THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect about this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Proactive Technology Holdings Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscriber for securities.

PROACTIVE TECHNOLOGY HOLDINGS LIMITED
（寶訊科技控股有限公司）*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8089)

VERY SUBSTANTIAL ACQUISITION
AND
PROPOSED CHANGE OF NAME

A notice convening a special general meeting of the Company to be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 20 June 2007 at 2:00 p.m. is set out on pages 165 to 166 of this circular. A form of proxy for use thereat is also enclosed.

Whether or not you are able to attend the SGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Room 1803, Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its publication.

* *For identification purposes only*

25 May 2007

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be associated. 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 higher 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 traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the acquisition of the Sale Shares and the Sale Loan pursuant to the terms and conditions of the Agreement
"Agreement"	the conditional sale and purchase agreement dated 12 March 2007 and entered into among Vendor, Purchaser and Guarantor in respect of the Acquisition
"Announcement"	the announcement of the Company dated 22 March 2007 in respect of the Acquisition, Placing and Subscription, and the transactions contemplated thereunder
"associates"	has the meaning ascribed to this term under the GEM Listing Rules
"Business Day"	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Beijing Run Tong"	Beijing Run Tong Transportation Consulting Company Limited (北京潤通運輸諮詢有限公司), a company established in the PRC and an Independent Third Party
"Board"	the board of Directors
"Cachet"	Cachet Certified Public Accountants Limited
"CCASS"	the Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited
"CCBI"	CCB International Capital Limited, a licensed corporation for type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"China Railway Hong Kong"	China Railway Investments Group (Hong Kong) Limited (中鐵開發投資集團(香港)有限公司), (formerly known as China Railway Television Media (Hong Kong) Limited 中鐵視媒體(香港)有限公司), a company incorporated in Hong Kong and 51% held by Guangdong China Railway and 49% by Pacific Telecom
"Company"	Proactive Technology Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on GEM

"Completion"	completion of the sale and purchase of the Sale Shares and the Sale Loan in accordance with the terms and conditions of the Agreement
"Completion Date"	the date of Completion, being the date falling two business days after all the conditions of the Agreement have been fulfilled or such later date as may be agreed between Vendor and Purchaser
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Consideration Shares"	95,000,000 new Shares to be allotted and issued by the Company at the Issue Price as partial consideration for the Acquisition
"Deposit"	the deposit of HK$6,000,000 paid by Purchaser to Vendor on 5 December 2006, being the date of the MOU, as partial consideration for the Acquisition
"Director(s)"	the director(s), including the independent non-executive directors, of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Grant Sherman"	Grant Sherman Appraisal Limited
"Group"	the Company and its subsidiaries
"Guarantor"	Cheung Yu Ching, an Independent Third Party
"Guangdong China Railway"	Guangdong China Railway Television Media Limited (廣東中鐵視媒體有限公司), a company established in the PRC and an Independent Third Party
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, are third parties independent of and not connected with any director, chief executive or Substantial Shareholders of the Company or its subsidiaries or any of their respective associates
"Issue Price"	the issue price of HK$7.11 per Consideration Share

"Joint Venture Partners"	Guangdong Railway, Pacific Telecom, China Railway Hong Kong and Beijing Run Tong
"Jun He"	Jun He Law Offices
"JV Agreement A"	the joint venture agreement dated 25 January 2007 entered into between the Target and China Railway Hong Kong in relation to JV Co. A
"JV Agreement B"	the joint venture agreement dated 25 January 2007 entered into by JV Co. A with Guangdong China Railway and Beijing Run Tong
"JV Agreement C"	the joint venture agreement dated 6 March 2007 entered into by JV Co. A with Guangdong China Railway and Beijing Run Tong
"JV Agreements"	JV Agreement A, JV Agreement B and JV Agreement C
"JV Co. A"	Onway Logistics Limited, a company incorporated in Hong Kong pursuant to JV Agreement A
"Latest Practicable Date"	23 May 2007, being the latest practicable date for ascertaining information contained in this circular prior to printing
"Liu & Wang"	Liu & Wang Attorney at Law
"MOC"	Ministry of Commerce of the PRC
"MOC Approval"	the approval granted by Beijing Municipal Bureau of Commerce (北京市商務局) on 9 April 2007 for the conversion of the PRC Subsidiary into a Chinese-foreign cooperative joint venture company
"MOR"	Ministry of Railways of the PRC
"MOU"	the non-legally binding memorandum of understanding dated 5 December 2006 entered into between the Vendor and the Purchaser in relation to the Acquisition
"NDRC"	National Development and Reform Commission of the PRC
"Pacific Telecom"	Pacific Telecom and Networks Limited (滙訊網路有限公司), a company incorporated in the British Virgin Islands with limited liability and an Independent Third Party

"Placing"	the placing of 55,000,000 existing Shares under the Placing Agreement
"Placing Agreement"	the placing agreement dated 12 March 2007 entered into between the Company, CCBI and Well Support Limited and Homerun Business Development Limited in relation to the Placing and Subscription
"Purchaser"	Dragon Billion Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
"PRC"	the People's Republic of China which, for the purpose of the circular, unless the context requires otherwise excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Subsidiary"	China Railway Television Freight and Logistics Transport Co. Ltd. (中鐵視自備列物流運輸有限公司), a limited liability company established in Beijing, the PRC, which is being converted into a Chinese-foreign joint venture cooperative company, and will, immediately following completion of the Reorganisation, be 80% owned by JV Co. A
"Proposed Change of Name"	the proposed change of the name of the Company from "Proactive Technology Holdings Limited" to "China Railway Logistics Limited", and the new Chinese name "中國鐵路貨運有限公司" to be adopted to replace "寶訊科技控股有限公司" for identification
"Reorganisation"	the reorganization of Target Group pursuant to which PRC Subsidiary is converted into a Chinese-foreign cooperative joint venture company and is applying to the MOC for approval to increase its registered capital to RMB200 million. When approved, JV Co. A will own 80% of the equity interest of PRC Subsidiary, while Guangdong China Railway and Beijing Run Tong will own 16% and 4% respectively. The Reorganisation shall be conducted and completed in such manner as approved by Purchaser
"Sale Loan"	all obligations, liabilities and debts owing or incurred by the Target to the Vendor on or at any time prior to Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion
"Sale Shares"	50,000 ordinary shares of US$1.00 each in the issued share capital of Target, representing the entire issued share capital of Target

"SFO"	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder including but not limited to allotment and issue of the Consideration Shares, and the Proposed Change of Name notice of which is set out in this circular
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	ordinary share(s) of HK$0.001 each in the capital of the Company
"SHINEWING"	SHINEWING (HK) CPA Limited, certified public accountants
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription of the Subscription Shares pursuant to the terms of the Subscription Letters
"Subscription Letters"	the subscription letters dated 12 March 2007 individually entered into between the Company and Well Support Limited and Homerun Business Development Limited respectively as stipulated under the Placing Agreement in relation to the Subscription
"Subscription Shares"	an aggregate of 55,000,000 Shares allotted and issued to Well Support Limited and Homerun Business Development Limited pursuant to the Subscription Letters
"Substantial Shareholder"	has the meaning ascribed to this term under the GEM Listing Rules
"Supplemental MOU"	the non-legally binding supplemental memorandum of understanding to the MOU dated 15 February 2007 and entered into between Vendor and Purchaser
"Takeovers Code"	the Hong Kong Code on Takeovers and Merges
"Target"	Eternity Profit Investments Limited, a company incorporated on 22 September 2006 in the British Virgin Islands with limited liability and is wholly and beneficially owned by Vendor
"Target Group"	Target, JV Co. A and (immediately after completion of the Reorganisation) PRC Subsidiary

"Vendor"	Shellybeach Investments Limited, a company incorporated in the British Virgin Islands on 26 September 2006 with limited liability and an Independent Third Party
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

The English translation/transliteration of the Chinese names in this circular, where indicated, is included for information only, and should not be regarded as the official English names of such Chinese names.

PROACTIVE TECHNOLOGY HOLDINGS LIMITED
(寶訊科技控股有限公司)*

(Incorporated in Bermuda with limited liability)
(Stock Code: 8089)

Executive Directors:
Mr. Tsang Chi Hin
(Chairman and Chief Executive Officer)
Mr. Zeng Bangjian
Mr. Ng Kam Wing
Mr. Koh Tat Lee, Michael
Mr. Lim Kwok Choi

Independent non-executive Directors:
Mr. Leung Lok Ming
Mr. Chan Ho Wah, Terence
Mr. Chong Cha Hwa
Dr. James Wing Ho Wong
Mr. Lok Shing Kwan, Sunny

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
14th Floor
Bangkok Bank Building
18 Bonham Strand West Street
Sheung Wan
Hong Kong

25 May 2007

To the Shareholders,

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND PROPOSED CHANGE OF NAME

INTRODUCTION

On 22 March 2007, the Board announced that the Purchaser has entered into the Agreement to acquire from Vendor, the Sale Shares and the Sale Loan, for a total consideration of HK$681,450,000.

The Purchaser has paid the Deposit to the Vendor on the date of the MOU and will satisfy the balance of the consideration for the acquisition of the Sale Shares and the Sale Loan by procuring the Company to allot and issue to Vendor the Consideration Shares, credited as fully paid at Completion. The Consideration Shares represent approximately 28.49% of the existing issued share capital of the Company, and approximately 22.18% of the issued share capital of the Company as enlarged by allotment and issue of the Consideration Shares.

* *For identification purposes only*

Reference is also made to the announcement of the Company dated 14 May 2007 in which the Board announced that it intended to put forward a proposal to the Shareholders to approve the change of name of the Company from "Proactive Technology Holdings Limited" to "China Railway Logistics Limited", and upon the change of name becoming effective, a new Chinese name "中國鐵路貨運有限公司" will be adopted to replace "寶訊科技控股有限公司" for identification.

The purpose of this circular is to provide the Shareholders with further information on the Acquisition and the Proposed Change of Name and seek the Shareholders' approval on the Proposed Change of Name the Acquisition and the transactions contemplated thereby, including but not limited to the allotment and issue of the Consideration Shares.

THE AGREEMENT

Date:	12 March 2007
Parties:	
Purchaser:	Dragon Billion Limited, a wholly owned subsidiary of the Company
Guarantor:	Cheung Yu Ching
Vendor:	Shellybeach Investments Limited

The Vendor was incorporated on 26 September 2006. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and the Guarantor (who is the sole director and ultimate beneficial owner of the Vendor) are Independent Third Parties. The Vendor is principally an investment holding company and the Vendor has wholly and beneficially owned the Target since the date of its incorporation.

The Guarantor has guaranteed under the Agreement the due and punctual performance of the obligations of the Vendor subject to and upon the terms of the Agreement.

Assets to be acquired

Pursuant to the Agreement, the Purchaser has agreed to acquire, and the Vendor has agreed to sell, the Sale Shares which represent the entire issued share capital of Target and the Sale Loan. The Target will indirectly own a 49% equity interest in the PRC Subsidiary upon completion of the Reorganisation. (For additional details relating to the Reorganisation and the Target Group, please refer to the sub-sections headed "The Reorganisation" and "Information on the Target Group, including the PRC Subsidiary" below).

Although Guangdong China Railway is a subsidiary of the MOR and also a Joint Venture partner in, JV Co. A and the PRC subsidiary, the assets to be acquired by the Purchaser are non-state owned assets. For further details, please refer to the section headed "The Reorganisation" in this letter.

Consideration

Total consideration for the Sale Shares and the Sale Loan of HK$681,450,000 will be settled by the Purchaser in the following manner:

(i) the Deposit which has been paid to Vendor on 5 December 2006 upon entering into of the MOU; and

(ii) the balance of HK$675,450,000 will be satisfied by way of the Company allotting and issuing to the Vendor the Consideration Shares, credited as fully paid, at Completion.

The Issue Price represented:

(i) a premium of approximately 5.33% over the closing price of HK$6.75 per Share as quoted on the Stock Exchange on 12 March 2007, being the last trading day immediately prior to the entering into of the Agreement;

(ii) a premium of approximately 22.59% over the average closing price of HK$5.80 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 12 March 2007, being the last trading day immediately prior to the entering into of the Agreement;

(iii) a premium of approximately 45.99% over the average closing price of HK$4.87 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including 12 March 2007, being the last trading day immediately prior to the entering into of the Agreement; and

(iv) a premium of approximately 124 times over the net asset value per Share of approximately HK$0.057 as at 31 December 2006 based on the audited consolidated financial statements of the Group.

Grant Sherman, an independent valuer appointed by the Purchaser, has appraised the business enterprise value of the PRC Subsidiary at approximately RMB8.047 billion as at 28 February 2007 using the discounted cash flow approach to valuation. The text of the valuation report is included in Appendix V to this circular for your reference.

The discounted cash flow approach estimates the value of the future economic benefits a proposed project is anticipated to generate. Indications of the value have been developed by discounting the projected future net cash flows available for repayment of shareholders' loans and payment of interest, and in certain circumstances, repayment of registered capital plus interest, and dividends, to their present worth at market-derived rates of return. Using the discounted cash flow approach to value the PRC Subsidiary is considered to be a profit forecast in respect of Target. Cachet, the Company's reporting accountants have confirmed that they have reviewed the accounting policies and calculations in respect of the profit forecast, and confirmed that the profit forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. CCBI, the Company's financial adviser, has confirmed that they are satisfied that the profit forecast prepared by the Directors has been made after due and careful consideration.

Consideration for the Sale Shares and the Sale Loan was agreed after arm's length negotiations between the Purchaser and the Vendor having consider: i) the unprecedented opportunity for the Group, being a non-PRC party, to enter into the railway transportation and logistics business in the PRC; ii) the business enterprise value of the PRC Subsidiary of about RMB8.047 billion; and iii) the Directors' belief that with optimization, the proposed Acquisition will generate a steady stream of future income as well as diversify the overall business risks of the Group. The Directors consider the terms and conditions of the Acquisition to be fair and reasonable. As such, the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

If Completion does not take place other than as a result of the sole default of the Purchaser, the Vendor shall forthwith refund the Deposit, without interest, together with an additional sum equivalent to the Deposit, to the Purchaser as liquidated damages (but not as penalty). The amounts paid shall represent payment in full and as final settlement of any and all liabilities of the Vendor under the Agreement. Whereupon, the Purchaser shall not proceed with any further action to enforce specific performance or any of its other rights and remedies under the Agreement for claimant of damages against the Vendor.

Conditions precedent

Completion is subject to the following conditions having been fulfilled:

(a) the Purchaser being satisfied with the results of the due diligence review conducted on the assets, liabilities, operations and affairs and the feasibility of the business plan of the Target Group;

(b) all necessary governmental consents and approvals and other consents and approvals required have been obtained by the Vendor, the Purchaser and the Guarantor in respect of the Agreement and the transactions contemplated thereby, including but not limited to the approvals from the relevant PRC authorities, including (without limitation) the MOR and the MOC;

(c) the passing, by the Shareholders, at the SGM to be convened and held, of an ordinary resolution to approve the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares;

(d) the obtaining of a legal opinion (in the form and substance satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser in relation to the transactions contemplated under the Agreement, including but not limited to the Reorganisation and the business intended to be carried out by the Target Group;

(e) the obtaining of a valuation report (in the form and substance satisfactory to the Purchaser) from a valuer appointed by the Purchaser valuing the PRC Subsidiary at a business enterprise value of not less than RMB8.047 billion;

(f) the Vendor's warranties contained in the Agreement remaining true and accurate in all respects;

(g) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares;

(h) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of the Consideration Shares;

(i) completion of the Reorganisation to the satisfaction of the Purchaser; and

(j) the Stock Exchange not adopting the position that the transactions contemplated under the Agreement as a "reverse takeover" as defined in the GEM Listing Rules.

The parties to the Agreement may by mutual agreement waive certain consents and/or approvals to be obtained by the parties to the Agreement as set out in condition (b) and all other conditions are incapable of being waived. As at the Latest Practicable Date, save for conditions (a), (d) and (e), no conditions precedent has been fulfilled yet and there is no agreement by the parties to the Agreement to waive any conditions precedent.

According to the Provisional Rules on Approval and Administration of Foreign Investment into Railway Cargo Transportation, the conversion of the PRC Subsidiary from a domestic enterprise into a Chinese-foreign cooperative joint venture company for the purpose of conducting a railway cargo transportation business and be owned as to 80% by JV Co. A, a non-PRC party, (the successful conclusion of which is a condition precedent to Completion) requires, among other things, JV Co. A to meet certain qualifications in terms of relevant industry experience (i.e., at least 10 years of cargo transportation experience) and financial strength. JV Co. A is a company established on 17 June 2006. It is therefore unable to meet the relevant industry experience qualification. The qualification requirement in terms of financial strength will be met by the Group with the net proceeds from the Placing and Subscription.

Notwithstanding the foregoing, the Company has been advised by its PRC legal advisor that if all approvals from the relevant PRC authorities are obtained, including all necessary certificates and approvals from MOR and MOC, the PRC Subsidiary can be legally converted into a Chinese-foreign cooperative joint venture company set up to conduct the business of railway transportation in the PRC.

The Company has further been informed by its PRC legal advisor that the PRC Subsidiary has already received all approvals needed to convert it into a Chinese-foreign cooperative joint venture company, including the MOC approval dated 2 March 2007 which approved Target and China Railway Hong Kong to set JV Co. A, the foreign investor, and the MOC Approval dated 9 April 2007 which approved the PRC Subsidiary to be converted into a Chinese-foreign cooperative joint venture company with JV Co. A, Guangdong China Railway, and Beijing Run Tong as their shareholders. The MOC Approval set out their respective shareholding percentages in the PRC Subsidiary subject to the capital contribution as stipulated in JV Agreement C. The Company does not commit to any capital contribution requirements in the PRC subsidiary.

With the MOC Approval, the legal status of the PRC Subsidiary as a Chinese-foreign cooperative joint venture company has been approved by the MOC despite the requirements set out in the Provisional Rules on Approval and Administration of Foreign Investment. Thereafter, the PRC Subsidiary can proceed to secure the operating and on-rail certificates from the MOR to engage in the business of railway transportation in accordance with the approved business scope.

Completion

Completion shall take place at 4:00 p.m. on the Completion Date.

Upon Completion, the Target will become an indirect wholly owned subsidiary of the Company.

Pursuant to the Agreement, the Purchaser can change the board composition of member companies of the Target Group, including the Target and the PRC Subsidiary. As at the Latest Practicable Date, the Purchaser has yet to decide on any changes in the board composition of any member company of the Target Group. Further announcement will be made by the Group as and when appropriate.

There are no terms or provisions contained in the Agreement which permit the Vendor and its ultimate beneficial owner to appoint any individual as a director to any members of the Group or to any member company of the Target Group (including PRC Subsidiary).

Long-stop date

If all conditions precedent are not fulfilled on or before 4:00 p.m. 29 June 2007 or such later date as the Vendor and the Purchaser may agree, the Agreement shall cease to have any effect and terminate. Thereafter, the Vendor shall forthwith after such cessation and termination refund the Deposit, without interest, to the Purchaser, and neither party shall have any obligations and liabilities towards each other under the Agreement.

Force Majeure

The Purchaser may, in its reasonable opinion, after consultation with the Vendor, terminate this Agreement by giving written notice to the Vendor at any time up to 3:30 p.m. on Completion Date if:

(1) there is any change in national, international, financial, exchange control, political, economic conditions in the PRC and/or Hong Kong which would be materially adverse to the consummation of the transactions contemplated under the Agreement, including but not limited to due completion of the Reorganisation and such other matters in relation to the business to be carried out by the Target Group; or

(2) there is any material change (whether or not forming part of a series of changes) in market conditions which in the reasonable opinion of Purchaser would materially and prejudicially affect the Agreement and the transactions contemplated thereunder or make it inadvisable or inexpedient for any transactions contemplated thereunder to proceed; or

(3) there is occurrence of any local, regional, national or international event or change of a political, military or economic nature which results in a material adverse change in the political, economic or stock market conditions in the PRC and/or Hong Kong which materially affects the transactions contemplated under the Agreement, including but not limited to due completion of the Reorganisation and such other matter as may be reasonably required in the business to be carried out by the Target Group; or

(4) there is any modification, enactment or re-enactment of any statute, any statutory instrument or other legislative act in any applicable jurisdiction which is reasonably expected to have an adverse effect on the Agreement and/or the transactions contemplated thereunder.

Upon termination of the Agreement, the Vendor shall forthwith refund the Deposit, without interest, to the Purchaser and thereafter all liabilities of the parties thereto shall cease and determine and no party thereto shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Agreement save in respect of any antecedent breach of any obligation under the Agreement.

THE CONSIDERATION SHARES

The Consideration Shares will be allotted and issued to the Vendor, at the Issue Price, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares then in issue including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Consideration Shares will be allotted and issued on Completion Date pursuant to the specific mandate to be sought at the SGM.

Based on the closing price of HK$6.75 per Share as quoted on the Stock Exchange on 12 March 2007 (being the trading day immediately prior to the entering into of the Agreement), the Consideration Shares have a total market value of approximately HK$641,250,000.

The Consideration Shares represent approximately 28.49% of the existing issued share capital of the Company as at the Latest Practicable Date, and approximately 22.18% of the enlarged issued share capital of the Company immediately after Completion. Upon the allotment and issue of the Consideration Shares to the Vendor, the Vendor will become the Company's single largest Shareholder. The Company does not have any controlling Shareholder as at the Latest Practicable Date and there will not be any new controlling Shareholders upon completion. Accordingly, based on the number of the Consideration Shares to be allotted and issued, there will be no change in control (as defined under the Takeovers Code) upon Completion.

The Vendor undertakes to and covenants with the Purchaser that it will not, within the period commencing on the date of Completion and ending on the date falling 6 months thereafter, transfer or otherwise dispose of or create any encumbrance or other rights in respect of any of the Consideration Shares or any interests therein or grant any options or rights in respect of any of the Consideration Shares.

