

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

2007

Third Quarterly Report

A steam locomotive pulling a freight train through a hazy landscape. The locomotive is emitting a large plume of white steam that fills the upper half of the frame. The train consists of several flatcars, some of which are covered with large, dark tarps. The background shows a distant horizon under a cloudy sky.

Going Forward

**For identification purposes only*

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities trade on the Main Board and no assurance is given that there will be a liquid market in the securities trade on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the 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 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 of China Railway Logistics Limited (the “Board” or “Directors”) 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 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 nine months ("Nine-Month Period") and three months ("Third Quarter") ended 30 September 2007, together with the comparative unaudited figures for the last corresponding period ("Last Corresponding Period") as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	2	8,155	8,367	2,833	2,623
Cost of sales		(4,011)	(3,285)	(1,495)	(1,046)
Gross profit		4,144	5,082	1,338	1,577
Other operating income		104	—	104	—
Distribution and selling expenses		(19)	(17)	(6)	(6)
General and administrative expenses		(79,004)	(5,967)	(27,169)	(1,876)
Loss from operations		(74,775)	(902)	(25,733)	(305)
Finance income		12,143	90	6,677	31
Other income		351	0	351	0
Loss before tax	3	(62,281)	(812)	(18,705)	(274)
Income tax expenses	4	0	—	0	—
Loss for the period		(62,281)	(812)	(18,705)	(274)
Attributable to:					
— Equity shareholders of the Company		(48,890)	(812)	(5,314)	(274)
— Minority interests		(13,391)	—	(13,391)	—
Loss for the period		(62,281)	(812)	(18,705)	(274)
Dividends	5	0	—	0	—
Loss per share — Basic	6	HK(13.05 cents)	HK(0.35 cents)	HK(1.09 cents)	HK(0.12 cents)

NOTES:

1. 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 nine months ended 30 September 2007 and the corresponding period in 2006 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

2. 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 and revenue by business segments are as follows:

	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	2,596	2,582	866	803
Computer telephony	5,559	5,785	1,967	1,820
Total turnover	8,155	8,367	2,833	2,623

3. LOSS BEFORE TAX

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

	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
After charging:—				
Staff costs (including directors' emoluments)				
— Salaries and allowances	18,761	3,012	11,965	902
— Share-based employee compensation	21,851	—	—	—
— Retirement benefits scheme costs	240	116	104	37
	40,852	3,128	12,069	939
Cost of inventories	3,803	2,948	1,416	906
Operating lease rentals of premises	1,667	464	744	142
Interest expenses				
— bank borrowings wholly repayable within five years	1,526	12	1,208	1
Provision for and write-off/(write-back) of obsolete and slow-moving inventories	20	240	(90)	—
Depreciation of machinery and equipment	590	219	323	51
Net exchange loss	1,063	37	1,359	8
After crediting:—				
Rental income				
— leasing of telecommunications and computer telephony equipment	1,762	743	646	267
Interest income				
— bank deposits	13,669	102	9,395	32
Written back of bad and doubtful receivable	110	—	110	—

4. INCOME TAX EXPENSES

The Company is not subject to tax in Bermuda on its assessable profits or capital gains until March 2016. Hong Kong profits tax has not been provided for the nine months ended 30 September 2007 and the corresponding periods in 2006 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 nine months ended 30 September 2007 and the corresponding periods in 2006 as the Group did not generate any assessable profits in other jurisdictions during these periods.

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

5. DIVIDENDS

The directors do not recommend the payment of dividends for the Nine-Month Period (2006: Nil).

6. LOSS PER SHARE

The calculation of the basic loss per share for the Nine-Month Period is based on the unaudited consolidated loss attributable to equity holders of the parent of approximately HK\$48,890,000 (2006: HK\$812,000) and on the weighted average number of 374,647,274 (2006: 232,000,000) shares.

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

7. STATEMENT OF CHANGE IN EQUITY

Change in equity during the Third Quarter were:

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share capital	Share premium	Contributed surplus	Share options reserve	Cumulative translation adjustment	Accumulated deficits	Minority interest	Total
	HK\$'000	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	—	—	—	—	—	(812)	—	(812)
Exchange differences arising on translation of foreign operations	—	—	—	—	(64)	—	—	(64)
As at 30 September 2006	23,200	29,135	—	—	(13)	(44,463)	—	7,859
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	1,824,072	—	—	—	—	—	1,824,283
Loss attributable to equity holders of the parent	—	—	—	—	—	(48,890)	(13,391)	(62,281)
Acquisition of subsidiary	—	—	—	—	—	(13,391)	52,923	39,532
Share-based employee compensation	—	—	—	21,851	—	—	—	21,851
Exchange differences arising on translation of foreign operations	—	—	—	—	917	—	—	917
As at 30 September 2007	489	1,834,791	7,914	21,851	1,063	(65,354)	39,532	1,840,286

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$8,155,000 for the Nine-Month Period, representing a slightly decrease of approximately 3% of Last Corresponding Period.

