK\$250,000 (30 June 2006: HK\$250,000).

Details of the movements in the share options granted and exercised during the Half-Yearly Period under the existing share option scheme of the Company are as follows:

Name or category of participants	Date of grant of share options	Outstanding as at 1 January 2007	Outstanding	Exercised	Outstanding as at 30 June 2007	Exercisable period of share options	Exercise price HK\$
			granted during the Half-Yearly Period	during the Half-Yearly Period			
Directors							
Mr. Zeng Bangjian	3 April 2007	—	3,330,000	—	3,330,000	3 April 2007 - 2 April 2017	7.35
Mr. Ng Kam Wing	3 April 2007	—	3,330,000	—	3,330,000	3 April 2007 - 2 April 2017	7.35
Mr. Koh Tat Lee, Michael	3 April 2007	—	3,330,000	—	3,330,000	3 April 2007 - 2 April 2017	7.35
Mr. Lim Kwok Choi	3 April 2007	—	600,000	—	600,000	3 April 2007 - 2 April 2017	7.35
		—	10,590,000	—	10,590,000		
Other employees							
In aggregate	3 April 2007	—	2,800,000	—	2,800,000	3 April 2007 - 2 April 2017	7.35
Total		—	13,390,000	—	13,390,000		

The fair value of the share options granted during the Half-Yearly Period was approximately HK\$21,851,000.

DIRECTORS' INTEREST IN SHARES

As at 30 June 2007, 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 directors	Type of interests	Number of issued ordinary shares held	Number of underlying shares held pursuant to share options	Total interests	Total approximate percentage of the issued share capital
Mr. Zeng Bangjian	Beneficial owner	—	3,330,000	3,330,000	0.68%
Mr. Ng Kam Wing	Beneficial owner	—	3,330,000	3,330,000	0.68%
Mr. Koh Tat Lee, Michael	Beneficial owner	—	3,330,000	3,330,000	0.68%
Mr. Lim Kwok Choi	Beneficial owner	—	600,000	600,000	0.12%

Save as disclosed above, as at 30 June 2007, 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 DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interests, whether directly or indirectly, subsisted at 30 June 2007 or at any time during the Half-Yearly Period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, 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
Well Support Limited (Note 1)	52,415,466	Beneficial owner	Corporation	10.71%
Credit Suisse Group (Note 2)	30,446,000	Interest of controlled corporation	Corporation	6.22%
Century Dragon Development Limited (Note 3)	27,000,000	Beneficial owner	Corporation	5.52%

Notes:

1. Well Support Limited is beneficially owned by Liu Yi Dong Family Trust and the beneficiaries of which are Liu Yi Dong and his family members.
2. Credit Suisse Group is wholly-owned by Credit Suisse.
3. Century Dragon Development Limited is wholly-owned by Wu Wai Leung.

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 members of the Group as at 30 June 2007.

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.

As at 30 June 2007, 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.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the code provisions of Code on Corporate Governance Practices ("CG Code") 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 2006 annual report.

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 advices 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. Chan Ho Wah, Terence, Mr. Chong Cha Hwa and Mr. Lok Shing Kwan, Sunny. The audit committee has reviewed the Company's interim results for the six months ended 30 June 2007.

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.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors 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 Half-Yearly Period. Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Half-Yearly Period.

By order of the Board
TSANG CHI HIN
Chairman

Hong Kong, 7 August 2007

As at the date hereof, the Company's executive directors are Mr. Tsang Chi Hin, Mr. Zeng Bangjian, Mr. Ng Kam Wing, Mr. Koh Tat Lee, Michael and Mr. Lim Kwok Choi and the Company's independent non-executive directors are Mr. Leung Lok Ming, Mr. Chan Ho Wah Terence, Mr. Chong Cha Hwa, Dr. James Wing Ho Wong and Mr. Lok Shing Kwan, Sunny.