The Vendor has further undertaken to and covenant with the Purchaser that it will not, within a further 6 months commencing on the expiry of the 6 month period referred to in the above paragraph, transfer or otherwise dispose of or create any encumbrance or other rights in respect of more than 40,000,000 Consideration Shares or any interests therein or grant any options or rights in respect of more than 40,000,000 Consideration Shares.

Application for listing

Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

THE REORGANISATION

On 5 December 2006, the Vendor and the Purchaser entered into the MOU, pursuant to which the Purchaser may acquire not less than 51% of the issued share capital of the Target. The Target is an investment holding company. As part of the Reorganisation, the Target and China Railway Hong Kong would form a joint venture, JV Co. A, and JV Co. A, together with Guangdong China Railway and Beijing Run Tong, would form another joint venture company, the PRC Subsidiary, to participate in a project which involves the purchase of cargo trains, and management and operation of a railway transportation and related logistics business in the PRC. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, China Railway Hong Kong is held as to 51% by Guangdong China Railway and as to 49% by Pacific Telecom.

On 25 January 2007, the Target entered into JV Agreement A with China Railway Hong Kong to form JV Co. A. Pursuant to JV Agreement A, JV Co. A would be owned as to 61.25% by the Target and as to 38.75% by China Railway Hong Kong. JV Co. A has been duly incorporated as at the Latest Practicable Date.

On the same date, JV Co. A entered into JV Agreement B with Guangdong China Railway and Beijing Run Tong. In accordance with JV Agreement B, the PRC Subsidiary, which was owned as to 90% by Guangdong China Railway and as to 10% by Beijing Run Tong at the time of establishment on 5 March 2007, will be owned as to 60% by JV CO. A once it has been converted into a Chinese-foreign cooperative joint venture company subject to the approval from the MOC and other relevant PRC authorities.

According to JV Agreement B, after such conversion, JV Co. A may increase its capital contribution in accordance with the terms prescribed therein whereupon its equity interests in the PRC Subsidiary would increase from 60% to 80%, and after 11 December 2007, JV Co. A may increase its capital contribution whereupon it equity interests in the PRC Subsidiary would increase from 80% to 100%.

A general meeting among the shareholders of the PRC Subsidiary was held on 7 February 2007 to confirm the 80%, 16% and 4% equity interests in PRC Subsidiary to be held by JV Co. A, Guangdong China Railway and Beijing Run Tong respectively once the conversion is completed.

Further, on 15 February 2007, the Vendor and the Purchaser entered into the Supplemental MOU to revise the possible acquisition to 100% of the issued share capital of Target.

On 2 March 2007, the MOC has given the approval for the Target and China Railway Hong Kong to set up JV Co. A. On 6 March 2007, JV Co. A entered into JV Agreement C with Guangdong China Railway and Beijing Run Tong to consolidate and confirm the parties' intention as set out in JV Agreement B whereupon 80%, 16%, 4% equity interests of PRC Subsidiary will be held by JV Co. A, Guangdong China Railway and Beijing Run Tong respectively, and the registered capital will be increased to an amount of Renminbi equivalent to HK$200 million. Pursuant to JV Agreement C, JV Co. A will be responsible for the capital contribution of the Renminbi equivalent of HK$200 million into PRC Subsidiary, of which HK$100 million will be contributed within 3 month, while the remaining HK$100 million will be contributed within 6 months of PRC Subsidiary after obtaining of its business license. Such arrangements will be subject to the approval of MOC and other relevant PRC authorities.

On 9 April, 2007, the MOC Approval based on JV Agreement C was granted with an approved business scope of 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 (for business(es) falling under specific regulations, separate applications in accordance with relevant State regulations are required). It is a term of the MOC Approval to JV Co. A, and the registered capital of the PRC Subsidiary would contemporaneously be increased by RMB150 million to RMB200 million, whereby JV Co A will be entitled to a contribution of the entire RMB200 million. Upon completion of the increase in registered capital, the PRC Subsidiary will be converted into a Chinese-foreign cooperative joint venture company with an enlarged registered capital of RMB200 million and be owned as to 80% by JV Co. A, 16% by Guangdong China Railway and 4% by Beijing Run Tong. The interests of Guangdong China Railway and Beijing Run Tong in the PRC subsidiary are represented in their contribution in the services as stipulated in JV Agreement C.

On 11 April 2007, the certificate of approval for the establishment of the PRC Subsidiary as a Chinese-foreign cooperative joint venture company was issued by the People's Government of Beijing. Under the MOC Approval, JV Co. A shall enter into equity transfer agreement(s) to acquire 90% and 10% of the equity interest in the PRC Subsidiary from Guangdong China Railway and Beijing Run Tong first. It is expected that JV Co. A will enter into equity transfer agreements with Guangdong China Railway and Beijing Run Tong respectively for consideration of RMB45 million and RMB5 million respectively.

On 12 April 2007, it was agreed among JV Co. A, Guangdong China Railway and Beijing Run Tong that a non-interest bearing shareholder's advance in the amount of RMB50 million shall be provided by Guangdong China Railway and Beijing Run Tong to the PRC Subsidiary after conversion of the PRC Subsidiary into a Chinese-foreign cooperative joint venture company has been approved.

The existing restructuring of the PRC Subsidiary under the Reorganisation is based on the MOC Approval granted on 9 April 2007, which is based on the content of JV Agreement C instead of JV Agreement B. JV Co. A will accordingly have to contribute RMB 200 million to the registered capital of the PRC Subsidiary for 80% equity interests in the PRC Subsidiary. The 16% and 4% of equity interests in the PRC Subsidiary by Guangdong China Railway and Beijing Run Tong are represented by their contribution in the services as provided in JV Agreement C. The original paid-up capital of RMB 50 million by Guangdong China Railway and Beijing Run Tong will be converted into shareholders' loan to the PRC Subsidiary. The source of financing of such contribution by JV Co. A would be through external financing, including bank borrowing or third party financing, procured by the Vendor.

Although it is not a condition to the Agreement, the capital contribution is necessary for the completion of the Reorganisation. Completion of the Reorganisation is however one of the conditions to the Agreement, in the event that the Vendor cannot arrange or procure the necessary bank borrowing or third party financing, the Acquisition will not proceed further. The Vendor will be responsible for the completion of the Reorganisation.

As at the Latest Practicable Date, the Company does not commit to the capital contribution requirement of JV Co. A in the PRC Subsidiary.

Upon obtaining all relevant certificates and approvals outstanding (including those granted and to be granted by MOR and MOC) which are currently expected to be obtained on or before Completion, the PRC Subsidiary will be entitled to engage in a project which involves the purchase of cargoes trains, and management and operation of a railway transportation and related logistics business in the PRC.

The Reorganisation entails a set of commercial business decisions which were previously agreed upon by the parties concerned. The JV Agreements set forth in written form the terms and conditions of those, say, commercial business decisions after they have been agreed upon by the parties concerned. As the Reorganisation will involve the conversion of the PRC subsidiary into a Chinese-foreign co-operative joint venture company. The Reorganisation will allow the Purchaser, as a non-PRC party, to tap into the railway transport business in the PRC. JV Agreement A was the first of such agreements setting forth the basis of the joint venture, which as to 61.25% is owned by the Target and as to the remaining 38.75% by China Railway Hong Kong. All subsequent agreements represent further discussions and refinements. The MOC Approval is ultimately predicated on JV Agreement C.

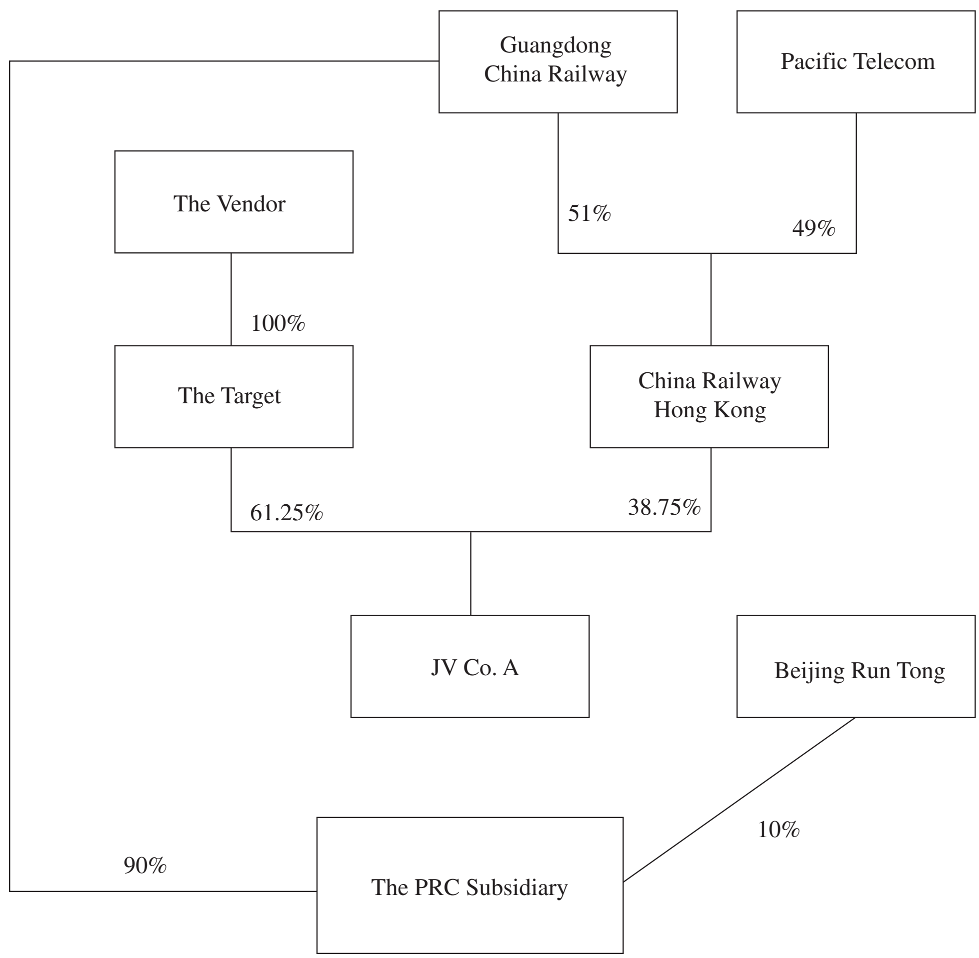
As shown on the group structure of the Target Group before completion of the Reorganisation, the PRC Subsidiary, which will be responsible for the daily operation of the business of the Target Group, is not part of the Target Group before the completion of Reorganisation. Immediately after completion of Reorganisation, the PRC Subsidiary will become an 80% owned subsidiary of JV Co. A and thus allow its results to be consolidated into that of the Target Group. This accounting treatment has been confirmed by the company with SHINEWING. In addition, during the Reorganisation, the relevant approvals have to be obtained from the MOC for the conversion of the PRC Subsidiary from a domestic PRC company into a Chinese-foreign joint venture.

As the Reorganisation is to be completed before Completion and the Purchaser is not a party to the JV Agreements, the JV Agreements would have no direct effect on the Purchaser save for the effect as a result of the Acquisition of the Target Group by the Purchaser after completion of the Reorganisation. To the best of the Directors' knowledge, JV Co. A, Guangdong China Railway and Beijing Run Tong are in the course of negotiations such that JV Agreement B is to be cancelled.

As at the Latest Practicable Date, the Reorganisation is still in process and is yet to be completed.

The following charts show the group structure of the Target Group (i) before completion of the Reorganisation and as at the Latest Practicable Date; (ii) immediately after completion of the Reorganisation but before Completion; and (iii) immediately after Completion:

Group structure of the Target Group before completion of the Reorganisation:



China Railway Hong Kong, Guangdong China Railway, Beijing Run Tong, Pacific Telecom and their respective ultimate beneficial owners are Independent Third Parties. To the best of the Directors' knowledge, none of them have any interests in the Shares of the Company.

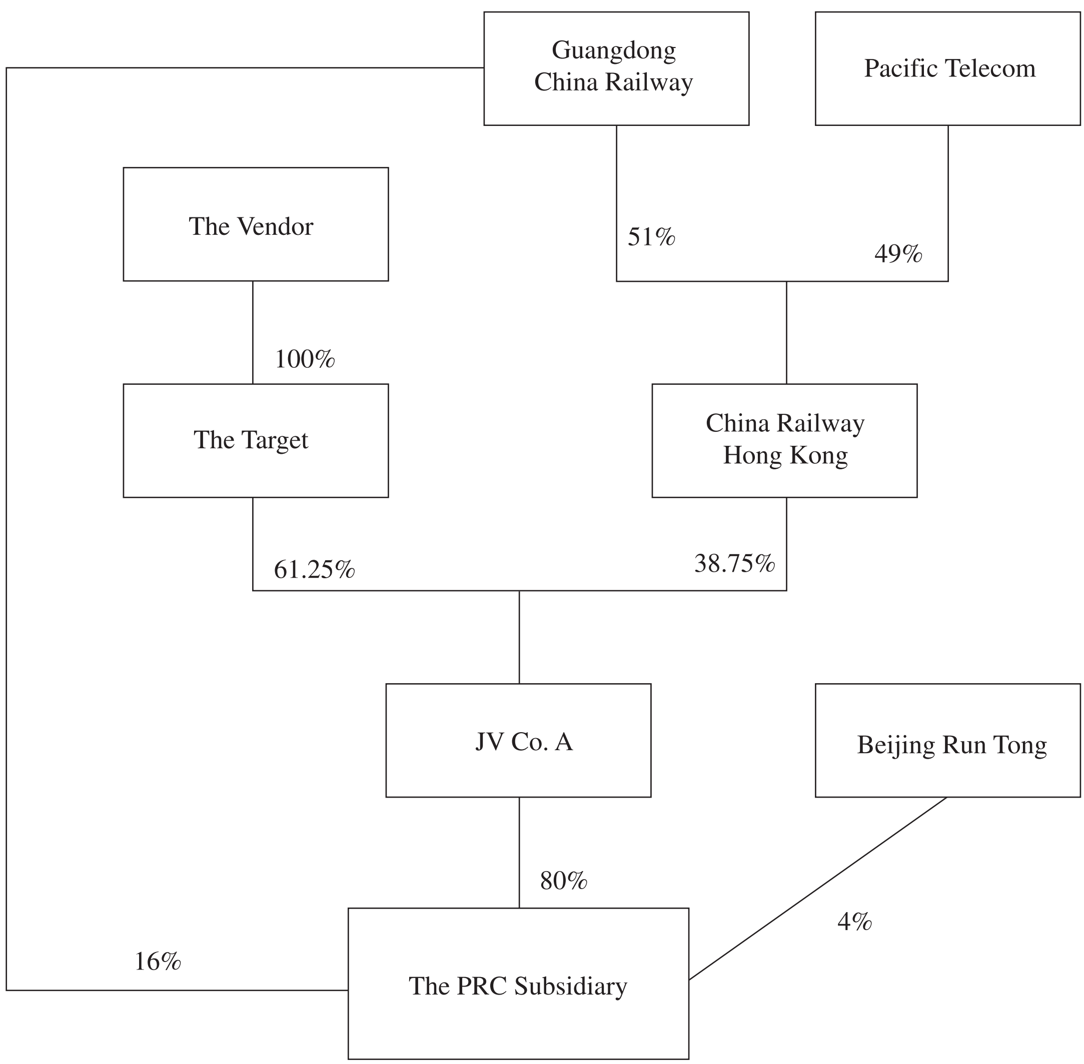
To the best of the Directors' knowledge, Guangdong China Railway and Beijing Run Tong are subsidiaries of the MOR, while Guangdong China Railway has a controlling shareholding interest of 51% in China Railway Hong Kong and Pacific Telecom is the other shareholder with a 49% shareholding interest in China Railway Hong Kong. As a result, Guangdong China Railway, Pacific Telecom, Beijing Run Tong and/or their respective ultimate beneficial owners are related to each other although they are Independent Third Parties to the Company.

To the best of the Directors' knowledge, the Vendor and its ultimate beneficial owner is independent of and not connected with each of the Joint Venture Partners and their respective ultimate beneficial owners.

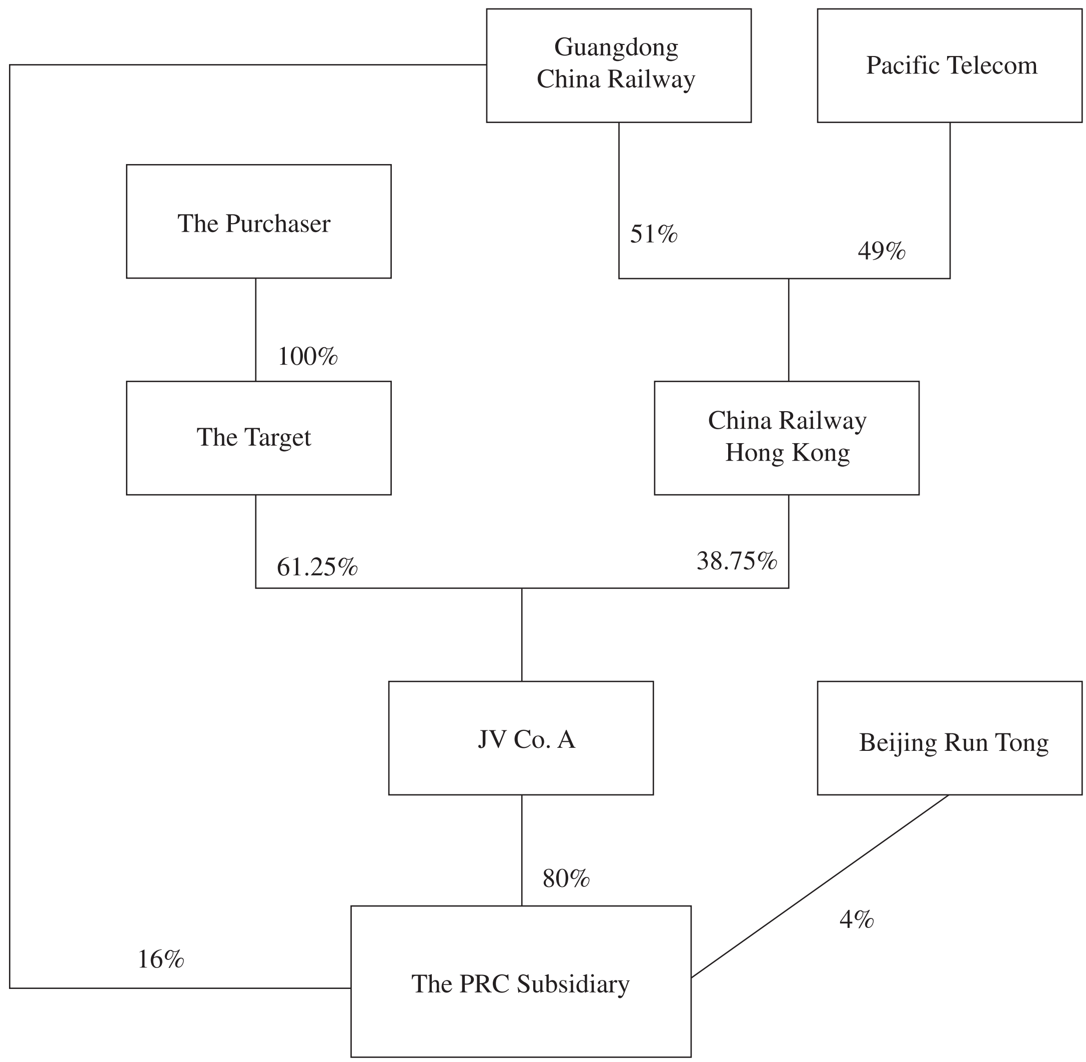
MOR, Guangdong China Railway, Pacific Telecom and China Railway Hong Kong will become connected persons of the Company after Completion as a result of their interests in the Target Group. Future transactions between the Enlarged Group and these Joint Venture Partners after Completion, including but not limited to the proposed payment of management fee from the PRC Subsidiary to the MOR, will constitute connected transactions under Chapter 14A of the Listing Rules. The Company will comply with the Listing Rules and make announcement(s) and seek independent Shareholders' approval, if necessary, as and when appropriate.

To the best of the Directors' knowledge, information and belief, JV Co. A was owned by an Independent Third Party immediately prior to the incorporation of the Target.

Group structure of Target Group immediately after completion of the Reorganisation but before Completion



Group structure of Target Group immediately after Completion



Upon Completion, Target, JV Co. A and PRC Subsidiary will become subsidiaries of the Company and be consolidated into the financial accounts of the Group. It is expected that the completion of the Reorganisation will take place prior to the Completion Date, i.e. on or before the end of June.

INFORMATION ON TARGET GROUP, INCLUDING THE PRC SUBSIDIARY

Background Information

According to the MOC Approval granted on 9 April 2007, the PRC Subsidiary has been approved to conduct 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) upon completion of its conversion into a Chinese-foreign cooperative joint venture company. Other than the investment in PRC Subsidiary, there are no other major assets within Target Group.

According to the audited consolidated financial statements of the Target Group (excluding the PRC Subsidiary) for the periods commencing from 22 September 2006 (being the date of incorporation) to 31 December 2006 and 1 January 2007 to 31 March 2007, no turnover was recorded and the net loss for the respective periods were HK$25,694 and HK$147,674 respectively. Total equity of Target Group as at 31 December 2006 and 31 March 2007 were HK$364,306 and HK$133,704 respectively. The Target and JV Co. A were duly incorporated on 22 September 2006 and 17 June 2006 respectively.