The gross profit and gross profit margin for the Nine-Month Period was HK\$4,144,000 (2006: HK\$5,082,000) and 51% (2006: 61%) respectively.

The unaudited consolidated loss attributable to equity shareholders of the Company for the Nine-Month Period amounted to HK\$48,890,000 (2006: HK\$812,000).

BUSINESS REVIEW AND FUTURE PROSPECTS

The Company will continue to operate its existing IT and telecom business in a pragmatic way. Through the subsidiaries established in the People's Republic of China ("PRC"), the Group will carry out 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 falling under specific regulations) in the 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 September 2007, the Group's working capital and net assets were approximately HK\$1,162,149,000 and HK\$1,840,286,000 respectively. Cash and Bank balance as at 30 September 2007 stood at approximately HK\$1,112,378,000.

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

CAPITAL STRUCTURE

During the Nine-Month Period, the Company has issued total 115,914,000 ordinary shares by mean of placement to raise approximately total HK\$1,168,000,000. The intended use of proceeds from the fund raising was to finance the future operation costs.

In addition, the Company had issued and allotted 95,000,000 new Shares to Shellybeach Investments Limited as the consideration shares for the acquisition of Eternity Profit Investments Limited and this transaction was completed during July 2007.

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

DIRECTORS' INTEREST IN SHARES

As at 30 September 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	298,000	3,330,000	3,628,000	0.74%
Mr. Lim Kwok Choi	Beneficial owner	—	600,000	600,000	0.12%

Save as disclosed above, as at 30 September 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 DEBENTURE

Save as disclosed above sections headed "Directors' Interest in Shares", at no time during the Nine-Month 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 Nine-Month 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 September 2007 or at any time during the Nine-Month Period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 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:

Name	Capacity	Type of interests	Number of shares	Percentage of interests
Shellybeach Investments Limited (Note 1)	Beneficial owner	Corporation	95,000,000	19.41%
Credit Suisse Group (Note 2)	Interest of corporation controlled	Corporation	64,090,000	13.10%
Well Support Limited (Note 3)	Beneficial owner	Corporation	52,415,466	10.71%
HSZ Limited on behalf of clients	Investment manager	Corporation	49,474,000	10.11%
Century Dragon Development Limited (Note 4)	Beneficial owner	Corporation	27,000,000	5.52%

Notes:

1. Shellybeach Investments Limited is wholly-owned by Cheung Yu Ching.
2. Credit Suisse Group is wholly-owned by Credit Suisse.
3. 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.
4. 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 member of the Group as at 30 September 2007.

COMPETING INTERESTS

During the Nine-Month Period, 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.

While Mr. Tsang Chi Hin has resigned as the chairman of the Company and remains as a non-executive director of the Company with effect from 16 October 2007, the Directors believe that the competing risk to the business of the Group is minimal.

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 during the Nine-Month Period.

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 Nine-Month Period.

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 Nine-Month Period. 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.

CORPORATE GOVERNANCE

As at 30 September 2007, 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 Nine-Month Period, except that there is no division of roles of chairman and chief executive officer that 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.

Mr. Tsang Chi Hin has resigned as the chairman, chief executive officer, members of the nomination committee and remuneration committee of the Company (the "Resignation") and remains as a non-executive director of the Company, all the above with effect from 16 October 2007. Upon the Resignation, Mr. Wong Chi Tak, Brence, executive director of the Company, was appointed as the members of the nomination committee and remuneration committee of the Company with effect from 16 October 2007 thereon.

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, halfyearly 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, 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 quarterly results for the Nine-Month Period.

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.

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 Nine-Month Period.

By order of the Board
NG KAM WING
Executive Director

Hong Kong, 12 November 2007

As at the date hereof, the Company's executive directors are Mr. Zeng Bangjian, Mr. Ng Kam Wing, Mr. Koh Tat Lee, Michael, Mr. Lim Kwok Choi, Mr. Wong Chi Tak, Brence and Mr. Zhu Xirong; the Company's non-executive director is Mr. Tsang Chi Hin; 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.