The PRC Subsidiary was established on 5 March 2007 with a registered capital of RMB50 million which has been fully contributed as at the Latest Practicable Date. The PRC Subsidiary's audited loss for the period from 5 March 2007 to 31 March 2007 was HK$8,412. As at 31 March 2007, total equity of the PRC Subsidiary was HK$50,753,009 without taking into account the appraised business enterprise value of the PRC Subsidiary as described under the paragraphs headed "Consideration" in this letter.

Upon Completion, the Target, JV Co. A and the PRC Subsidiary will become subsidiaries of the Company and their accounts will be consolidated into the financial accounts of the Group. Further financial information on the Target Group (excluding the PRC Subsidiary) and the Enlarged Group (including the PRC Subsidiary) are set out under the sub-sections headed "Accountant's Reports on Target Group", "Accountant's Reports on the PRC Subsidiary" and "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendices II, III and IV to this circular.

BUSINESS OPERATING MODEL

The "Business Operating Model" section and the "Business Plan" section in the letter are prepared by the Director after discussion with Beijing Run Tong and Guangdong China Railway assuming that the Acquisition would be completed in accordance with the terms and condition of the Agreement.

Rail freight transportation in respect of transportation of coal entails the shipper, the consignor, providing the PRC Subsidiary, the consignment carrier, with a bill of lading specifying the type and amount of cargo for transport. Proper forms and applications will be required to be filled out for consignment delivery as well as the loading delivery transportation costs; while the general cargo documents are forwarded to the consignee.

During the en route operations, the consignor, subject to the mutual agreement by the consignment carrier, or visa versa, may make adjustments to, or cancel, the transportation contract due to changes in the scheduling of the dispatch of the cargo train(s), changes in the type or amount of cargo for transport, use of different types of cargo wagons, other unforeseen events.

On the arrival of the cargo train(s) at its intended destination, the consignee should inquire the actual timing of its arrival, and follow the relevant procedures by filing the necessary paperwork and pick up its cargo at the depot station or have the cargo transfer onto dedicated collection or pick-up trucks.

A general outline of the actual operations for transportation of coal is as follows:

- The consignor should have a good understanding of the loading capacity of the trains as it relates to the type of cargo being shipped, whether the destination railway station has the necessary ancillary facilities to handle the discharge of the cargo, and whether the cargo consignments are unrestricted.

- Application has to be made for the scheduling and dispatch of the cargo train(s) either on a monthly or daily basis.

- Once the scheduling has been approved the Transport Bureau, the consignor needs to ensure the consignment goods being shipped has been move into the loading yards adjacent to the departing railway station.

- At that time, the consignment carrier will allocate the necessary wagons and/or trains needed to transport the consignment goods either on a daily or monthly basis in accordance with the scheduling approval provided by the Transport Bureau.

- Once the consignment carrier's wagons and/or trains arrived at the loading yards, the consignment goods will upload on to the allocated wagons and/or trains.

- Thereafter, the wagons and/or trains connected to the locomotives for transport to the intended designation.

The PRC Subsidiary will generate revenue based on the standard tariff in relation to the type of cargo being transported on a per ton per kilometer basis.

Targeted clients are coal production enterprises that include Datang Coal, China Coal and Shenhua Coal, and other relatively smaller or private coal production companies, as well as end users of the coal such as those independent power producers located along the coastal regions of the PRC.

BUSINESS PLAN

Target Group, through PRC Subsidiary, intends to purchase cargo trains, and manage and operate a railway transportation and related logistics business in the PRC. PRC Subsidiary has been established for the purpose of owning, developing, and operating a logistics transportation network nationwide for the promotion and facilitation of domestic trade. In due course, it is believed and hoped that the logistic transportation network, when firmly established, will primarily be used as one of the principal means for transporting basic raw materials providing a much needed supporting service to some of the country's pillar industries, namely, the coal, metal ores and oil industries.

PRC Subsidiary is privy to a trackage right to operate rail freight trains on the MOR's existing railway infrastructure network. The operational right extends the entitlement to cover upgraded tracks as well as all new tracks which has already been built, in the process of being built or will be additionally built in the future.

The proposed logistics transportation business is a pilot project and the first-of-its-kind in China's railway history. It may also serve to form an integral part of the MOR's commitment to reform the country's railway transportation industry to be more in line with developments undertaken by other governments and countries around the world.

During the first phase of business development, the plan requires PRC Subsidiary to purchase 300 trains over a 24 month period to kick start the business. It is expected that each train will cost approximately RMB22 million. The total capital expenditure for the first phase will amount to approximately RMB 6.6

billion. Although the Company has no concrete plan to meet such capital expenditure requirement, it is expected that the Company will procure bank borrowing, debt financing and/or equity financing to meet such capital expenditure requirement. Each train comprises of 55 wagons and will have a minimum uploading capacity of 70 tons per wagon. In addition, PRC Subsidiary will need to set up the relevant operations including the sales network. Based on the proposed allocated track routes on which the trains will be traveling on, the Company estimates that at least 4 offices (near the major railway bureaus) in the PRC will have to be set up to facilitate operations. The team in the Hong Kong office will oversee and manage the business as well as being responsible for all aspects relating to financial matters.

PRC Subsidiary, operating in accordance with all laws and regulations governing the railway industry in the PRC, is required to pay a fixed but significant portion of its gross revenues to MOR in the form of a fee for having access and for using its railway network. The fee payment also covers most, if not all, of the costs associated with the daily operations of the trains. This Light Assets Business Model is an extremely favorable arrangement for two principal reasons: i) Target Group's requirement capital expenditures for development of the infrastructure needed in effect has been kept at a bare minimum; and ii) PRC Subsidiary can leverage off of MOR's wealth of experience in the actual management and operations (particularly in terms of train scheduling on the world's busiest railway network) of the trains.

Analysis of the services and client

The PRC Subsidiary will be tasked to deliver coal coke, metal ores and oil from the Western region of China to the coastal cities where the largest demand exists.

i. Coal Coke Freight Business

China has the second largest coal depository reserves in the world. Coal is the principal raw material in the generation of electrical power accounting for 76% of China's total power supply in terms of quantity and 67% of total power consumption in terms of value.

Potential clients of the PRC Subsidiary are principally the large and medium independent power producers located along the coastal regions of China. They are predominantly coal-fired electricity generators. In spite of being naturally endowed with rich resources in coal, most of these plants are typically carrying or maintaining an inventory of coal, their principal raw material in producing electricity, of between less than a day to one week. The problem in coal freight is largely due to the well publicized shortages in railway capacity and available wagons needed to transport this natural resource to areas where there is the greatest demand.

Approximately 35% of China Railways's network capacity is presently allocated to transport coal. However, this capacity can only transport an estimated 20-25% of the country's annual production of coal. The niche of the PRC subsidiary's business derived from its ability to partially but directly meet market demand.

ii. Iron Ore Freight Business

Producers of iron ore and importers of scrapped metal are also the PRC Subsidiary's potential clients. The main transportation routes are from coastal ports to steel manufacturers within Shanxi Province. Iron ore is targeted for transportation on return trips after the coal cargo been delivered.

iii. Fuel Oil Freight Business

In recent years, power companies and the automobile industry's demand for crude and fuel oil has grown tremendously in line with China's economic development. When expanding its business operations, the PRC Subsidiary may consider to seek potential business opportunities by exploring the market of fuel oil freight businesses in China.

Analysis of Business Strategy

The PRC Subsidiary is set up to develop a nationwide railway freight logistics services provider. Its principal business will include railway freight and transportation, domestic trade, import and export trades of goods and technology. The PRC Subsidiary will be offering rail freight transportation services from major coal-production bases to major coastal cities, and back to the Western regions of the country. The covered rail lines include those under six Railway Bureaus, say Zhengzhou Railway Bureau, Taiyuan Railway Bureau, Sian Railway Bureau, Huhehaote Railway Bureau, Chengdu Railway Bureau, and Liuzhou Railway Bureau. The PRC Subsidiary will be developed in two phases, according to its business plan. During the first phase, the PRC Subsidiary will acquire a total of 300 trains each with 55 70-tons capacity wagons, by the first quarter of 2009. It is expected that each train will cost approximately RMB22 million and the total capital expenditure for the first phase is expected to be RMB6.6 billion. The Joint Venture Partners and the Company will further negotiate in respect of the portion in the capital expenditure for the first phase, the Company will consider appropriate fund raising activities including but not limited to bank borrowing, debt financing and/or equity financing to meet such capital expenditure requirement.

In the second phase of its business plan, the PRC Subsidiary intends to acquire an additional 250 55-wagon trains during the second phase of development for the rail freight transportation of oil and metal ores. The second phase is subject to the first phase and as at the Latest Practicable Date, the Company and the Joint Venture Partners have no concrete plan in relation to the capital expenditure for the Second phase. According to the management of the PRC Subsidiary, train operation is targeted to commence on July 1, 2007 on one or more of the 16 railway lines departing in 6 departing stations (Zhengzhou Railway Bureau, Taiyuan Railway Bureau, Sian Railway Bureau, Huhehaote Railway Bureau, Chengdu Railway Bureau, and Luizhou Railway Bureau). The average distance for the trains to travel, among the various routes, is estimated to be 946 km. At such, it is estimated that it will not take more than 5 days to complete a round trip journey, including loading and offloading time for the cargo as well as idle time and time for repair and maintenance check. The annual coal transportation volume could reach 76 million tons, and the estimated utilization rate is 91.4% and 45.7% for the onward and return trip respectively. According to the MOR's policy (國家發展改革委、 鐵道部關于調整鐵路貨物運輸价格的通知), the unit transportation revenue is set at the standard rate of RMB 0.0905 per ton per km. Also, under MOR's pricing policy for return trips, if the trains are unable to secure contracts or users or if the trains are emptied for some unforeseen reasons, the contracted users of the onward trip is obligated to pay the rail freight provider the full amount of the return trip expenses.

The PRC Subsidiary intends to sign contracts with strategic partners to assist them to deliver their coal coke, metal ores and oil production to designated areas. The delivery route is from Shanxi Province and Inner Mongolia to coastal regions of the PRC. Also, the project provides rail freight transportation services for imported commodities and the other cargos coming into the country via shipping routes. The trains can pick up these goods at major seaports and delivered them to the end-users.

Relationship and payout to the relevant railway authority

As the PRC Subsidiary cooperates with the China Railways, it shall be able to deliver mining resources through the nationwide railway network. The duty is to ensure a sufficient number of trains/ wagons have been reserved to upload the purchased cargo ready to transport.

It is expected that the PRC Subsidiary will pay a sales tax of 5% of gross revenue and to pay the railway authority a management/operating fee of 35% of gross revenue for operating the trains/wagons and for using their rail infrastructure. This fee covers most of the associated costs related to the day-to-day operations of the trains. The arrangement is favourable as it minimizes the Company's capital expenditure on infrastructure development.

The PRC Subsidiary and its business

The PRC Subsidiary is set up to develop a nationwide railway freight logistics services provider. It is among the first non-PRC parties to enter into the rail freight business in the PRC. The main activity of the PRC Subsidiary is railway freight and transportation, domestic trade, import and export trades of goods and technology.

The PRC Subsidiary offers rail freight transportation services nationwide from major coal-production basis to major coastal cities, and western regions of the country.

The railway lines will be departing from (1) Zhengzhou Railway Bureau has onward destinations Beijing, Shanghai, Wuhan, and Jinan, (2) Taiyuan Railway Burean has onward destinations Zhengzhou, Jinan, Shanghai, Chengdu, and Guangzhou, (3) Ansi Railway Bureau has onward destinations Jinan, Shanghai, Liuzhou, Chengdu, and Guangzhou, (4) Huhehaote Railway Bureau has onward destinations Beijing, Jinan, Shenyang, and Guangzhou, (5) Chengdu Railway Bureau has onward destinations Guangzhou, Liuzhou, and Shanghai, and (6) Liuzhou Railway Bureau has onward destinations Guangzhou and Shanghai.

The PRC Subsidiary will be developed in two phases, according to its business plan. During the first phase, the PRC Subsidiary will acquire a total of 300 trains each with 55 70-tons capacity wagons, by the first quarter of 2009.

According to the Management of the PRC Subsidiary (the "**PRC Management**"), the PRC Subsidiary will commence discussions with China Northern Locomotive and Rolling Stock Industry (Group) Corporation ("CNR1") and/or China Southern Locomotive and Rolling Stock Industry (Group) Corporation ("CSR1") regarding the purchase of trains and place the order for the initial batch of 30 trains on/before 16 April 2007.

The cost will be around RMB400,000 per wagon or RMB 22 million per train. To cope with the expanding business, the PRC Subsidiary will acquire an additional 250 trains and each train is made up of 55 wagons during the second phase of development for the rail freight transportation of oil and metal ores.

According to the PRC Management, train operation will commence on July 1, 2007, with 16 railway lines departing in 6 departing stations (Zhengzhou Railway Bureau, Taiyuan Railway Bureau, Sian Railway Bureau, Huhehaote Railway Bureau, Chengdu Railway Bureau, and Liuzhou Railway Bureau). The average distance for the trains to travel, among the various routes, is estimated to be 946 km and the trains have a nominal speed of up to 90 km per hour.

At such, it is estimated that it will not take more than 5 days to complete a round trip journey, including loading and offloading time for the cargo as well as idle time and time for repair and maintenance check. In the first phase of development with 300 trains, the yearly coal loading volume could reach 76 million tons, and an estimated utilization rate will be 91.4% and 45.7% for the onward and return trip respectively.

According to the Circular on Adjustment of Part of Railway Freight Rates (國家發展改革委、鐵道部關於調整鐵路貨物運輸價格的通知), the unit transportation revenue is set at the standard rate of RMB 0.0905 per ton per km2. Also, under MOR's pricing policy for return trips, if the trains are unable to secure contracts or users or if the trains are emptied for some unforeseen reasons, the contracted users who would have their cargo transported from Shaanxi Province and Inner Mongolia to their onward destinations is obligated to pay the PRC Subsidiary the full amount of the return trip expenses.

However, in market practice, the amount is usually negotiable and it is also highly unlikely that the train would return empty. The type of cargo transported on the return trip is typically metal ores which is associated with a lower tariff; therefore, the revenue for transport for the return trip is at a lower rate of RMB 0.067 per ton per km, which is around 70% of the rate for onward trip.

The PRC Subsidiary is also obliged to pay a Sales Tax of 5% of gross revenue and 35% of management fee to MOR for the usage of rail networks, according to the document presented by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF TARGET GROUP

The following management discussion and analysis of the Target Group's business, financial results and position covers the period commencing from 22 September 2006 to 31 March 2007.

Existing business of the Target Group

The Target and JV Co. A are investment holding companies. Other than the entering into of the agreements set out in the paragraph headed "The Reorganisation" in this circular, both the Target and JV Co A did not carry on any other business.

Financial and business performance

During the period from 22 September 2006 to 31 March, 2007, the Target Group (excluding the PRC Subsidiary) did not record any income and incurred operating expenses of HK$173,186 representing set-up and development costs.

During the period from 5 March 2007 to 31 March 2007, the PRC Subsidiary did not record any income and incurred operating expenses of HK$8,412 representing set-up and development costs.

Financial resources and liquidity

None of the Target, JV Co. A, nor the PRC Subsidiary has any outstanding borrowings or contingent liabilities as at the Latest Practicable Date.

Pursuant to the Reorganisation, the PRC Subsidiary is being converted into a Chinese-foreign cooperative joint venture company. Pursuant to the MOC Approval granted based on the content of the JV Agreement C, JV Co. A will contribute RMB200 million to the registered capital of the PRC Subsidiary as approved by the MOC.

Save as disclosed above, the Target, JV Co. A, and the PRC Subsidiary had no other outstanding commitments as at the Latest Practicable Date.

Cash and cash equivalent

The Target Group and the PRC Subsidiary had bank balances and cash of HK$388,381 and HK$50,780,509 respectively as at 31 March 2007.

Number of employees and remuneration policies

The Target, JV Co. A and the PRC Subsidiary did not have any staff as at the Latest Practicable Date.

Board representation of the Target Group

The directors of the Target included Ms. Cheng Yu Ching and Mr. Lau Chuk as at the Latest Practicable Date.

The director of JV Co. A was Mr. Kwong Wai Ho Richard as at the Latest Practicable Date.

The directors of PRC Subsidiary included Mr. Han Qinxue, Mr. Zhou Fazhi and Mr. Shen Ying as at the Latest Practicable Date.

RISK FACTORS RELATING TO THE ACQUISITION

In considering the Acquisition, the Shareholders are advised to take into account of all the information contained in this circular including certain potential risk factors relating to the Acquisition as set out below.

1. The PRC Subsidiary intends to operate and manage a bulk cargo transportation business. Once the Reorganisation has been completed, its primary capital expenditure will be in the purchase of 300 coal dedicated cargo trains. As such, practically all of the PRC Subsidiary's revenue is derived from the transportation of coal. The market demand for coal has increased in tandem with the country's rapid economic expansion. Although in recent years, China's national economy has recorded an average growth rate of not less than 8% per annum, there are no assurances that the historical rates of growth are sustainable in the near future and over the long term. Moreover, the Chinese government has already adopted a series of

macro-control measures to reduce the country's dependency on coal-fired energy and when these measures are fully implemented, they may have a negative impact on the domestic demand of coal.

2. The PRC Subsidiary has been approved to conduct 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 the relevant state regulations required for the business(es) falling under specific relevant regulations) upon completion of its conversion into a Chinese-foreign cooperative joint venture company according to the MOC Approval granted on 9 April 2007. To conduct such business(es), various PRC certificates are required to be obtained by the PRC Subsidiary and despite the MOC Approval, there are no guarantees that the PRC Subsidiary can obtain all such pending PRC certificate(s). In the event that the relevant PRC certificates cannot be obtained by the PRC Subsidiary, the PRC Subsidiary may not be able to conduct its business as intended.

   It is a condition to the Agreement that all necessary governmental consents and approvals and other consents and approvals required have been obtained by the Vendor, the Purchaser and the Guarantor in respect of the Agreement and the transactions contemplated thereby.

3. It is conceivable a rapid increase in the cost of steel, the basic raw material in the manufacture of the cargo trains, may proportionately increase the PRC Subsidiary's total capital expenditure in respect of purchasing the 300 coal dedicated cargo trains.

4. Although the MOC Approval on the Reorganisation has been granted on 9 April 2007, the Reorganisation is still currently in process and may not necessarily complete accordingly. The completion of the Reorganisation is subject to various factors, including but not limited to the increase in registered capital of the PRC Subsidiary, the fulfillment of the capital contribution requirement and also the obtaining of the relevant certificate. As completion of the Reorganisation is one of the conditions to the Agreement, in the event that the Reorganisation cannot complete by the last date of fulfillment of conditions to the Agreement, the Agreement will cease and determine.

5. The business enterprise value of the PRC Subsidiary was appraised by Grant Sherman using the discounted cash flow approach which estimates the value of the future economic benefits the proposed project is anticipated to generate. Indication of value was developed by discounting the projected future net cash flows to their present worth at market-derived rates of return. Using the discounted cash flow approach to value the PRC Subsidiary is considered to be a profit forecast in respect of Target. Profit forecasts or forward-looking statements regarding the prospects of a business and the associated level of risks represent an opinion by the writer. Such statements of opinion are based on certain assumptions regarding present and future the business. Actual results or performance may differ materially from forecasted scenarios, expressed or implied.

6. The basis of the consideration for the Acquisition is on the business valuation of the PRC Subsidiary prepared by Grant Sherman. As stated in the business valuation report, a number of assumptions are adopted by Grant Sherman in their appraisal of the business value of the PRC Subsidiary. Such major assumptions include but not limited to:

   – There will be no major change in the existing political, legal and economic conditions in the PRC, in which the PRC Subsidiary will carry on its business;

   – The business plan and the projection have been prepared on a reasonable basis, reflecting estimates which have been arrived after due and careful consideration; and

   – The PRC Subsidiary will retain and have competent management, key personnel and technical staff to implement its business plan

   For further details of other assumptions, please refer to Appendix V of this circular which set out the valuation report of Grant Sherman.

   Such assumptions may be revoked in the future and there is no guarantee that such assumptions will continue to be true and accurate in future. In the event that such assumptions become no longer correct, the actual valuation of the PRC Subsidiary may significantly adversely affected.

7. JV Co. A is responsible for the capital contribution in the PRC Subsidiary. Although it does not have the requisite 10 years experience in cargo transportation, the MOC has already approved the set up of JV Co. A and the PRC Subsidiary has already been granted the MOC Approval with an approve business scope of 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 (for business(es) falling under specific regulations, separate applications in accordance with relevant State regulations are required).

8. Although Mr. Michael Koh Tat Lee, an executive Director, has extensive infrastructural project experience in Asia and has previously involved in the development of satellite and cellular network in China, Taiwan, India and the Philippines, the Board overall lack of sufficient management skills and expertise in carrying out the new business to be engaged by the Group. The Company is in the process of identifying and recruiting other suitable experienced professionals to join the management team of the Group, including but not limited to those senior and/or retired executives from the MOR and it is expected that the joint venture partners will assist and participate in the management and operation of the PRC Subsidiary.

   In the event that the Company fails to recruit suitable personnel and it joint venture partners refuse to assist the management and operation of the PRC Subsidiary, there is a risk that the Company would lack of the necessary management experience and expertise in carrying out the business of the PRC Subsidiary.

9. In view of the PRC Subsidiary's significant capital expenditure requirements over the near to medium term as a result of the purchase of cargo trains for its operation of business, the PRC Subsidiary is anticipated to finance a majority such capital expenditures through equity capital raising and bank debt, with the balance coming from internal funds and internally generated funds. Under prevailing equity and debt capital market conditions, there are no assurances that such equity capital and/or bank debt can be raised. The inability to procure the necessary funding will have a negative impact on the PRC Subsidiary's overall business development and thus, it's operating performance. It is expected that each train will cost approximately RMB22 million. In relation to the details of the capital expenditure, please refer to the section headed "Business Plan" in the letter.

10. From the perspective of the country needing to be more environmentally-friendly, it is clear the State advocates the use of cleaner energy such as hydro, natural gas, and nuclear generated electricity. If these forms of electric power are to be built and used on a large scale, the domestic demand for coal will be reduced. This in turn will reduce the demand for rail freight coal transport and have a negative impact on the PRC Subsidiary's financial condition and operating and operating performance.

11. When transporting coal, the points of origin primarily emanate from Shaanxi Province, Shanxi Province, Inner Mongolia and in regions which renowned to be naturally and richly endowed with resources in coal reserves. The PRC Subsidiary's business development and transport volume are directly lineated to these coal production enterprises' production capabilities and capacity, safety issues, operations, and success rate in exploration as well as the industry's overall development. The occurrence of any adverse events and the implications thereof to these coal production enterprises may have a direct bearing on the PRC Subsidiary's financial condition and operating performance. These coal production enterprises include Datang Coal, China Coal and Shenhua Coal and other smaller or private coal production companies.

12. Reforms within China's railway industry are still very much in the infantile stage. During the interim, near future and over the long term, there may be significant changes being made to the railway transportation industry's overall structure, regulatory framework, or that the prevailing regulatory policies may differ considerably. It is conceivable, and there are no assurances, that the reforms taking place in the market and in the industry may not adversely affect the PRC Subsidiary's financial condition or operating performance.

13. The existing tariff structure was put forward by the MOR and approved by the State Council. There are no assurances that the current tariff structure for the industry will not be adjusted in a manner which may have a negative impact on the PRC Subsidiary's financial condition and operating performance.

14. The use of dedicated and utility trucks to transport coal cargo from the respective mining companies to the relevant railway stations or bureaus is deployed under a unified management system and provided by the MOR. Overall operations will be affected if the MOR does not or is unable to procure an adequate number of trucks needed to meet the growing demand of the PRC Subsidiary's business development.

15. The major competitor of the rail freight industry particular for coal transportation is from road transport which historically has been estimated to account for some 10% of the total transported volume. Without any significant improvements in the current market situation with respect to network capacity and the available number of wagons for transport, the market share of road transport within the coal transportation industry may further increase. Additionally, if and when it is completed, the dedicated pipeline for coal transport is sure to have a direct impact for the demand of rail freight coal transportation.

16. The fundamental need to upgrade the MOR's fleet of locomotives in line with the railway network's development, rising energy and raw materials prices, and the possibility the PRC Subsidiary may be required to contribute to the further development of railway network may ultimately render the MOR, or the MOR through Guangdong China Railway and/or Beijing Run Tong who ultimately will be minority shareholders of the PRC Subsidiary, to re-negotiate the revenue sharing percentages between the MOR and the PRC Subsidiary. A reduced percentage sharing accruing to the PRC Subsidiary may have an adverse impact to the PRC Subsidiary's financial condition and operating performance.

17. The MOR has always attached and promoted the importance of safety as the primary objective in operating the railway network, the PRC Subsidiary, nonetheless, is subject to accidental risks relating to train collisions, derailment, subversion, personal injury, death, damaged goods, and other events relating to accidental risks. The PRC Subsidiary intends to purchase adequate third party liability as well as property and casualty insurance coverage to mitigate these risks to the extent possible. In cases of major transport accidents leading to loss of corporate property, business interruption, or negligence (on the part of the PRC Subsidiary), the PRC Subsidiary may be required to pay rail transport accident compensation and/or corresponding fines under the MOR and other relevant regulatory authorities' rules and regulations. These unforeseen operating contingent liabilities may adversely affect the PRC Subsidiary's business development, financial condition, and operating performance.

18. Natural disasters such as earthquakes and floods tend to simultaneously affect large areas of the country as well as the economy as a whole. These events, when they occur, will have a negative impact on the PRC Subsidiary's business operations as a whole as railway lines and other related rail facilities are likely to be disrupted and for indefinite periods of time.

REASONS FOR THE ACQUISITION AND THE REORGANISATION

The Group is engaged in the design, development and sale of value-added telecommunications products and computer telephony products focusing on business applications. The Group's telecommunications products targets telecommunications carriers and services providers while its computer telephony products are marketed mostly to corporate customers in different industries. As at the Latest Practicable Date, the Enlarged Group does not have any facilities. After completion, the Company will continue to operate its existing IT and telecom business along with the new railway logistic business.

For the year ended 31 December 2006, the Group recorded a net loss of approximately HK$3,611,000 and had a cash position of HK$4,773,000.

In view of the increasing competition in the market of telecommunications products and computer telephony products, the Directors have been actively and consistently seeking new investment opportunities, with an aim to increase the value of the Group .

The Directors consider railway transportation and logistics as a fast growing industry in light of the PRC's continuous economic development and expansion. It is believed that the Acquisition will offer an excellent entry point for the Group to be involved in this industry and will provide the Group with a steady stream of income. Furthermore, the Directors consider the Acquisition as a good investment opportunity in a sector that has significant growth potential.

The Directors believe the Acquisition will enhance the future growth of the Group's business activities and enable it to maximise returns to Shareholders. In view of the increasing competition in the market for telecommunications products and computer telephony products, the Directors believe that tapping into this new business line will broaden the Group's revenue base and help to diversify the overall business risks of the Group.

Taking into account the aforesaid benefits, the Board is of the view that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and Shareholders as a whole.

The Directors consider the entering into of the Agreement and all other agreements as set out in the paragraph headed "The Reorganisation" to be commercial decisions undertaken by each respective party and parties to the agreements. Prior to the entering of the Agreement, each of the respective parties involved, including but not limited to the Vendor, China Railway Hong Kong, Guangdong China Railway and Beijing Run Tong, has acted independently of each other. The Acquisition and the Reorganisation are being consummated as commercial transactions predicated on various business discussions and meetings held between and amongst these parties.

Mr. Michael Koh Tat Lee, an executive Director, has extensive infrastructural project experience in Asia. He has previously been involved in the development of satellite and cellular network in the PRC, Taiwan, India and Philippines.

Concurrent with the Acquisition, the Company, is in the process of identifying and recruiting other suitable experienced professionals to join the management team of the Group upon Completion. Those under consideration include senior and/or retired executives from the MOR. In addition, the Company's joint venture partners, namely, China Railway Hong Kong, Guangdong China Railway and Beijing Run Tong, are experienced operators in the rail freight transportation industry in the PRC, and will assist and participate in the management and operation of PRC Subsidiary.

The structure of the Reorganisation was arrived at after arms' length negotiations among the parties. The percentage equity interest in the PRC Subsidiary was determined with reference to the enlarged registered capital of RMB200 million to be entitled by JV Co. A relative to the original registered capital of RMB50 million contributed by Beijing Run Tong and Guangdong China Railway.

The Board wishes to emphasize Completion is subject to various conditions to be fulfilled. In the event that the conditions are not fulfilled by the long-stop date as stipulated in the Agreement, the Agreement will cease and terminate. As such, Shareholders and investors are urged to exercise caution when dealing in the securities of the Company.

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately the allotment and issue of the Consideration Shares:

	As at the Latest Practicable Date		**Immediately after the allotment and issue of the Consideration Shares**	
Shareholders	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Well Support Limited *(Note 1)*	52,415,466	15.70%	52,415,466	12.23%
Gorgeous Overseas Limited *(Note 2)*	22,898,000	6.87%	22,898,000	5.35%
Century Dragon Development Limited *(Note 3)*	27,000,000	8.11%	27,000,000	6.30%
Homerun Business Development Limited *(Note 4)*	11,736,000	3.52%	11,736,000	2.74%
The Vendor *(Note 5)*	–	–	95,000,000	22.18%
Public Shareholders	219,350,534	65.80%	219,350,534	51.20%
Total:	**333,400,000**	**100.00%**	**428,400,000**	**100.00%**

Note:

1. Well Support Limited is beneficially owned by Liu Yi Dong Family Trust and the beneficiaries of which are Mr. Liu Yi Dong and his family members.

2. Gorgeous Overseas Limited is wholly-owned by Mr. Yang Yongxia.

3. Century Dragon Development Limited is wholly-owned by Mr. Wu Wai Leung.

4. Homerun Business Development Limited is wholly-owned by Mr. So Chi Ming.

5. To the best of the Directors' knowledge and belief, the Vendor and its ultimate beneficial owner are not parties acting in concert (has the meaning ascribed under the Hong Kong Code of Takeovers and Mergers) with any of the Shareholders and (in the case of being incorporations) their ultimate beneficial owners.

Well Support Limited, Gorgeous Overseas Limited, Century Dragon Limited, Homerun Business Development Limited and their respective ultimate beneficial owners, are passive investors and they are not directors of any member of the Group. The Vendor has also confirmed that it and its ultimate beneficial owner are not parties acting in concert (has the meaning ascribed under the Takeover Code) with all the Shareholders and (in the case of being incorporation) their ultimate beneficial owners.

To the best of the Directors' knowledge, each of the Joint Venture Partners and their respective ultimate beneficial owner is independent of and not connect with Well Support Limited, Gorgeous Overseas Limited, Century Dragon Development Limited, Homerun Business Development Limited and their respective ultimate beneficial owners.

To the best of the Directors' knowledge, belief and information, each of Well Support Limited, Gorgeous Overseas Limited, Century Dragon Limited, Homerun Business Development Limited, and their respective ultimate beneficial owners are independent of and not connected with the Vendor and its ultimate beneficial owner.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Company will indirectly hold 100% of the equity interest in the Target, and a controlling stake in JV Co. A and PRC Subsidiary. Accordingly, the financial accounts of the Target, JV Co. A, and the PRC Subsidiary will be consolidated with into that of the Group.

The Group recorded an audited consolidated net loss attributable to equity holders of the parent of approximately HK$3,611,000 for the year ended 31 December 2006. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, the unaudited consolidated loss attributable to equity holders of the parent of the Enlarged Group would be increased by approximately HK$41,148,000, assuming the completion of the Acquisition, including the allotment and issue of the Consideration Shares, had taken place on 1 January 2006.

As at 31 December 2006, the audited consolidated total assets of the Group were approximately HK$19,526,000. Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix IV to this circular, total assets as at 31 December 2006 would increase by approximately HK$731,939,000, mainly resulted from goodwill of approximately HK$686,770,000 arising from the Acquisition. For further details, please refer to Appendix IV to this circular.

The Group recorded audited consolidated total liabilities of approximately HK$3,542,000 as at 31 December 2006. Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as out set out in Appendix IV to this circular, the unaudited pro forma total liabilities of the Enlarged Group would increase by approximately HK$7,198,000, on the assumption that the Acquisition had been completed on 31 December 2006.

PROSPECT OF THE ENLARGED GROUP

Prospect of the Group

The difficult operating environment in recent years for the IT and telecommunications industry continues to persist. In the absence of any new or more advance technology, the products and services offered by the telecommunications industry have become very much price driven. There were at times marked improvements, albeit sporadic, in various regional market segments and sub-markets. However, the pace at which reforms are progressing, and the rate at which the overall market is recovering are far from optimistic. These negative implications and the direct impact it has had on the Company's Hong Kong operations was even more apparent during the financial year ended 31 December 2006.

In 2006, the 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. Despite the Company's initial success, the Directors consider that the Company no longer have the capital nor the human resources needed to compete at the next level with the larger domestic and/or international players. In retrospect, the senior management adopted a very pragmatic perspective. It was believed it is in the minority 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 may after completion. 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.

Prospect of the Target Group

The PRC Subsidiary has been approved to conduct 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) upon completion of its conversion into a Chinese-foreign cooperative joint venture company. It is believed and hoped that as the logistics transportation network of the PRC become more firmly established, it will primarily be used as one of the principal means for transporting basic raw materials providing a much needed supporting service to some of the country's pillar industries, namely, the coal, metal ores and oil industries.

IMPLICATIONS UNDER THE GEM LISTING RULES

The Acquisition constitutes a very substantial acquisition on the part of the Company pursuant to Rule 19.06(5) of the GEM Listing Rules. Accordingly, the Acquisition and any transactions contemplated thereby, including allotment and issue of the Consideration Shares are subject to the approval of the Shareholders at the SGM. The Directors are not aware of any Shareholder who is interested in the Acquisition and is required to abstain from voting at the SGM.

CHANGE OF NAME OF THE COMPANY

Reference is made to the announcement of the Company dated 14 May 2007 in which the Board announces that it intended to put forward a proposal to the Shareholders to approve the change of name of the Company from "Proactive Technology Holdings Limited" to "China Railway Logistics Limited", and upon the change of name becoming effective, a new Chinese name "中國鐵路貨運有限公司" will be adopted to replace "寶訊科技控股有限公司" for identification.

Conditions

The proposed change of name is subject to the satisfaction of the following conditions:

1. the passing of a special resolution by the Shareholders approving the change of name of the Company at the SGM of the Company; and

2. the Registrar of Companies in Bermuda approving the change of name of the Company.

Reasons for the Proposed Change of Name

Reference is made to the announcement of the Company dated 22 March 2007 in relation to the Acquisition. Due to the expansion and diversification in the scope of business of the Company, the Board considers that the proposed new name will more accurately reflect the corporate nature of the Company. In addition, the new name can also refresh the Company's corporate image and identity.

The Board is therefore of the view that the proposed change of name of the Company is in the interests of the Company and the Shareholders as a whole.

Effects on change of name

The Proposed Change of Name will not affect any of the rights of the Shareholders or the Company's daily business operation and its financial position.

Once the change of name becomes effective, share certificates of the Company will be issued in the new name of the Company. However, all existing share certificates in issue bearing the existing name of the Company will, after the Proposed Change of Name has become effective, continue to be effective as documents of title to and be valid for trading, settlement and registration purposes. There will not be any arrangement for the exchange of the existing share certificates of the Company for new share certificates bearing the new name of the Company. Relevant filing(s) will also be made to the Companies Registry in Hong Kong for the change of name.

Further announcement(s) will be made by the Company to inform the Shareholders of results of the SGM, the effective dates of the change of name of the Company and the new stock short name of the shares of the Company.

SGM

The SGM will be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 20 June 2007, at 2:00 p.m. or any adjournments thereof, for the purpose of considering and, if thought fit, passing the resolutions to approve, among other matters, the Acquisition, the Proposed Change of Name and the allotment and issue of the Consideration Shares. A notice convening the SGM is set out on pages 165 to 166 of this circular.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Room 1803, Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no Shareholder is required to abstain from voting at the SGM.

RECOMMENDATION

Having considered the aforementioned factors and reasons, the Directors are of the opinion the entering into of the Agreement was in the interest of the Group and Shareholders as a whole, and that the terms of the Agreement including the issue of the Consideration Shares are fair and reasonable so far as the Group is concerned. The Board recommends Shareholders to vote in favour of resolutions to be sought at the SGM for the approval of the Acquisition and the transactions contemplated thereby, including but not limited to the issue of the Consideration Shares.

The Directors are also of the view that the Proposed Change of Name is in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the special resolution to be sought at the SGM for the approval of the Proposed Change of Name.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
Proactive Technology Holdings Limited
Koh Tat Lee, Michael
Director

1. SUMMARY OF FINANCIAL INFORMATION FOR THE THREE YEARS ENDED 31ST DECEMBER 2006

The following financial information has been extracted from the unqualified audited consolidated financial statements of the Group for each of the three years ended 31st December 2006 as shown in the annual report of the Company.

RESULTS

	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	11,880	20,982	17,515
Cost of sales	(5,049)	(11,524)	(9,386)
Gross profit	6,831	9,458	8,129
	58%	45%	46%
Other operating income	1,249	633	14
Distribution and selling expenses	(23)	(34)	(20)
General and administrative expenses	(11,656)	(11,536)	(15,479)
Finance costs	(12)	(87)	(39)
Share of result of an associate	–	(198)	198
Loss before tax	(3,611)	(1,764)	(7,197)
Income tax expenses	–	–	(51)
Loss for the year	(3,611)	(1,764)	(7,248)
Attributable to:-			
Equity holders of the parent	(3,611)	(1,764)	(7,248)
Minority interests	–	–	–
	(3,611)	(1,764)	(7,248)

ASSETS AND LIABILITIES

	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Total non-current assets	1,522	1,155	2,475
Total current assets	18,004	12,196	15,274
Total current liabilities	(3,542)	(4,616)	(7,347)
Equity attributable to equity holders of the parent	15,984	8,735	10,402
Minority interests	–	–	–

2. THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006

The following information has been extracted from the annual report of the Company for the year ended 31st December 2006.

Consolidated income statement
For the year ended 31st December 2006

		2006	2005
	NOTES	*HK$'000*	*HK$'000*
Turnover	(6)	11,880	20,982
Cost of sales		(5,049)	(11,524)
Gross profit		6,831	9,458
Other operating income		1,249	633
Distribution and selling expenses		(23)	(34)
General and administrative expenses		(11,656)	(11,536)
Finance costs	(8)	(12)	(87)
Share of result of an associate		–	(198)
Loss for the year attributable to equity holders of the parent	(9)	(3,611)	(1,764)
Loss per share			
Basic	(14)	1.5 cent	0.8 cent

Consolidated balance sheet
As at 31st December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current assets			
Machinery and equipment	(15)	1,236	869
Interest in an associate	(16)	–	–
Available-for-sale financial asset	(17)	286	286
		1,522	1,155
Current assets			
Inventories	(18)	210	293
Trade receivables	(19)	1,982	1,940
Amount due from an associate	(20)	17	706
Prepayments, deposits and other receivables	(21)	11,022	708
Pledged bank deposits	(22)	–	2,000
Bank balances and cash		4,773	6,549
		18,004	12,196
Current liabilities			
Trade payables	(23)	878	741
Accruals and other payables		2,112	2,153
Receipts in advance		552	636
Short-term bank borrowings	(24)	–	1,086
		3,542	4,616
Net current assets		14,462	7,580
Net assets		15,984	8,735
Capital and reserves			
Share capital	(25)	278	23,200
Reserves		15,706	(14,465)
Equity attributable to equity holders of the parent		15,984	8,735

Consolidated statement of changes in equity

For the year ended 31st December 2006

	Attributable to equity holders of the parent					
	Share capital (Note 25) HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Exchange translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January 2005	23,200	29,135	–	(24)	(41,909)	10,402
Loss for the year	–	–	–	–	(1,764)	(1,764)
Release of translation reserve on deregistered subsidiaries	–	–	–	72	22	94
Exchange differences arising on translation of foreign operations	–	–	–	3	–	3
At 31st December 2005 and 1st January 2006	23,200	29,135	–	51	(43,651)	8,735
Capital Reduction	(22,968)	–	22,968	–	–	–
Share Premium Reduction	–	(29,135)	29,135	–	–	–
Elimination of accumulated losses of the Company	–	–	(44,189)	–	44,189	–
Issue of shares during the year, net of shares issued expenses	46	10,719	–	–	–	10,765
Loss for the year	–	–	–	–	(3,611)	(3,611)
Exchange differences arising on translation of foreign operations	–	–	–	95	–	95
At 31st December 2006	278	10,719	7,914	146	(3,073)	15,984

Consolidated cash flow statement

For the year ended 31st December 2006

	2006	2005
	HK$'000	*HK$'000*
Operating activities		
Loss for the year	(3,611)	(1,764)
Adjustments for:–		
Interest income	(148)	(144)
Finance costs	12	87
Depreciation of machinery and equipment	296	627
Net loss on disposal of machinery and equipment	179	22
Allowance for amount due from an associate	234	–
Share of result of an associate	–	198
(Recovery of) / allowance for bad and doubtful receivables	(201)	698
Allowance for obsolete and slow-moving inventories	249	1,159
Operating cash flows before movements in working capital	(2,990)	883
Decrease in inventories	50	229
Decrease / (increase) in trade receivables	159	(177)
(Increase) / decrease in prepayments, deposits and other receivables	(10,314)	511
Decrease / (increase) in amount due from an associate	455	(43)
Increase / (decrease) in trade payables	137	(363)
Decrease in accruals and other payables	(41)	(974)
Decrease in receipts in advance	(84)	(1,606)
Cash used in operations	(12,628)	(1,540)
Interest paid	(12)	(87)
Net cash used in operating activities	(12,640)	(1,627)
Investing activities		
Decrease in pledged bank deposits	2,000	3,002
Purchase of machinery and equipment	(1,057)	(45)
Interest received	148	144
Proceeds on disposal of machinery and equipment	–	5
Net cash from investing activities	1,091	3,106

Consolidated cash flow statement *(continued)*
For the year ended 31st December 2006

	2006	2005
	HK$'000	*HK$'000*
Financing activities		
Proceeds from issue of shares, net of shares issued expenses	10,765	–
(Decrease) / increase in trust receipts bank loans	(576)	95
Net cash from financing activities	10,189	95
Net (decrease) / increase in cash and cash equivalents	(1,360)	1,574
Cash and cash equivalents at the beginning of the year	6,039	4,368
Effect of changes in foreign exchange rate	94	97
Cash and cash equivalents at the end of the year	4,773	6,039
Cash and cash equivalents at 31st December, represented by:–		
Bank balances and cash	4,773	6,549
Bank overdrafts	–	(510)
	4,773	6,039

Notes to the consolidated financial statements

For the year ended 31st December 2006

1. GENERAL

Proactive Technology Holdings Limited (the "Company") was incorporated in Bermuda on 25th February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 18th May 2000.

The addresses of registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. Its subsidiaries are principally engaged in investment holding, design, development and sale of value-added telecommunications products and computer telephony products.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective as at 31st December 2006. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]

[1] Effective for annual periods beginning on or after 1st January 2007.
[2] Effective for annual periods beginning on or after 1st March 2006.
[3] Effective for annual periods beginning on or after 1st May 2006.
[4] Effective for annual periods beginning on or after 1st June 2006.
[5] Effective for annual periods beginning on or after 1st November 2006.
[6] Effective for annual periods beginning on or after 1st March 2007.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(b) Investments in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

(i) Revenue from the supply, development and integration of telecommunication and computer telephony systems

Revenue from the supply, development and integration of telecommunication and computer telephony systems is recognised when the merchandise is delivered and the significant risks and rewards of ownership are transferred to buyers; and the related development and integration services are completed.

(ii) Rental income from leasing of telecommunication and computer telephony equipment

Rental income from leasing of telecommunication and computer telephony equipment is recognised on a straight-line basis over the respective period of the leases.

(iii) Consulting and maintenance service fees

Consulting and maintenance service fees are recognised when the services are rendered.

(iv) Interest income from a financial asset

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(d) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(e) Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

(f) Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as expense when employees have rendered service entitling them to the contributions.

(g) Machinery and equipment

Machinery and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of machinery and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:–

Furniture, fixtures and office equipment	20%
Computer equipment	30%
Equipment on lease to customers	30%
Equipment for development	30%

An item of machinery and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

(h) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade receivables, amount due from an associate and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are investments in unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the consolidated income statement in the year in which it arises. Any impairment losses recognised shall not be reversed in the subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank borrowings, trade payables, accruals and other payables and receipts in advance are subsequently measured at amortised cost, using the effective interest method.

Equity investments

Equity investments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(i) Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employee of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

(k) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(l) Provisions

Provision are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(m) Leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(n) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operating is disposed of.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation

The Group's net book value of machinery and equipment as at 31st December 2006 was approximately HK$1,236,000 (2005: HK$869,000). The Group depreciates the machinery and equipment on a straight-line basis over the estimated useful life of three to five years, and after taking into account of their estimated residual value, using the straight-line method, at the rate of 20 – 30% per annum, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's machinery and equipment.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowance for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, amount due from an associate, other receivables, bank borrowings, trade payables, accruals and other payables and receipts in advance. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain receivables and payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

6. TURNOVER

Turnover comprises:–

	2006	**2005**
	HK$'000	*HK$'000*
Sales of goods	4,703	9,690
Rental income from leasing of telecommunication and computer telephony equipment	1,177	1,294
Service fees income	6,000	9,998
	11,880	20,982

7. SEGMENT INFORMATION

The primary segment is defined by major product and operational units, while secondary segment is defined by geographical location of customers.

(a) Primary segment

The Group is organised into two products and operational units – telecommunications products and computer telephony products. The telecommunications products and computer telephony products units derive revenue from supply, development and integration of telecommunications and computer telephony system and solutions, respectively. They also earn rental income from leasing telecommunications equipments and computer telephony systems and earn fees for consulting and maintenance services.

Analysis by business segment is as follows:–

	2006 *HK$'000*	**2005** *HK$'000*
Turnover		
– Telecommunications	3,404	7,228
– Computer telephony	8,476	13,754
	11,880	20,982
Segment results		
– Telecommunications	1,108	2,242
– Computer telephony	4,496	4,034
	5,604	6,276
Unallocated corporate expenses	(9,117)	(7,805)
	(3,513)	(1,529)
Interest income	148	144
Finance costs	(12)	(87)
Net loss on write-off of deregistered subsidiaries	–	(94)
Share of result of an associate	–	(198)
Allowance for amount due from an associate	(234)	–
Loss for the year	(3,611)	(1,764)

	2006 *HK$'000*	2005 *HK$'000*
Other information:–		
Depreciation of machinery and equipment		
– Telecommunications	98	388
– Computer telephony	174	80
– Unallocated	24	159
	296	627
Capital expenditures of machinery and equipment		
– Telecommunications	88	21
– Computer telephony	147	–
– Unallocated	822	24
	1,057	45
(Recovery of) / allowance for bad and doubtful receivables		
– Telecommunications	123	255
– Computer telephony	(330)	433
– Unallocated	6	10
	(201)	698
Allowance for obsolete and slow-moving inventories		
– Telecommunications	195	335
– Computer telephony	54	97
– Unallocated	–	727
	249	1,159
Net loss on disposal of machinery and equipment		
– Telecommunications	179	11
– Computer telephony	–	11
– Unallocated	–	–
	179	22

	2006	2005
	HK$'000	*HK$'000*
Segment assets		
– Telecommunications	184	1,389
– Computer telephony	2,721	2,549
Unallocated corporate assets	16,621	9,413
Consolidated total assets	19,526	13,351
Segment liabilities		
– Telecommunications	472	1,134
– Computer telephony	1,610	1,406
Unallocated corporate liabilities	1,460	2,076
Consolidated total liabilities	3,542	4,616

(b) Secondary segment

Analysis by geographical location is as follows:–

	2006	2005
	HK$'000	*HK$'000*
Turnover		
– Hong Kong	11,346	20,796
– The People's Republic of China ("PRC")	534	186
	11,880	20,982
Segment assets		
– Hong Kong	18,076	11,212
– PRC	1,450	2,139
	19,526	13,351
Additions to machinery and equipment		
– Hong Kong	969	24
– PRC	88	21
	1,057	45

8. FINANCE COSTS

The amount represents interest on bank overdrafts and trust receipt bank loans wholly repayable within five years.

9. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	2006	2005
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging / (crediting):–		
Staff costs including directors' emoluments (Note 10):–		
Salaries and allowances	4,003	5,800
Contributions to retirement benefits scheme	160	212
	4,163	6,012
Auditors' remuneration		
– current year	203	153
– over-provision in previous year	–	(47)
Depreciation of machinery and equipment	296	627
(Recovery of) / allowance for bad and doubtful receivables	(201)	698
Allowance for amount due from an associate	234	–
Minimum lease payments under operating leases	880	622
Net loss on disposal of machinery and equipment	179	22
Allowance for obsolete and slow-moving inventories	249	1,159
Cost of inventories recognised as an expense	4,505	10,934
Net exchange loss	25	8
Net loss on write-off of deregistered subsidiaries	–	94
Interest income	(148)	(144)
Rental income from leasing of telecommunication and computer telephony equipment	(1,177)	(1,294)

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 12 (2005: 11) directors were as follows:–

	2006	2005
	HK$'000	*HK$'000*
Executive Directors:–		
Fees	–	–
Salaries and other benefits (Note (i))	736	1,933
Contributions to retirement benefits scheme	24	52
	760	1,985
Independent Non-Executive Directors:–		
Fees	60	74
	820	2,059

Note:

(i) Other benefits include housing allowance.

One director (2005: One director) waived his emoluments in the years ended 31st December 2006 and 2005. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

The details of directors' remuneration of each director for the years ended 31st December 2006 and 2005 are set out below:–

	2006				
Name of director	**Non- executive directors' fees**	**Executive directors' salaries**	**Housing allowance**	**Contributions to retirement scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Tsang Chi Hin	–	264	192	12	468
Li Siu Ming *(Note 8)*	–	60	–	3	63
Zeng Bangjian *(Note 7)*	–	30	–	1	31
Ng Kam Wing *(Note 7)*	–	30	–	1	31
Lam Kim Chau *(Note 4)*	–	100	–	4	104
Wong Wai Ho *(Note 5)*	–	60	–	3	63
Leung Lok Ming *(Note 9)*	20	–	–	–	20
Chong Cha Hwa *(Notes 6 & 9)*	4	–	–	–	4
Chan Ho Wah, Terence *(Note 9)*	20	–	–	–	20
Chow Dah Jen, David *(Notes 1 & 9)*	–	–	–	–	–
Lo Wa Kei, Roy *(Notes 3 & 9)*	5	–	–	–	5
Szeto Yat Kong *(Notes 2 & 9)*	11	–	–	–	11
	60	544	192	24	820

Notes:

1. Resigned on 17th February 2006.

2. Appointed on 1st April 2006 and resigned on 26th October 2006.

3. Resigned on 1st April 2006.

4. Resigned on 30th April 2006.

5. Resigned on 10th May 2006.

6. Appointed on 26th October 2006.

7. Appointed on 1st December 2006.

8. Resigned on 1st January 2007.

9. The employees are independent non-executive directors.

Name of director	2005 Non- executive directors' fees *HK$'000*	Executive directors' salaries *HK$'000*	Housing allowance *HK$'000*	Contributions to retirement scheme *HK$'000*	Total *HK$'000*
Tsang Chi Hin	–	264	198	12	474
Lam Kim Chau	–	487	–	12	499
Lau Kai Shun, Barry *(Note 3)*	–	196	–	8	204
Wong Wai Ho	–	270	–	11	281
Pong Kam Wah *(Note 3)*	–	478	–	7	485
Li Siu Ming *(Note 1)*	–	40	–	2	42
Yang Zhenhan *(Notes 2 & 3)*	12	–	–	–	12
Robert Brainin Issenman *(Notes 2 & 3)*	14	–	–	–	14
Chan Ho Wah, Terence *(Notes 1 & 2)*	8	–	–	–	8
Leung Lok Ming *(Note 2)*	20	–	–	–	20
Lo Wa Kei, Roy *(Note 2)*	20	–	–	–	20
Chow Dah Jen, David *(Note 4)*	–	–	–	–	–
	74	1,735	198	52	2,059

Notes:

1. Appointed on 12th August 2005.

2. The employees are independent non-executive directors.

3. Resigned on 12th August 2005.

4. Resigned on 17th February 2006.

11. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included one director (2005: three directors) of the Company, whose emoluments have been included in Note 10 above. However, one of the three highest paid executive directors of the Company resigned and remained as an employee of the Group during the year 2005, whose emoluments as directors are set out in Note 10 above. The emoluments of the four (2005: three (including the resigned director)) individuals were as follows:–

	2006 *HK$'000*	2005 *HK$'000*
Salaries and allowances	1,326	1,386
Contributions to retirement benefits scheme	46	34
	1,372	1,420

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

Their emoluments were within the following bands:–

	No. of employees 2006	2005
– Nil to HK$1,000,000	4	3

12. INCOME TAX EXPENSES

(a) 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 as the Group had no assessable profit arising in nor derived from Hong Kong. Overseas income tax has been provided by subsidiaries based on their estimated taxable profits at the rates of taxation applicable in the respective jurisdictions in which they operate.

(b) The tax charge for the years can be reconciled to the loss per the consolidated income statement as follows:–

	2006 *HK$'000*	2005 *HK$'000*
Loss for the year	(3,611)	(1,764)
Tax at the domestic income tax rate of 17.5%	(632)	(309)
Tax effect of expenses not deductible for tax purpose	485	1,182
Tax effect of income not taxable for tax purpose	(15)	(916)
Tax effect of tax losses and other temporary differences not recognised	146	38
Effect of different tax rates of subsidiaries operating in other jurisdictions	16	5
Tax charge for the year	–	–

(c) The principal components of the Group's deferred tax assets not provided for, on the cumulative temporary differences at the balance sheet date are as follows:–

	Other temporary differences *HK$'000*	Estimated tax losses *HK$'000*	Total *HK$'000*
At 1st January 2005	291	6,266	6,557
Movement for the year	34	4	38
At 31st December 2005 and 1st January 2006	325	6,270	6,595
Overprovision in prior years	–	(17)	(17)
Movement for the year	(15)	161	146
At 31st December 2006	310	6,414	6,724

No potential tax benefit and other temporary differences attributable to tax losses of the Group has been recognised due to unpredictability of future profit streams (2005: Nil).

13. DIVIDEND

No dividend was paid or proposed during the years ended 31st December 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

14. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the loss for the year attributable to equity holders of the parent of approximately HK$3,611,000 (2005: HK$1,764,000) and the weighted average of 235,432,329 (2005: 232,000,000) ordinary shares in issue during the year.

No diluted loss per share have been presented for two years ended 31st December 2006 and 2005 as there were no diluting events existed during those years.

15. MACHINERY AND EQUIPMENT

	Furniture, fixtures and office equipment	Computer equipment	Equipment on leased to customers	Equipment for development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1st January 2005	1,050	3,387	2,264	1,674	8,375
Additions	32	13	–	–	45
Disposals	–	–	(271)	–	(271)
Transferred from inventories	–	114	112	377	603
Transferred to inventories	–	(8)	(1,258)	(728)	(1,994)
Reclassification	–	36	–	(36)	–
At 31st December 2005 and 1st January 2006	1,082	3,542	847	1,287	6,758
Exchange adjustments	1	–	–	–	1
Additions	894	37	120	6	1,057
Disposals	–	–	(274)	–	(274)
Transferred to inventories	–	–	(464)	–	(464)
At 31st December 2006	1,977	3,579	229	1,293	7,078
Accumulated depreciation					
At 1st January 2005	980	3,211	1,388	1,468	7,047
Charge for the year	72	152	256	147	627
Written back on disposals	–	–	(244)	–	(244)
Transferred to inventories	–	–	(1,036)	(505)	(1,541)
Reclassification	–	1	–	(1)	–
At 31st December 2005 and 1st January 2006	1,052	3,364	364	1,109	5,889
Charge for the year	38	99	81	78	296
Written back on disposals	–	–	(95)	–	(95)
Transferred to inventories	–	–	(248)	–	(248)
At 31st December 2006	1,090	3,463	102	1,187	5,842
Carrying values					
At 31st December 2006	887	116	127	106	1,236
At 31st December 2005	30	178	483	178	869

16. INTEREST IN AN ASSOCIATE

	2006	2005
	HK$'000	*HK$'000*
Cost of investment in an associate – unlisted in PRC	377	377
Share of post-acquisition losses and reserves, net of dividends received	(377)	(377)
	–	–

Details of the associate are as follow:–

Name	Form of business structure	Place of incorporation/ operations	Class of share held	Percentage of equity interest attributable to the Group	Principal activity
Beijing Teletron System Integration Company Limited ("Beijing Teletron")	Incorporated	PRC	Ordinary	40%	Provision of telecommunications and computer telephony solutions

There were no other associate held by the Group as at 31st December 2006.

The summarised financial information in respect of the Group's associate is set out below:–

	2006	2005
	HK$'000	*HK$'000*
Total assets	514	1,670
Total liabilities	(3,038)	(3,368)
Net liabilities	(2,524)	(1,698)
Group's share of net asset of the associate	–	–
Revenue	1,559	2,789
Loss for the year	(826)	(474)
Group's share of result of the associate for the year	–	(198)

The Group has discontinued recognising of its share of loss of an associate since the Group's share of loss of Beijing Teletron in the year equals or exceeds its interest in this associate. The amounts of unrecognised share of an associate, extracted from the summarised financial information in respect of the Group's associate is set out below:

	2006	2005
	HK$'000	*HK$'000*
Unrecognised share of loss of an associate for the year	330	276
Accumulated unrecognised share of loss of an associate	1,009	679

17. AVAILABLE-FOR-SALE FINANCIAL ASSET

The asset represents a nominee membership in a golf club in the PRC. It is measured at cost less impairment at each balance sheet date. In the opinion of the directors, the fair value was approximated to the corresponding carrying amount.

18. INVENTORIES

	2006	**2005**
	HK$'000	*HK$'000*
Inventories consisted of:–		
Telecommunication and computer telephony hardware products	320	1,999
Less: Allowance for obsolete and slow-moving inventories	(110)	(1,706)
	210	293

As at 31st December 2006, inventories of approximately HK$192,000 (2005: HK$143,000) were stated at net realisable value.

19. TRADE RECEIVABLES

Trade receivables consisted of:–

	2006	**2005**
	HK$'000	*HK$'000*
Account receivables	2,513	3,087
Retention receivables	1,195	1,355
	3,708	4,442
Less: Accumulated impairment	(1,726)	(2,502)
	1,982	1,940

The Group normally grants to its customers credit period ranging from 30 days to 60 days. Aging analysis of trade receivables is as follows:–

	2006	**2005**
	HK$'000	*HK$'000*
0 to 1 month	1,771	1,597
1 to 2 months	114	391
2 to 3 months	46	197
3 to 6 months	26	747
6 to 9 months	50	65
9 to 12 months	219	32
Over 12 months	1,482	1,413
	3,708	4,442

The fair value of the Group's trade receivables at the balance sheet date approximates the corresponding carrying amount.

20. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand. The directors consider that the carrying value of the amount at the balance sheet date approximates its fair value.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2006	**2005**
	HK$'000	*HK$'000*
Prepayments, deposits and other receivables consisted of:–		
Prepayments	1,549	203
Rental and utility deposits	327	260
Other receivables	3,146	245
Other deposit *(note a)*	6,000	–
	11,022	708

Note a: Other deposit represents deposit paid by a wholly-owned subsidiary of the Company which entered into a non-legally binding memorandum of understanding ("MOU") on 5th December 2006 with an independent third party in relation to the possible acquisition of a subsidiary. According to the MOU, if no formal sales and purchases agreement has been entered into within 120 days from the date of the MOU (or such date to be agreed by the parties thereto), the deposit will be refunded to the Group in full. Details of the MOU are set out in the Circulars of the Company dated 6th December 2006 and 15th February 2007.

The fair values of the Group's prepayments, deposits and other receivables at the balance sheet date approximate the corresponding carrying amounts.

22. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure bank overdrafts and undrawn facilities granted to the Group. The deposits carry variable interest rates. The pledged bank deposits had been released during the year as the Group has repaid the bank borrowings in full and cancelled all banking facilities as at 31st December 2006.

23. TRADE PAYABLES

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

	2006	**2005**
	HK$'000	*HK$'000*
0 to 1 month	178	362
1 to 2 months	351	161
2 to 3 months	297	82
3 to 6 months	–	–
6 to 12 months	–	90
Over 12 months	52	46
	878	741

The fair value of the Group's trade payables at the balance sheet date approximates the corresponding carrying amount.

24. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consisted of:–

	2006 *HK$'000*	2005 *HK$'000*
Bank overdrafts – secured	–	510
Trust receipts bank loans – secured	–	576
	–	1,086

At 31st December 2006 and 2005, all short-term bank borrowings are variable-rate borrowings which carry interest per annum as follows:–

	2005 and 2006
Bank overdrafts – secured	Hong Kong Prime-rate
Trust receipts bank loans – secured	Standard bills rate plus 1.25%

25. SHARE CAPITAL

	Number of shares *'000*	Nominal value *HK$'000*
Authorised:		
Ordinary shares of HK$0.1 each at 1st January 2005 and 31st December 2005	1,000,000	100,000
Shares sub-divided upon capital reduction *(note a)*	99,000,000	–
Ordinary shares of HK$0.001 each at 31st December 2006	100,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each at 1st January 2005 and 31st December 2005	232,000	23,200
Capital reduction *(note a)*	–	(22,968)
Issue of new shares of HK$0.001 each *(note b)*	46,400	46
Ordinary shares of HK$0.001 each at 31st December 2006	278,400	278

The movements in the ordinary share capital for the year ended 31st December 2006 are as follows:

(a) By a resolution passed at the special general meeting of the Company held on 31st October 2006, it was resolved that with effect from 1st November 2006:

(i) the nominal value of the shares in issue was reduced from HK$0.10 each to HK$0.001 each by canceling the issued share capital to the extent of HK$0.099 paid up on each of the issued shares ("Capital Reduction");

(ii) all the authorised share capital of the Company of HK$100,000,000 will be divided into 100,000,000,000 shares of HK$0.001 each in the share capital of the Company upon the Capital Reduction which rank pari passu with the then existing shares of the Company;

(iii) the credit arising from the Capital Reduction was entirely transferred to the contributed surplus account of the Company;

(iv) the entire amount standing to the credit of the share premium account of the Company as at 30th June 2006 was cancelled ("Share Premium Reduction") and the credit arising from the Share Premium Reduction was entirely transferred to the contributed surplus account of the Company; and

(v) an amount equivalent to the amount of the accumulated losses of the Company as at 30th June 2006 was applied from the contributed surplus account against such accumulated losses in full.

Details of the above are set out in the Circular of the Company dated 6th October 2006.

(b) 46,400,000 shares of HK$0.001 each were issued and allotted to a third party at HK$0.241 per share, representing a discount of approximately 19.67% on the closing price of HK$0.30 per share on 20th November 2006 under a private share placement. The shares issued expenses amounting to HK$417,000 had been deducted from the share premium account.

Shares were issued under the general mandate granted to the directors on 28th April 2006.

All the new ordinary shares issued during the year ended 31st December 2006 rank pari passu in all respects with the existing ordinary shares of the Company.

26. SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme on 3rd 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 30th 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 1st July 2003 to 30th June 2010. No options were granted during the year ended 31st December 2006 under the Share Option Scheme.

Pursuant to resolutions passed at a special general meeting of the shareholders held on 13th 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 GEM Listing Rules effected on 1st October 2001. Under the terms of the New Share Option Scheme, the board of directors of the Company may, at their discretion, grant options to the participants fall within the definition prescribed in the New Share Option Scheme including the employees, non-executive directors of the Company or its subsidiaries, etc., to subscribe for shares in the Company at a price determined by the Company's board of directors, and will not be less than the highest of (i) the nominal value of the shares; (ii) the average closing price of the shares quoted on the GEM on the five trading days immediately preceding the date of grant; and (iii) the closing price of the shares quoted on the GEM on the date of grant, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue and with an aggregate value (based on the closing price of the shares on the date of grant) in excess of HK$5 million must be approved by the Company's shareholders.

The New Share Option Scheme will remain in force for a period of 10 years from 13th November 2002. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

There were no options granted to any directors and employees of the Group under the New Share Option Scheme in respect of services provided to the Group for the two years ended 31st December 2005 and 2006. There is no effect to the Group's results and financial position upon the adoption of HKFRS 2.

Movements of employee share options during the two years ended 31st December 2006 and 2005, were:–

2006

	Date of grant	Exercisable period	Subscription Price per share	Number of share options				
				Outstanding at 1st January 2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding at 31st December 2006
			HK$					
Directors	30/6/2000	1/7/2003 to 30/6/2010	1.30	3,000,000	–	–	(3,000,000)	–
Employees	30/6/2000	1/7/2003 to 30/6/2010	1.30	660,000	–	–	(660,000)	–
				3,660,000	–	–	(3,660,000)	–

2005

	Date of grant	Exercisable period	Subscription Price per share	Number of share options				
				Outstanding at 1st January 2005	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding at 31st December 2005
			HK$					
Directors	30/6/2000	1/7/2003 to 30/6/2010	1.30	9,800,000	–	–	(6,800,000)	3,000,000
Employees	30/6/2000	1/7/2003 to 30/6/2010	1.30	760,000	–	–	(100,000)	660,000
				10,560,000	–	–	(6,900,000)	3,660,000

27. BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Non-current asset		
Interests in subsidiaries	8,801	8,791
Current assets		
Amounts due from subsidiaries	18,143	7,756
Prepayments	173	173
Bank balances	39	53
	18,355	7,982
Current liability		
Accruals	809	342
Net current assets	17,546	7,640
Net assets	26,347	16,431
Capital and reserves		
Share capital	278	23,200
Reserves *(Note 28)*	26,069	(6,769)
Shareholders' fund	26,347	16,431

28. RESERVES OF THE COMPANY

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated loss HK$'000	Total HK$'000
At 1st January 2005	29,135	8,585	(43,890)	(6,170)
Loss for the year	–	–	(599)	(599)
At 31st December 2005 and 1st January 2006	29,135	8,585	(44,489)	(6,769)
Capital Reduction	–	22,968	–	22,968
Share Premium Reduction	(29,135)	29,135	–	–
Elimination of accumulated losses of the Company	–	(44,189)	44,189	–
Issue of shares during the year	10,719	–	–	10,719
Loss for the year	–	–	(849)	(849)
At 31st December 2006	10,719	16,499	(1,149)	26,069

Note:–

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, no reserves are available for distribution to shareholders at 31st December 2006 and 2005.

29. OPERATING LEASE COMMITMENTS

The Group had commitments for future minimum lease payments in respect of premises under various non-cancellable operating leases which fall due as follows:–

	2006 HK$'000	2005 HK$'000
Within one year	1,412	511
In the second to fifth year inclusive	1,073	102
	2,485	613

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Both leases are negotiated and rental are fixed for an average of 2 years.

30. RETIREMENT BENEFITS SCHEMES

The Group maintains various retirement schemes for its employees. The retirement scheme for employees of PRC representative office is a mandatory central pension scheme organised by the PRC government, the assets of which are held separatively from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made. The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each make monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month.

During the year, the aggregate contributions made by the Group to the retirement schemes were approximately HK$160,000 (2005: HK$212,000). During the year, there were no material forfeitures available to offset the Group's future contributions (2005: Nil).

31. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December 2005, the Group had aggregate banking facilities of approximately HK$7,000,000 from several banks for overdrafts, loans, and trade financing. Unused facilities as at the balance sheet date amounted to approximately HK$5,914,000. These facilities were secured by the Group's bank deposits of approximately HK$2,000,000.

The Group did not have any charges on other assets as at 31st December 2006 and 2005.

32. RELATED PARTY TRANSACTIONS

(a) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:–

	2006	**2005**
	HK$'000	*HK$'000*
Short-term benefits	796	2,007
Other long-term benefits	24	52
	820	2,059

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(b) Amount due from an associate

The amount due from an associate is set out in the consolidated balance sheet on page 41. The term is set out in note 20.

33. SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December 2006 are as follows:–

Name	Place of incorporation/ operations	Class of shares held	Issued and fully paid share capital	Proportion of ownership interest held by the Company Directly	Indirectly	Principal activity
CentreWorld Holding Limited	British Virgin Islands ("BVI")	Ordinary	US$1,029	100%	–	Investment holding
Interworth, Inc	BVI	Ordinary	US$100	–	100%	Investment holding
Proactive Technology Limited	Hong Kong	Ordinary	HK$1,000,000	–	100%	Provision of telecommunications and computer telephony solutions
Proactive International Limited	Hong Kong	Ordinary	HK$100,000	–	100%	Trading of telecommunications products and provision of management consultancy services
Netwin Worldwide Limited	BVI	Ordinary	US$100	–	100%	Investment holding
Proactive Technology Development (Beijing) Limited *(Note a)*	PRC	Ordinary	RMB5,000,000	–	100%	Trading of telecommunications products and provision of tele-commerce services
Proactive Multimedia Marketing Agency Limited	Hong Kong	Ordinary	HK$2	–	100%	Provision of telecommunications and computer telephony solutions
Money Holder Limited	Hong Kong	Ordinary	HK$10,000	100%	–	Not yet commenced business
Dragon Billion Limited	Hong Kong	Ordinary	HK$1	100%	–	Not yet commenced business
China Railway Logistic Limited	Hong Kong	Ordinary	HK$1	100%	–	Not yet commenced business

Note a: The Company is a wholly foreign owned enterprise in the PRC.

None of the subsidiaries had any debt securities subsisting at end of the year or at any time during the year.

3. THE AUDITED CONSOLIATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

The following financial information has been extracted from the annual report of the Company for the year ended 31st December 2005.

Consolidated income statement

For the year ended 31st December 2005

		2005	**2004**
	NOTES	*HK$'000*	*HK$'000*
Turnover	(7)	20,982	17,515
Cost of sales		(11,524)	(9,386)
Gross profit		9,458	8,129
Other operating income		633	14
Distribution and selling expenses		(34)	(20)
General and administrative expenses		(11,536)	(15,479)
Finance costs	(9)	(87)	(39)
Share of result of an associate		(198)	198
Loss before tax	(10)	(1,764)	(7,197)
Income tax expenses	(13)	–	(51)
Loss for the year attributable to equity holders of the parent		(1,764)	(7,248)
Loss per share			
Basic	(14)	0.8 cents	3.1 cents

Consolidated balance sheet
As at 31st December 2005

	NOTES	2005 HK$'000	2004 HK$'000
Non-current assets			
Machinery and equipment	(15)	869	1,328
Development expenditures	(16)	–	–
Interest in an associate	(17)	–	861
Available-for-sale financial asset	(18)	286	–
Other investment	(19)	–	286
		1,155	2,475
Current assets			
Inventories	(20)	293	1,831
Trade receivables	(21)	1,940	2,461
Amount due from an associate	(22)	706	–
Prepayments, deposits and other receivables	(23)	708	1,219
Pledged bank deposits	(24)	2,000	5,002
Bank balances and cash		6,549	4,761
		12,196	15,274
Current liabilities			
Short-term bank borrowings	(25)	1,086	874
Trade payables	(26)	741	1,104
Accruals and other payables		2,153	3,127
Receipts in advance		636	2,242
		4,616	7,347
Net current assets		7,580	7,927
Net assets		8,735	10,402
Capital and reserves			
Share capital	(27)	23,200	23,200
Reserves		(14,465)	(12,798)
Equity attributable to equity holders of the parent		8,735	10,402

Consolidated statement of changes in equity
For the year ended 31st December 2005

	Attributable to equity holders of the parent					
	Share capital	Share premium	Capital reserve	Exchange translation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note 29)*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004	23,200	29,135	3,530	(37)	(38,191)	17,637
Exchange differences arising on translation of foreign operations	–	–	–	13	–	13
Loss for the year	–	–	–	–	(7,248)	(7,248)
At 31st December 2004 and 1st January 2005						
As originally stated	23,200	29,135	3,530	(24)	(45,439)	10,402
Effect of changes in accounting policies *(see Note 3)*	–	–	(3,530)	–	3,530	–
As restated	23,200	29,135	–	(24)	(41,909)	10,402
Loss for the year	–	–	–	–	(1,764)	(1,764)
Release of translation reserve on dissolve of subsidiaries	–	–	–	72	22	94
Exchange differences arising on translation of foreign operations	–	–	–	3	–	3
At 31st December 2005	23,200	29,135	–	51	(43,651)	8,735

Consolidated cash flow statement

For the year ended 31st December 2005

	2005	2004
	HK$'000	*HK$'000*
Operating activities		
Loss before tax	(1,764)	(7,197)
Adjustments for:–		
Interest income	(144)	(14)
Finance costs	87	39
Depreciation of machinery and equipment	627	1,469
Net loss on disposal of machinery and equipment	22	75
Write off of development expenditures	–	292
Share of result of an associate	198	(198)
Allowance for bad and doubtful receivables	698	161
Allowance for obsolete and slow-moving inventories	1,159	1,894
Operating cash flows before movements in working capital	883	(3,479)
Decrease / (increase) in inventories	229	(1,510)
(Increase) / decrease in trade receivables	(177)	527
Decrease in prepayments, deposits and other receivables	511	31
Increase in amount due from an associate	(43)	(429)
Decrease in trade payables	(363)	(53)
(Decrease) / increase in accruals and other payables	(974)	63
(Decrease) / increase in receipts in advance	(1,606)	1,009
Cash used in operations	(1,540)	(3,841)
Interest paid	(87)	(39)
Overseas taxes paid	–	(51)
Net cash used in operating activities	(1,627)	(3,931)
Investing activities		
Decrease in pledged bank deposits	3,002	–
Purchase of machinery and equipment	(45)	(19)
Proceeds on disposal of machinery and equipments	5	–
Interest received	144	14
Net cash from / (used in) investing activities	3,106	(5)
Cash from financing activity		
Increase in trust receipts bank loans	95	167
Net increase / (decrease) in cash and cash equivalents	1,574	(3,769)
Cash and cash equivalents at the beginning of the year	4,368	8,124
Effect of changes in foreign exchange rate	97	13
Cash and cash equivalents at the end of the year	6,039	4,368
Cash and cash equivalents at 31st December, represented by:–		
Bank balances and cash	6,549	4,761
Bank overdrafts	(510)	(393)
	6,039	4,368

Notes to the consolidated financial statements

For the year ended 31st December 2005

1. GENERAL

Proactive Technology Holdings Limited ("the Company") was incorporated in Bermuda on 25th February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 18th May 2000.

The financial statements are presented in Hong Kong dollar, which is the same as the functional currency of the Company.

The Company is an investment holding company. Its subsidiaries are principally engaged in investment holding, design, development and sale of value-added telecommunications products and computer telephony products.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet, and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of an associate have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:–

Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:–

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the year in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1st January 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January 2005, of which HK$3,530,000 was previously recorded in reserves. A corresponding decrease to the Group's accumulated losses has been made (see Note 3 for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 " Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:–

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivates that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result, "other investment" amounted to HK$286,000 has been classified as available-for-sale financial assets on 1st January 2005 (see Note 3 for the financial impact).

Financial assets and financial liabilities other than debt and equity securities

From 1st January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting year are prepared and presented.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January 2005. In relation to share options granted before 1st January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November 2002 and vested before 1st January 2005. The application of HKFRS 2 has had no material impact on how financial instruments of the Group are presented for current and prior accounting years.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs on 31st December 2004 and 1st January 2005 are summarised below:–

	As at 31st December 2004 (originally stated)	Prospective adjustments		As at 1st January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		HKFRS 3	HKAS 39	
Other investment	286	–	(286)	–
Available-for-sale financial asset	–	–	286	286
Other assets / liabilities	10,116	–	–	10,116
Total effects on assets and liabilities	10,402	–	–	10,402
Share capital	23,200	–	–	23,200
Accumulated losses	(45,439)	3,530	–	(41,909)
Capital reserve	3,530	(3,530)	–	–
Other reserves	29,111	–	–	29,111
Total effects on equity	10,402	–	–	10,402

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains or Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January 2007.
[2] Effective for annual periods beginning on or after 1st January 2006.
[3] Effective for annual periods beginning on or after 1st December 2005.
[4] Effective for annual periods beginning on or after 1st March 2006.

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(b) Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1st January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate in the year in which the investment is acquired.

As explained in note 3 above, all negative goodwill as at 1st January 2005 has been derecognised with a corresponding adjustment to the Group's accumulated losses.

(c) Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(d) Revenue recognition

(i) Revenue from the supply, development and integration of telecommunication and computer telephony systems

Revenue from the supply, development and integration of telecommunication and computer telephony systems is recognised when the merchandise is delivered and the related development and integration services are completed.

(ii) Rental income from leasing of telecommunication and computer telephony equipment

Rental income from leasing of telecommunication and computer telephony equipment is recognised on a straight-line basis over the respective period of the leases.

(iii) Consulting and maintenance service fees

Consulting and maintenance service fees are recognised when the services are rendered.

(iv) Interest income from a financial asset

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(e) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(f) Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the year in which they are incurred.

(g) Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as expense as they fall due.

(h) Machinery and equipment

Machinery and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of machinery and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:–

Furniture, fixtures and office equipment	20%
Computer equipment	30%
Equipment on lease to customers	30%
Equipment for development	30%

An item of machinery and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

(i) Research and development expenditures

Expenditure on research activities is recognised as expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognsied only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the year in which it is incurred.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

(j) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade receivables, prepayments, deposits and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are investments in unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the income statement in the year in which it arises. Any impairment losses recognised shall not be reversed.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank borrowings, trade payables, accruals and other payables and receipts in advance are subsequently measured at amortised cost, using the effective interest rate method.

Equity investments

Equity investments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(k) Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employee of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

(m) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(n) Provisions

Provision are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(o) Leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(p) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operating is disposed of.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 4, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation

The Group's net book value of machinery and equipment as at 31st December 2005 was approximately HK$869,000. The Group depreciates the machinery and equipment on a straight-line basis over the estimated useful life of three to five years, and after taking into account of their estimated residual value, using the straight-line method, at the rate of 20 – 30% per annum, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's machinery and equipment.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, prepayments, deposits and other receivables, bank borrowings, trade payables, accruals and other payables and receipts in advance. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain receivables and payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

7. TURNOVER

Turnover comprises:–

	2005 *HK$'000*	2004 *HK$'000*
Sales of goods	9,690	4,441
Rental income from leasing of telecommunication and computer telephony equipment	1,294	2,692
Service fees income	9,998	10,382
	20,982	17,515

8. SEGMENT INFORMATION

The primary segment is defined by major product and operational units, while secondary segment is defined by geographical location of customers.

(a) Primary segment

The Group is organised into two products and operational units – telecommunications products and computer telephony products. The telecommunications products and computer telephony products units derive revenue from supply, development and integration of telecommunications and computer telephony system and solutions, respectively. They also earn rental income from leasing telecommunications equipments and computer telephony systems and earn fees for consulting and maintenance services.

Analysis by business segment is as follows:–

	2005	**2004**
	HK$'000	*HK$'000*
Turnover		
– Telecommunications	7,228	6,961
– Computer telephony	13,754	10,554
	20,982	17,515
Segment results		
– Telecommunications	2,242	545
– Computer telephony	4,034	2,852
	6,276	3,397
Unallocated corporate expenses	(7,805)	(10,767)
	(1,529)	(7,370)
Interest income	144	14
Finance costs	(87)	(39)
Net loss on write-off of deregistered subsidiaries	(94)	–
Share of result of an associate	(198)	198
Loss before tax	(1,764)	(7,197)
Income tax expenses	–	(51)
Loss for the year	(1,764)	(7,248)
Other information:–		
Depreciation of machinery and equipment		
– Telecommunications	388	754
– Computer telephony	80	184
– Unallocated	159	531
	627	1,469
Capital expenditures of machinery and equipment		
– Telecommunications	21	–
– Computer telephony	–	–
– Unallocated	24	19
	45	19

	2005 *HK$'000*	2004 *HK$'000*
Allowance for bad and doubtful receivables		
– Telecommunications	255	6
– Computer telephony	433	415
– Unallocated	10	(260)
	698	161
Allowance for obsolete and slow-moving inventories		
– Telecommunications	335	(16)
– Computer telephony	97	573
– Unallocated	727	1,337
	1,159	1,894
Net loss on disposal of machinery and equipment		
– Telecommunications	11	75
– Computer telephony	11	–
– Unallocated	–	–
	22	75
Segment assets		
– Telecommunications	1,389	3,863
– Computer telephony	2,549	1,772
Interest in an associate	–	861
Unallocated corporate assets	9,413	11,253
Consolidated total assets	13,351	17,749
Segment liabilities		
– Telecommunications	1,134	3,337
– Computer telephony	1,406	1,892
Unallocated corporate liabilities	2,076	2,118
Consolidated total liabilities	4,616	7,347

(b) Secondary segment

Analysis by geographical location is as follows:–

	2005 HK$'000	2004 HK$'000
Turnover		
– Hong Kong	20,796	17,228
– The People's Republic of China ("PRC")	186	171
– Taiwan	–	116
	20,982	17,515
Segment assets		
– Hong Kong	11,212	14,803
– PRC	2,139	2,946
	13,351	17,749
Additions to machinery and equipment		
– Hong Kong	24	17
– PRC	21	2
	45	19

9. FINANCE COSTS

The amount represents interest on bank overdrafts and trust receipt bank loans wholly repayable within five years.

10. LOSS BEFORE TAX

	2005 HK$'000	2004 HK$'000
Loss before tax has been arrived at after charging / (crediting):–		
Staff costs including directors' emoluments *(Note 11)*:–		
Salaries and allowances	5,800	7,950
Contributions to retirement benefits scheme	212	293
Less: Amount included in research and development expenditures	–	(557)
	6,012	7,686
Auditors' remuneration		
– current year	153	190
– over-provision in previous year	(47)	–
Research and development expenditures	–	849
Depreciation of machinery and equipment	627	1,469
Allowance for bad and doubtful receivables	698	161
Minimum lease payments under operating leases	622	1,205
Net loss on disposal of machinery and equipment	22	75
Allowance for obsolete and slow-moving inventories	1,159	1,894
Cost of inventories recognised as an expense	10,934	8,246
Write off of development expenditures	–	292
Net exchange loss	8	18
Net loss on write off of deregistered subsidiaries	94	–
Interest income	(144)	(14)
Rental income from leasing of telecommunication and computer telephony equipment	(1,294)	(2,692)

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 11 (2004: 10) directors were as follows:–

	2005 HK$'000	2004 HK$'000
Executive Directors:–		
Fees	–	–
Salaries and other benefits *(Note (i))*	1,933	2,428
Contributions to retirement benefits scheme	52	60
	1,985	2,488
Independent Non-Executive Directors:–		
Fees	74	70
	2,059	2,558

Note:

(i) Other benefits include housing allowance.

One director (2004: One director) waived his emoluments in the years ended 31st December 2005 and 2004. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

The details of directors' remuneration of each director for the years ended 31st December 2005 and 2004 are set out below:–

Name of director	Non- executive directors' fees HK$'000	Executive directors' salaries HK$'000	Housing allowance HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
	2005				
Tsang Chi Hin	–	264	198	12	474
Lam Kim Chau	–	487	–	12	499
Lau Kai Shun, Barry *(Note 3)*	–	196	–	8	204
Wong Wai Ho	–	270	–	11	281
Pong Kam Wah *(Note 3)*	–	478	–	7	485
Li Siu Ming *(Note 1)*	–	40	–	2	42
Yang Zhenan *(Note 2&3)*	12	–	–	–	12
Robert Brainin Issenman *(Note 2&3)*	14	–	–	–	14
Chan Ho Wah, Terence *(Note 1&2)*	8	–	–	–	8
Leung Lok Ming *(Note 2)*	20	–	–	–	20
Lo Wa Kei, Roy *(Note 2)*	20	–	–	–	20
Chow Dah Jen, David *(Note 4)*	–	–	–	–	–
	74	1,735	198	52	2,059

Notes:

1. Appointed on 12th August 2005.

2. The employees are independent non-executive directors.

3. Resigned on 12th August 2005.

4. Resigned on 17th February 2006.

Name of director	Non- executive directors' fees HK$'000	Executive directors' salaries HK$'000	Housing allowance HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
	2004				
Tsang Chi Hin	–	264	215	12	491
Lam Kim Chau	–	549	–	12	561
Lau Kai Shun, Barry	–	320	–	12	332
Wong Wai Ho	–	300	–	12	312
Pong Kam Wah	–	780	–	12	792
Yang Zhenan *(Note 1)*	20	–	–	–	20
Robert Brainin Issenman *(Note 1)*	20	–	–	–	20
Wu Suk Ching, Annie *(Note 1 & 2)*	10	–	–	–	10
Leung Lok Ming *(Note 1)*	10	–	–	–	10
Lo Wa Kei, Roy *(Note 1)*	10	–	–	–	10
Chow Dah Jen, David	–	–	–	–	–
	70	2,213	215	60	2,558

Notes:

1. The employees are independent non-executive directors.

2. Resigned on 12th May 2004.

12. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included three directors (2004: four directors) of the Company, whose emoluments have been included in note (11) above. However, one of the three highest paid executive directors of the Company resigned and remained as an employee of the Group during the year, whose emoluments as directors are set out in note (11) above. The emoluments of the three (including the resigned directors) (2004: one) individuals were as follows:–

	2005	**2004**
	HK$'000	*HK$'000*
Salaries and allowances	1,386	397
Contributions to retirement benefits scheme	34	12
	1,420	409

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

Their emoluments were within the following bands:–

	No. of employees	
	2005	**2004**
– Nil to HK$1,000,000	3	1
– HK$1,000,001 to HK$1,500,000	–	–
	3	1

13. INCOME TAX EXPENSES

(a) Income tax expenses consisted of:–

	2005	**2004**
	HK$'000	*HK$'000*
PRC income tax	–	51

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 as the Group had no assessable profits arising in nor derived from Hong Kong. Overseas income tax has been provided by subsidiaries based on their estimated taxable profits at the rates of taxation applicable in the respective jurisdictions in which they operate.

(b) The tax charge for the years can be reconciled to the loss per the consolidated income statement as follows:–

	2005	**2004**
	HK$'000	*HK$'000*
Loss before tax	(1,764)	(7,197)
Tax at the domestic income tax rate of 17.5%	(309)	(1,259)
Tax effect of expenses not deductible for tax purpose	1,182	–
Tax effect of income not taxable for tax purpose	(916)	–
Tax effect of tax losses and other temporary differences not recognised	38	1,259
Effect of different tax rates of subsidiaries operating in other jurisdictions	5	51
Tax charge for the year	–	51

(c) The principal components of the Group's deferred tax assets not provided for, on the cumulative temporary differences at the balance sheet date are as follows:–

	Other temporary differences	**Estimated tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st January 2004	457	5,254	5,711
Movement for the year	(166)	1,012	846
At 31st December 2004 and 1st January 2005	291	6,266	6,557
Movement for the year	34	4	38
At 31st December 2005	325	6,270	6,595

No potential tax benefit and other temporary differences attributable to tax losses of the Group has been recognised due to unpredictability of future profit streams (2004: Nil).

14. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the loss for the year attributable to equity holders of the parent of approximately HK$1,764,000 (2004: HK$7,248,000) and the weighted average of 232,000,000 (2004: 232,000,000) ordinary shares in issue during the year.

No diluted loss per share have been presented for two years ended 31st December 2005 and 2004 as there were no diluting events existed during those years.

15. MACHINERY AND EQUIPMENT

	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Equipment on lease to customers HK$'000	Equipment for development HK$'000	Total HK$'000
Cost					
At 1st January 2004	1,190	3,382	3,233	2,390	10,195
Additions	2	11	6	–	19
Disposals	(142)	(14)	(366)	(377)	(899)
Transferred from inventories	–	203	1,023	24	1,250
Transferred to inventories	–	(195)	(1,632)	(363)	(2,190)
At 31st December 2004 and 1st January 2005	1,050	3,387	2,264	1,674	8,375
Additions	32	13	–	–	45
Disposals	–	–	(271)	–	(271)
Transferred from inventories	–	114	112	377	603
Transferred to inventories	–	(8)	(1,258)	(728)	(1,994)
Reclassification	–	36	–	(36)	–
At 31st December 2005	1,082	3,542	847	1,287	6,758
Accumulated depreciation					
At 1st January 2004	840	2,825	2,193	1,810	7,668
Charge for the year	216	401	506	346	1,469
Written back on disposals	(76)	(6)	(366)	(376)	(824)
Transferred to inventories	–	(9)	(945)	(312)	(1,266)
At 31st December 2004 and 1st January 2005	980	3,211	1,388	1,468	7,047
Charge for the year	72	152	256	147	627
Written back on disposals	–	–	(244)	–	(244)
Transferred to inventories	–	–	(1,036)	(505)	(1,541)
Reclassification	–	1	–	(1)	–
At 31st December 2005	1,052	3,364	364	1,109	5,889
Carrying values					
At 31st December 2005	30	178	483	178	869
At 31st December 2004	70	176	876	206	1,328

16. DEVELOPMENT EXPENDITURES

Movements of development expenditures were as follows:–

	2005 HK$'000	2004 HK$'000
Beginning of the year	–	292
Write off	–	(292)
End of the year	–	–

17. INTEREST IN AN ASSOCIATE

	2005	2004
	HK$'000	*HK$'000*
Cost of investment in an associate – unlisted in PRC	377	377
Share of post-acquisition losses and reserves, net of dividends received	(377)	(179)
	–	198
Amount due therefrom	–	2,433
Less: Impairment loss recognised	–	(1,770)
	–	861

In 2004, in the opinion of directors, the amount due from would not repaid within next twelve months. Thus, it was classified as non-current.

The summarised financial information in respect of the Group's associate is set out below:–

	2005	2004
	HK$'000	*HK$'000*
Total assets	1,670	1,275
Total liabilities	(3,368)	(2,504)
Net assets	(1,698)	(1,229)
Group's share of net asset of the associate	–	198
Revenue	2,789	3,603
(Loss) / profit for the year	(474)	564
Group's share of result of the associate for the year	(198)	198

Details of the associate are as follow:–

Name	Form of business structure	Place of incorporation/ operations	Class of share held	Percentage of equity interest attributable to the Group	Principal activity
Beijing Teletron System integration Company limited	Incorporated	PRC	Ordinary	40%	Provision of telecommunications and computer telephony solutions

There were no other associate held by the Group as at 31st December 2005.

18. AVAILABLE-FOR-SALE FINANCIAL ASSET

The asset represents a nominee membership in a Golf Club in the PRC. They are measured at cost less impairment at each balance sheet date. The fair value was approximated to the corresponding carrying amount.

19. OTHER INVESTMENT

Other investment as at 31st December 2004 represents the cost of a nominee membership in a Golf Club in the PRC. Upon the application of HKAS 39 on 1st January 2005, other investment was reclassified to available-for-sale financial asset under HKAS 39 (see notes 2 and 3 for details).

20. INVENTORIES

	2005	2004
	HK$'000	*HK$'000*
Inventories consisted of:–		
Telecommunication and computer telephony hardware products	1,999	3,507
Less: Allowance for obsolete and slow-moving inventories	(1,706)	(1,676)
	293	1,831

As at 31st December 2005, inventories of approximately HK$143,000 (2004: HK$1,831,000) were stated at net realisable value.

21. TRADE RECEIVABLES

Trade receivables consisted of:–

	2005	2004
	HK$'000	*HK$'000*
Account receivables	3,087	3,130
Retention receivables	1,355	1,203
	4,442	4,333
Less: Accumulated impairment	(2,502)	(1,872)
	1,940	2,461

The Group normally grants to its customers credit period ranging from 30 days to 60 days. Aging analysis of trade receivables is as follows:–

	2005	2004
	HK$'000	*HK$'000*
0 to 1 month	1,597	876
1 to 2 months	391	303
2 to 3 months	197	322
3 to 6 months	747	567
6 to 9 months	65	80
9 to 12 months	32	51
Over 12 months	1,413	2,134
	4,442	4,333

The fair value of the Group's trade receivables at 31st December 2005 was approximate to the corresponding carrying amount.

22. AMOUNT DUE FROM AN ASSOCIATE

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2005	2004
	HK$'000	*HK$'000*
Prepayments, deposits and other receivables consisted of:–		
Prepayments	203	406
Rental and utility deposits	260	503
Others	245	310
	708	1,219

The fair value of the Group's prepayments, deposits and other receivables at 31st December 2005 was approximate to the corresponding carrying amount.

24. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure bank overdrafts and undrawn facilities granted to the Group.

The deposits carry variable interest rate. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31st December 2005 approximates to the corresponding carrying amount.

25. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consisted of:–

	2005	2004
	HK$'000	*HK$'000*
Bank overdrafts – secured	510	393
Trust receipts bank loans – secured	576	481
	1,086	874

At 31st December 2005, all short-term bank borrowings are variable-rate borrowings which carry interest per annum as follows:–

	2005	2004
Bank overdrafts – secured	Prime-rate	Prime-rate plus 1.25%
Trust receipts bank loans – secured	Standard bills rate plus 1.25%	Standard bills rate plus 0.25% / 1.25%

The directors consider that the carrying amount of short-term bank borrowings approximates their fair value.

Refer to Note (32) for details of the Group's banking facilities.

26. TRADE PAYABLES

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

	2005	**2004**
	HK$'000	*HK$'000*
0 to 1 month	362	418
1 to 2 months	161	236
2 to 3 months	82	–
3 to 6 months	–	–
6 to 12 months	90	–
Over 12 months	46	450
	741	1,104

The fair value of the Group's trade payables at 31st December 2005 approximates to the corresponding carrying amount.

27. SHARE CAPITAL

	2005 and 2004	
	Number of shares	**Nominal value**
	'000	*HK$'000*
Ordinary shares of HK$0.10 each		
Authorised	1,000,000	100,000
Issued and fully paid	232,000	23,200

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

28. SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme on 3rd 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 30th 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 1st July 2003 to 30th June 2010. No options were granted during the year ended 31st December 2005 under the Share Option Scheme.

Pursuant to resolutions passed at a special general meeting of the shareholders held on 13th 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 GEM Listing Rules effected on 1st October 2001. Under the terms of the New Share Option Scheme, the board of directors of the Company may, at their discretion, grant options to the participants fall within the definition prescribed in the New Share Option Scheme including the employees, non-executive directors of the Company or its subsidiaries, etc., to subscribe for shares in the Company at a price determined by the Company's Board of Directors, and will not be less than the highest of (i) the nominal value of the shares; (ii) the average closing price of the shares quoted on the GEM on the five trading days immediately preceding the date of grant; and (iii) the closing price of the shares quoted on the GEM on the date of grant, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue and with an aggregate value (based on the closing price of the shares on the date of grant) in excess of HK$5 million must be approved by the Company's shareholders.

The New Share Option Scheme will remain in force for a period of 10 years from 13th November 2002. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

During the year ended 31st December 2005, no share option has been granted under the New Share Option Scheme. The options already granted under the Share Option Scheme are unaffected.

Movements of employee share options during the two years ended 31st December 2005 and 2004, were:–

2005

	Date of grant	Exercisable period	Subscription price per share (HK$)	Number of share options: Outstanding at 1st January 2005	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding at 31st December 2005
Directors	30/6/2000	1/7/2003 to 30/6/2010	1.30	9,800,000	–	–	(6,800,000)	3,000,000
Employees	30/6/2000	1/7/2003 to 30/6/2010	1.30	760,000	–	–	(100,000)	660,000
				10,560,000	–	–	(6,900,000)	3,660,000

2004

	Date of grant	Exercisable period	Subscription price per share (HK$)	Number of share options: Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding at 31st December 2004
Directors	30/6/2000	1/7/2003 to 30/6/2010	1.30	9,800,000	–	–	–	9,800,000
Employees	30/6/2000	1/7/2003 to 30/6/2010	1.30	2,960,000	–	–	(2,200,000)	760,000
				12,760,000	–	–	(2,200,000)	10,560,000

All share options granted before 7th November 2002 and fully vested before 1st January 2005, the application of HKFRS 2 has had no material effect on how the share-based payments of the Group are presented for current and prior accounting years.

29. RESERVES

Capital reserve represents the negative goodwill arising from the acquisition of Proactive Technology Limited, a wholly-owned subsidiary, by CentreWorld Holding Limited, another wholly-owned subsidiary, in January 1998. The Group has adopted HKFRS 3 to derecognise all negative goodwill at 1st January 2005. Details are set out in notes (2) and (3).

30. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating lease commitments

The Group had commitments for future minimum lease payments in respect of premises under various non-cancellable operating leases which fall due as follows:–

	2005 *HK$'000*	2004 *HK$'000*
Within one year	511	407
In the second to fifth years inclusive	102	284
	613	691

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Both leases are negotiated and rental are fixed for an average of 1.5 year.

(b) Contingent liabilities

	2005 *HK$'000*	2004 *HK$'000*
Performance bond	–	177

31. RETIREMENT BENEFITS SCHEMES

The Group maintains various retirement schemes for its employees. The retirement scheme for employees of PRC representative office is a mandatory central pension scheme organised by the PRC government, the assets of which are held separatively from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made. The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each make monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month.

During the year, the aggregate contributions made by the Group to the retirement schemes were approximately HK$212,000 (2004: HK$293,000). During the year, there were no material forfeitures available to offset the Group's future contributions (2004: Nil).

32. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December 2005, the Group had aggregate banking facilities of approximately HK$7,000,000 (2004: HK$6,200,000) from several banks for overdrafts, loans, and trade financing. Unused facilities as at the balance sheet date amounted to approximately HK$5,914,000 (2004: HK$5,148,000). These facilities were secured by the Group's bank deposits of approximately HK$2,000,000 (2004: HK$5,002,000). The Group did not have any charges on other assets as at 31st December 2005 and 2004.

33. RELATED PARTY TRANSACTIONS

(a) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:–

	2005	**2004**
	HK$'000	*HK$'000*
Short-term benefits	2,007	2,498
Other long-term benefits	52	60
	2,059	2,558

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(b) Amount due from an associate

The amount due from an associate is set out in the balance sheet on page 3. The term is set out in note 22.

34. SUBSIDIARIES

Details of the subsidiaries as at 31st December 2005 are as follows:–

Name	Place of incorporation/ operations	Class of shares held	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
CentreWorld Holding Limited	British Virgin Islands ("BVI")	Ordinary	US$1,029	100%	Investment holding
Interworth, Inc	BVI	Ordinary	US$100	100%	Investment holding
Proactive Technology Limited	Hong Kong	Ordinary	HK$1,000,000	100%	Provision of telecommunications and computer telephony solutions
Proactive International Limited	Hong Kong	Ordinary	HK$100,000	100%	Trading of telecommunication products and provision of management consultancy
Netwin Worldwide Limited	BVI	Ordinary	U$100	100%	Investment holding
Proactive Technology Development (Beijing) Limited	PRC	Ordinary	RMB5,000,000	100%	Trading of telecommunication products and provision of tele-commerce services
Proactive Multimedia Marketing Agency Limited	Hong Kong	Ordinary	HK$2	100%	Provision of telecommunication and computer telephony solutions

The shares of CentreWorld Holdings Limited are held directly be the Company. The shares of other subsidiaries are held indirectly.

None of the subsidiaries had any debt securities subsisting at end of the year or at any time during the year.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2006

FINANCIAL REVIEW

Turnover of the Group for the year ended 31st December 2006 was approximately HK$11,880,000 (2005: HK$20,982,000), which represents a decrease of 43% as compared with the previous financial year.

Turnover from telecommunications business decreased by 53% to HK$3,404,000 (2005: HK$7,228,000), representing 29% (2005: 34%) of the Group's total turnover. Turnover attributable to our computer telephony business decreased by 38% to HK$8,476,000 (2005: HK$13,754,000), accounting for 71% (2005: 66%) of the Group's total turnover.

The gross profit for the year under review was HK$6,831,000 which was decreased by 28% comparing with last year (2005: HK$9,458,000), while the gross profit margin was increased to 58% (2005: 45%).

Operating costs for the year ended 31st December 2006 was approximately HK$11,656,000 (2005: HK$11,536,000), representing a 1% increase.

The audited consolidated loss for the year attributable to equity holders of the parents also increased by 105% to approximately HK$3,611,000 (2005: HK$1,764,000). Loss per share was HK1.5 cent for the year under review (2005: HK0.8 cent).

BUSINESS REVIEW

During this recent couple of years, the overall market performance tended to improve to certain extent. However, the progress of the recovery, especially in the IT and telecom market, was still in a slow and sluggish pace. The market was in a process of reformation and consolidation.

We have initiated the streamlining of our operations, especially in Mainland China, and created business dynamics to cope with the changes in business needs. We successfully developed a cost-effective local engineering team.

The difficult operating environment of recent years for the IT and telecom industry continues to persist. In the absence or the introduction of any new or more advance technology, the products and services offered by the telecom industry is now very much price driven. There were at times marked improvements, albeit sporadic, in various regional market segments and sub-markets. However, the pace at which reforms are progressing and the rate at which the overall market is recovering are far from optimistic. These negative implications and the direct impact it has had on the Company's Hong Kong operations was even more apparent during the financial year ended 2006.

In view of the prevailing situation where the market continues to compete on price, we believe it will become increasingly difficult for a majority part of the market to stay afloat. With profit margins eroding, it will only be a matter of time before we see a large scale consolidation with smaller players being acquired while others have no avail but to exit. Ultimately those companies with the resources, capability and greater market share will emerge to become the leaders and/or giants of the industry. Undoubtedly, the evolution process is a painstaking event which can be very time consuming.

In 2006, the senior management undertook a comprehensive reassessment of its existing business model to ascertain whether it still made sense to continue operating as an IT and telecom company. In the aftermath, despite of its initial success, the Company simply does not have the capital nor the human resources needed to compete at the next level with the larger domestic and/or international players. In retrospect, the senior management adopted a very pragmatic perspective. It was believed it is in the minority shareholders' best interest that the Company stems its losses and exits the market. The Company instead would, and has already commenced to, focus on a new and exciting opportunity in the growing field of logistic transportation.

FUTURE PROSPECTS

For the business outlook, the overall IT and telecom market environment is still obscure and is facing some sorts of uncertainty. However it would appear to us that the speed of the recovery is expediting especially while the market expected the advent of 3G in PRC in 2007. With our establishment in Beijing, we are able to capture more businesses in PRC.

The Company, in 2007, intends to acquire the entire equity shareholding interest of a company which has already entered into a Sino-Foreign joint venture (the "JV") with a wholly-owned subsidiary of the Ministry of Railways of the People's Republic of China (the "MOR"). The JV has been established for the purpose of owning, developing, and operating a logistics transportation network nationwide for the promotion and facilitation of domestic trade. In due course, it is believed and hoped that the logistic transportation network, when firmly established, will primarily be used as one of the principal means for transporting basic raw materials providing a much needed supporting service to some of the country's pillar industries, namely, the coal, metal ores and oil industries.

The JV is the holder of an exclusive trackage right for a 50 year period, granted by the MOR, to operate rail freight trains on the MOR's existing railway infrastructure network. The operational right extends the entitlement to cover upgraded tracks as well as all new tracks which has already been built, in the process of being built or will be additionally built in the future. In defining what is meant by the exclusivity nature of the right, pursuant to the agreement, it is construed to mean that the JV has the first right of refusal to undertake all potential future expansions in relation to this business activity. The language as stipulated has the effect of being a de-facto non-competitive clause.

The proposed logistic transportation business is a pilot project and the first-of-its-kind in China's railway history. It will also serve to form an integral part of the MOR's commitment to reform the country's railway transportation industry to be more in line with developments undertaken by other governments and countries around the world.

During the first phase of development, the plan requires the JV to purchase 300 trains over a 15 to 18 month period to kick start the business. Each of the trains will comprise of 55 wagons and be able to travel at a maximum speed of not less than 90 kilometers per hour; while each of the wagons will have a minimum uploading capacity of 70 tons per wagon. In addition, the JV will need to set up the relevant operations including the sales network. Based on the proposed allocated track routes on which the trains will be traveling on, the Company estimates that at least 4 offices (near the major railway bureaus) in the People's Republic of China will have to be set up to facilitate operations. The team in the Hong Kong office will oversee and manage the business as well as being responsible for all aspects relating to financial matters.

The JV, operating in accordance with all laws and regulations governing the railway industry in the People's Republic of China, is required to pay a fixed but significant portion of its gross revenues to the MOR in the form of a fee for having access and for using its railway network. The fee payment also covers most, if not all, of the costs associated with the daily operations of the trains. This Light Assets Business Model is an extremely favorable arrangement for two principal reasons: (1) the JV/Company's requirement capital expenditures for development of the infrastructure needed in effect has been kept at a bare minimum; and (2) the JV/Company can leverage off of MOR's wealth of experience in the actual management and operations (particularly in terms of train scheduling on the world's busiest railway network) of the trains.

China's Railway Industry

China's railway industry has undergone more than a century of development. Railways in the country, at the end of 2004, consist of railways owned by the MOR (82.1%), railways owned by various local governments (6.4%) and railways owned through joint venture companies (11.5%). As at the year ended 2005, the total operational track length of China's railway network was 75,438 kilometers. The country has the busiest railway system in the world and has been operating at near capacity for years. It currently uses 6% of the world's total track length to handle over 23% of the world's total passenger volume and freight traffic.

Conscious and strong efforts have been made to increase existing capacity by relaxing speed restrictions and by adding new tracks. Since 1997, China has raised its train speed 5 times and a 6th is being tabled for April 2006. The last speed raising alone in 2004 increased the freight transportation capacity of the railway networks by 15.0%. Moreover, under the 15th 5-year plan, there is also an ambitious plan to increase the total track length of its railway network to 100,000 km by 2010. China intends to build 19,800 kilometers of new railway lines, modernize 15,000 kilometers of existing railway lines, boost passenger train speed to 200 km per hour with faster trains traveling at more than 300 kilometers an hour, and increase the load of freight trains with a single engine hauling over 5,000 tons.

Under the railway development plan approved by the Chinese government, every year 4,000 kilometers of new tracks will be laid, 3,000 kilometers of existing tracks electrified, and faster passenger trains, including the maglev trains, and large capacity freight trains will be introduced.

Existing Large Gap between Demand and Supply

The railway system plays a fundamental role in China's economy by being a cost-efficient, long haul transportation mode for bulk commodities (e.g. coal, petroleum, timber, and steel mineral ores) particularly from the interior regions of the country to the coastal areas. It is safe, reliable and immune to environmental impacts such as poor weather conditions.

Consistent high economic growth rates and increasing urbanization are the two major drivers for the increasing demand in freight transportation. At present, it is estimated that the country is in need of at least 280,000 wagons per day to satisfy existing and growing daily demand. There is however less than 140,000 wagons per day available. The existing fleet of wagons is also inadequate to service the contractual obligations previously undertaken by the State in respect of what are viewed as vital and key strategic projects. With limited alternatives, private companies often had to rely on more costly modes of transport for their delivery needs.

According to the MOR, the large gap between supply and demand will further exasperate commencing in 2007 once the anticipated wagon retirement plan is being implemented. An estimated 70,000 wagons, mostly wagons with an upload capacity of less than 60 tons, has been slated for retirement in 2007. A further 270,000 wagons have been targeted for 2008 and 2009. The proposed project's 300 trains will only be replacing 23.6% (or 16,500) of the 70,000 wagons expected to be retired during 2007 or 11.8% of the operational wagons and 5.9% of the estimated current market demand.

As such, it comes as no surprise China's railway industry is the envy of many transport companies around the world.

LIQUIDITY AND FINANCIAL RESOURCES

	2005	**2006**	**Change**
	HK$'000	*HK$'000*	
Total assets	13,351	19,526	46%
Total liabilities	4,616	3,542	-23%
Working capital	7,580	14,462	91%
Cash and bank deposit	8,549	4,773	-44%
Short-term bank borrowings	1,086	–	-100%
Debt to equity ratio	0.53x	0.22x	
Gearing ratio	0.000x	0.000x	

During 2006, the Group was principally financed by cash flow generated internally together with the short-term bank borrowings and placing of existing shares and subscription of new shares in November and December 2006.

As at 31st December 2006, the Group had consolidated net current assets of approximately HK$14,462,000 (2005: HK$7,580,000). Cash and bank deposits stood at approximately HK$4.8 million on 31st December 2006, or cash per share of HK$0.02, of which approximately HK$4.4 million and HK$0.4 million was denominated in Hong Kong dollars and United States dollars respectively. The total short-term bank borrowings was Nil (2005: HK$1,086,000) and the gearing ratio, measured on the basic of total non-current liabilities to total assets less current liabilities, was 0 times (2005: 0 times).

As at 31st December 2006, the Group had no capital commitment (2005: Nil).

CAPITAL STRUCTURE

The capital of the Company comprises only ordinary shares. Details of movements in the share capital of the Company during the year ended 31st December 2006 are set out in note 25 of this annual report.

CHARGES ON ASSETS

As at 31st December 2006, the Group did not have any charges on its assets.

As at 31st December 2005, the Group had aggregate banking facilities of approximately HK$7,000,000 from several banks for overdrafts, loans, and trade financing. Unused facilities as at 31st December 2005 amounted to approximately HK$5,914,000. These facilities were secured by the Group's bank deposits of approximately HK$2,000,000. The Group did not have any charges on other assets as at 31st December 2005.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in this report, there were no significant investment held, material acquisitions or disposals of subsidiaries during the year under review.

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 denominated 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 31st December 2006, the Group had no contingent liabilities (2005: Nil).

EMPLOYEE INFORMATION

The Group (excluding its associate) had approximately 26 full-time employees (2005: 22) in Hong Kong and PRC as at 31st December 2006. During the year ended 31st December 2006, the Group had incurred staff costs (including directors' emoluments) of approximately HK$4,163,000 (2005: HK$6,012,000).

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 share in the Company. As at 31st December 2006, no share option has been granted under the existing Share Option Scheme of the Company.

As at 31st December 2006, 6 employees (2005: 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 31st December 2006, the estimated amount provided for such purpose amounted to approximately HK$79,000 (2005: HK$250,000).

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2005

FINANCIAL REVIEW

Turnover of the Group for the year ended 31st December 2005 was approximately HK$20,982,000 (2004: HK$17,515,000), which represented an increase of 20% as compared with the previous financial year.

Turnover from telecommunication business increased by 4% to HK$7,228,000 (2004: HK$6,961,000), representing 34% (2004: 40%) of the Group's total turnover. Turnover attributable to our computer telephony business increased by 30% to HK$13,754,000 (2004: HK$10,554,000), accounting for 66% (2004: 60%) of the Group's total turnover.

The gross profit for the year under review was approximately HK$9,458,000 which was increased by 16% comparing with last year (2004: HK$8,129,000), while the gross profit margin was maintained at 45% (2004: 46%).

Operating costs for the year ended 31st December 2005 was approximately HK$11,536,000 (2004: HK$15,479,000), representing a 25% decrease.

The audited consolidated loss for the year attributable to equity holders of the parents also decreased by 76% to approximately HK$1,764,000 (2004: HK$7,248,000). Loss per share was HK0.8 cent for the year under review (2004: HK3.1 cents).

BUSINESS REVIEW

Adverse economical environment persisting within these past few years has been making the Hong Kong operations suffer from unprecedented difficulties. Though during this recent couple of years the overall market performance tends to be improved to certain extent, the progress of the recovery, especially in the IT and telecom market, is still in a sluggish pace. Such an intense and over-throat competitive situation in the telecom field brings about the scenario that the merging and acquisition throughout telecom market are being taken place. The market reformation and consolidation might evolve a profitable phenomenon eventually but the process is prolonged and time-consuming.

Regardless to what extent the IT and telecom market is evolving, the Group keeps on controlling the cost and expenses of operation and implementing effective management on controlling the company. Our endeavor upon cost control and operation enhancement has contributed to decrease the operating administration cost by approximately 25% to HK$11,536,000 (2004: HK$15,479,000) when compared with the previous financial year.

We have initiated the streamlining of our operations, especially in Mainland China, and created business dynamics to cope with the changes in business needs. We successfully developed a cost-effective local engineering team. The relocation of our Hong Kong office in early 2005 to right-sized premises helped further reducing the administration expenses as compared with last year.

Our Joint Venture entity in Beijing, the Beijing Teletron System Integration (BJTSI) has completed the Phase III call center project for Beijing Labor Bureau. The project was first established in Beijing in 2003 and is a web-based multi-media contact center with advanced features. This call center technology is proven to be successfully utilized in Labor Bureau and forms a benchmark project. Beyond that, we have built some more call center projects in Beijing such as for Police and Environment Protection Bureau, etc. We have also completed the installation of the automatic fare collection (AFC) systems for various tourist spots such as the Great Wall, etc, which allows tourists to use e-payment as a means for entry ticketing. The similar project will extend to other famous tourist spots within the coming few years.

FUTURE PROSPECTS

The massive increasing amount of Internet users is overwhelming various applications across the areas of voice, data and video. Though this trend inevitably brings about some negative impacts to traditional fixed network operators such as the use of Voice Over IP (VoIP) over the basic voice and IDD applications, the upsurge use of Internet is evolving tremendous opportunities and creating gigantic market places. The wide spread of mobile phone users and the advent of 3G, on the other hand, creates synergy effect and generates a large demand upon value-added services. These combined factors do pull out a powerful momentum for deriving and accelerating the needs upon utilizing mobile and IP and thus become a driving force for market reformation and consolidation. The advanced development of IP and mobile technology reforms and revolutionizes the IT and telecom applications in a way that tends to adopt a single hand-held device to integrate various applications within the appliance. The IT market upsurge in 2000 has already been identified as a phenomenon of “bubble”. However, we may deem that the recent development is a kind of “genuine” influence to our actual daily living which will in turn create a real and vast market place eventually.

Since our well establishment in Beijing, we are able to capture more businesses in PRC. Our Joint Venture entity in Beijing is building 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 be utilized the advanced e-payment card for entry. This is a must-do project for implementing the Digital Beijing for facing the upcoming 2008 Olympics Games in Beijing. In fact, the e-payment (or so-called electronic purse) is deemed to be an effective and convenient way for traveling and petty cash spending.

For the business outlook, the overall IT and telecom market environment is still obscure and is facing some sorts of uncertainty. However it would appear that the reformation of the IT and telecom is regulated in a way that severe cut-throat competition will no longer exist. Through merging and acquisition, the remaining few survivors will still capture certain market share and become profitable somehow. The market will generate a number of value-added services providers and the market will treasure those with creativity and inventive power. Proactive, with our well-equipped power for technological exploration, will fully match with the trend of future market development. We will still keep on scrutinizing cost control of the operation and adjust promptly to capture more business opportunities.

LIQUIDITY AND FINANCIAL RESOURCES

	2004	2005	Change
	HK$'000	*HK$'000*	
Total assets	17,749	13,351	-25%
Total liabilities	7,347	4,616	-37%
Working capital	7,927	7,580	-4%
Cash and bank deposit	9,763	8,549	-12%
Short-term bank borrowings	874	1,086	24%
Debt to equity ratio	0.71x	0.53x	
Gearing ratio	0.000x	0.000x	

During 2005, the Group was principally financed by cash flow generated internally together with the balance of proceeds from IPO and short-term bank borrowings.

As at 31st December 2005, the Group had consolidated net current assets of approximately HK$7,580,000 (2004: HK$7,927,000). Cash and bank deposits stood at approximately HK$8,500,000 as at 31st December 2005, or cash per share of HK$0.04, of which approximately HK$7,900,000 and HK$600,000 was denominated in Hong Kong dollars and United States dollars respectively. The total short-term bank borrowings was approximately HK$1,086,000 (2004: HK$874,000) and the gearing ratio, measured on the basic of total non-current liabilities to total assets less current liabilities, was 0 times (2004: 0 times).

As at 31st December 2005, the Group had no capital commitment (2004: nil).

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

CHARGES ON ASSETS

As at 31st December 2005, the Group had aggregate banking facilities of approximately HK$7,000,000 (2004: HK$6,200,000) from several banks for overdrafts, loans and trade financing, which were secured by pledges of the Group's time deposits of approximately HK$2,000,000 (2004: HK$5,002,000) at banks. Unused facilities as at the same date amounted to approximately HK$5,914,000 (2004: HK$5,148,000). The Group did not have any charges on other assets as at 31st December 2005 and 2004.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

There were no significant investment held, material acquisitions or disposals of subsidiaries during the year under review.

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 denominated 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 31st December 2005, the Group had no contingent liabilities (2004: HK$177,000).

EMPLOYEE INFORMATION

The Group (excluding its associate) had approximately 22 full-time employees (2004: 24 employees) in Hong Kong and PRC as at 31st December 2005. During the year ended 31st December 2005, the Group had incurred staff costs (including directors' emoluments) of approximately HK$6,012,000 (2004: HK$7,686,000).

Pursuant to an ordinary resolution passed on 3rd May 2000 by all shareholders of the Company, 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 share in the Company.

Termination to the Share Option Scheme and adoption of a new share option scheme ("New Share Option Scheme") were approved by the shareholders of the Company at a special general meeting held on 13th November 2002 in order to comply with the new requirement of Chapter 23 of the GEM Listing Rules effected on 1st October 2001. No share option has been granted under the New Share Option Scheme as at 31st December 2005. The options already granted under the Share Option Scheme are unaffected.

As at 31st December 2005, 9 employees (2004: 7 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 31st December 2005, the estimated amount provided for such purpose amounted to approximately HK$250,000 (2004: HK$450,000).

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2004

FINANCIAL REVIEW

Turnover of the Group for the year ended 31 December 2004 was approximately HK$17,515,000 (2003: HK$30,459,000), which represented a decrease of 42% as compared with the previous financial year.

Turnover from telecommunication business decreased by 62% to HK$6,961,000 (2003: HK$18,379,000), representing 40% (2003: 60%) of the Group's total. Turnover attributable to our computer telephony business slightly decreased by 6% to HK$10,544,000 (2003: HK$11,174,000), accounting for 60% (2003: 37%) of the Group's total turnover.

The gross profit for the year under review was approximately HK$8,129,000 which was decreased 55% comparing with last year (2003: HK$18,162,000), while the gross profit margin was maintained at 46% (2003: 60%).

Operating costs for the year ended 31 December 2004 was approximately HK$15,479,000 (2003: HK$21,692,000), representing a 29% decrease.

The audited consolidated loss attributable to shareholders increased by 49% to approximately HK$7,248,000 (2003: HK$4,862,000). Loss per share was HK3.1 cents for the year under review (2003: HK$2.1 cents).

BUSINESS REVIEW

Hong Kong

During recent years, the telecom market situation is still very tough and sluggish. The intense competition among various fixed and mobile service operators makes their operation in a way of strict cost controlling and too much price concerned for system development and expansion. This brings about unfavorable and adverse impact to the Group and the revenue derived from the telecom market was still in a downturn trend in 2004. It is expected that the dominated adoption of IP and Internet application in telecom will cause further negative impact to the fixed telecom industry. Such an unprecedented adverse market situation will sustain in future since the problems such as over-competition and technology evolvement are classified as structural problems in nature, which are not easy to be solved.

To handle such an adverse situation, the Group keeps adopting strict cost control and further strategically scales down the dimension of the operation. On the other hand, the Group is diversifying our team to the areas of network storage and security. Such applications are deemed to be the essential integral portions for an impeccable network. We will reinforce our technological team to explore this market and develop various applications to meet the market needs.

Beijing, PRC

Since the establishment of the joint venture company in Beijing, "Beijing Teletron Systems Integration Company Limited" ("BJTSI") in early 2003, BJTSI was profitable in 2004 and completed some influential projects including the call center of Beijing Labor and Social Security Bureau and the Automatic Fare Collection ("AFC") system of Beijing Municipal Administration and Communication Card Company Limited ("BMACC"). The call center is a fully integrated web based system comprising nearly 100 seats connecting 4 remote agent sites, which will be enlarged to cover 20 agent sites in the future. The AFC system is classified as a future project for the Olympics Games in Beijing, which adopts electronic medium, the e-purse (the contactless IC card) to provide an easy and convenient payment throughout the whole Beijing metropolitan. BJTSI has completed the AFC System for Badaling Great Wall and will expand to other regions.

Looking Forward

To increase our competitive edge, the Group will further implement a series of strategic actions to streamline our operations. We will move to a new office in March 2005, which also serves as a cost-saving action to lessen the operating cost. We will also reinforce the technological team in developing various applications on storage and management of data network.

The call center project in Beijing is the first of that kind in PRC and will be spreading to other provinces, which is one of the largest call centers for this purpose. The Beijing call center will then act as a benchmarking project and will help us to extend our call center business to other regions in PRC. Our participation in the development of AFC project, which is crucial for Olympics Games in Beijing, opens another critical path for our future business expansion in PRC. Beijing municipal government has instructed the development of AFC System and use of One Card in transportation (similar to HK Octopus) in future Olympics. The initial applications are in buses and some tourists spots and will extend to subway, taxis, entry ticket in Olympics stadium and will act as a means for small amount spending. The desired system allows millions of tourists during the Olympics to use one single card for transportation, sightseeing, identity authentication for Stadium and also for consumption. The upcoming four years are very critical and our involvement in the project in 2004 is very crucial and important for our future business development in PRC.

LIQUIDITY AND FINANCIAL RESOURCES

	2003	**2004**	**Change**
	HK$'000	*HK$'000*	
Total assets	23,587	17,749	-25%
Total liabilities	5,950	7,347	23%
Working capital	14,298	7,927	-45%
Cash and bank deposit	13,308	9,763	-27%
Short-term bank borrowings	496	874	76%
Debt to equity ratio	0.34x	0.71x	
Gearing ratio	0.000x	0.000x	

During 2004, the Group was principally financed by cash flow generated internally together with the balance of proceeds from IPO and short-term bank borrowings.

As at 31 December 2004, the Group had consolidated net current assets of approximately HK$7,927,000 (2003: HK$14,298,000). Cash and bank deposits stood at approximately HK$9.8 million as at 31 December 2004, or cash per share of HK$0.04, of which approximately HK$7.6 million and HK$1.9 million was denominated in Hong Kong dollars and United States dollars respectively. The remaining HK$0.3 million were denominated in other currencies. The total short-term bank borrowings was approximately HK$874,000 and the gearing ratio, measured on the basic of total non-current liabilities to total assets less current liabilities, was 0 times (2003: 0 times).

As at 31 December 2004, the Group had no capital commitment (2003: nil).

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

CHARGES ON ASSETS

As at 31 December 2004, the Group had aggregate banking facilities of approximately HK$6,200,000 (2003: HK$6,200,000) from several banks for overdrafts, loans and trade financing, which were secured by pledges of the Group's time deposits of approximately HK$5,002,000 (2003: HK$5,002,000) at banks. Unused facilities as at the same date amounted to approximately HK$5,148,000 (2003: HK$5,536,000). The Group did not have any charges on other assets as at 31 December 2003 and 2004.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

There were no significant investment held, material acquisitions or disposals of subsidiaries during the year under review.

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 denominated 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 31 December 2004, the Group had contingent liabilities of HK$177,000 (2003: HK$177,000).

STAFF

The Group (excluding its associate) had approximately 24 full-time employees in Hong Kong and PRC at 31 December 2004. During the year, the Group had incurred staff costs (including directors' emoluments) of approximately HK$8,243,000 (2003: HK$11,767,000).

Pursuant to an ordinary resolution passed on 3 May 2000 by all shareholders of the Company, 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 share in the Company.

Termination to the Share Option Scheme and adoption of New Share Option Scheme were approved by the shareholders of the Company at a special general meeting held on 13 November 2002 in order to comply with the new requirement of Chapter 23 of the GEM Listing Rules effected on 1 October 2001. No share option has been granted under the New Share Option Scheme as at 31 December 2004. The options already granted under the Share Option Scheme are unaffected.

As at 31 December 2004, seven 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 31 December 2004, the estimated amount provided for such purpose amounted to approximately HK$450,000 (2003: HK$670,000).

INDEBTEDNESS OF THE ENLARGED GROUP

As at the close of business on 31 March 2007, being the latest practicable date for the purpose of the indebtedness statement, the Enlarged Group had an amount due to a director of approximately HK$215,000, which is interest-free, unsecured and repayable on demand.

As at the close of business on 31 March 2007, the Enlarged Group did not have contingent liability and had a capital commitment of the HKD equivalent of RMB200,000,000 in respect of the investment in a subsidiary contracted for but not provided.

As at 31 March 2007, save as aforesaid and apart from intra-group liabilities and normal trade payables, none of the companies in the Enlarged Group had any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loan or indebtedness in the nature of borrowings, debt securities or other similar indebtedness, finance leases or hire purchase commitments, or any guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Enlarged Group including internally generated funds, proposed bank financing and other borrowing facilities presently under discussion, the Enlarged Group will have sufficient working capital for its present requirements for at least twelve months from the date of this circular.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group as at 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

25 May 2007

The Directors
Proactive Technology Holdings Limited

Dear Sirs,

We set out below our report on the financial information of Eternity Profit Investments Limited (the "Company") and its subsidiary (collectively the "Group") for the period from 22 September 2006 (date of incorporation) to 31 December 2006 and the three months ended 31 March 2007 (the "Relevant Periods") (the "Financial Information"), prepared for inclusion in the circular of Proactive Technology Holdings Limited ("Proactive") dated 25 May 2007 (the "Circular") in connection with the proposed acquisition of the entire issued share capital and sale loan of the Company.

The Company was incorporated in British Virgin Islands with limited liability on 22 September 2006 and acted as an investment holding company. As at the date of this report, the Company has the following subsidiary, which is a private limited company incorporated in Hong Kong.

Name of subsidiary	Place and date of incorporation	Nominal value of issued share capital	Attributable equity interest directly held by the Company	Principal activity
Onway Logistics Limited ("Onway") 安時物流有限公司	Hong Kong 17 June 2006	HK$10,000	61.25%	Investment holding

No audited financial statements have been prepared for the Company, as there are no statutory requirements to do so. No audited financial statements have been prepared for Onway as it was incorporated on 17 June 2006 and is not yet required to prepare its first audited financial statements as at the date of this report.

We have acted as the auditors of the Group for each of the Relevant Periods. The consolidated financial statements of the Group for the period from 22 September 2006 (date of incorporation) to 31 December 2006 and the three months ended 31 March 2007 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements").

We have examined the Underlying Financial Statements in accordance with the Auditing Guidelines 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements without adjustments.

The preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view is the responsibility of the directors of the Company. It is fundamental that appropriate accounting policies are selected and applied consistently. The directors of Proactive are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2006 and 31 March 2007, and of the results and cash flows of the Group for the period from 22 September 2006 (date of incorporation) to 31 December 2006 and the three months ended 31 March 2007.

A FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	NOTES	Period from 22 September 2006 (date of incorporation) to 31 December 2006 HK$	Period from 1 January 2007 to 31 March 2007 HK$
Turnover	6	–	–
Administrative expenses		(25,694)	(10,470)
Impairment loss recognised in respect of goodwill		–	(137,204)
Loss before taxation	7	(25,694)	(147,674)
Income tax expense	8	–	–
Loss for the period		(25,694)	(147,674)
Attributable to:			
Equity holders of the Company		(25,694)	(147,492)
Minority interests		–	(182)
		(25,694)	(147,674)

CONSOLIDATED BALANCE SHEETS

	NOTES	**At 31 December 2006** *HK$*	**At 31 March 2007** *HK$*
Non-current asset			
Goodwill	11	–	–
Current asset			
Bank balances and cash		384,306	388,381
Current liabilities			
Other payable	12	20,000	40,000
Amount due to a director	13	–	214,677
		20,000	254,677
Net current assets		364,306	133,704
Capital and reserve			
Share capital	14	390,000	390,000
Accumulated losses		(25,694)	(173,186)
Equity attributable to equity holders of the Company		364,306	216,814
Minority interests		–	(83,110)
Total equity		364,306	133,704

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				
	Share capital	**Accumulated losses**	**Total**	**Minority interests**	**Total**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Issue of shares at date of incorporation	390,000	–	390,000	–	390,000
Loss for the period	–	(25,694)	(25,694)	–	(25,694)
At 31 December 2006	390,000	(25,694)	364,306	–	364,306
Loss for the period	–	(147,492)	(147,492)	(182)	(147,674)
Acquisition of a subsidiary	–	–	–	(82,928)	(82,928)
At 31 March 2007	390,000	(173,186)	216,814	(83,110)	133,704

CONSOLIDATED CASH FLOW STATEMENTS

	NOTE	Period from 22 September 2006 (date of incorporation) to 31 December 2006 HK$	Period from 1 January 2007 to 31 March 2007 HK$
OPERATING ACTIVITIES			
Loss before taxation		(25,694)	(147,674)
Adjustment for :			
Impairment loss recognised in respect of goodwill		–	137,204
Operating cash flows before movements in working capital		(25,694)	(10,470)
Increase in other payable		20,000	10,000
NET CASH USED IN OPERATIONS		(5,694)	(470)
CASH FROM INVESTING ACTIVITY			
Acquisition of a subsidiary	15	–	4,075
FINANCING ACTIVITIES			
Issue of shares		390,000	–
Increase in amount due to a director		–	470
NET CASH FROM FINANCING ACTIVITIES		390,000	470
NET INCREASE IN CASH AND CASH EQUIVALENTS		384,306	4,075
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		–	384,306
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, representing bank balances and cash		384,306	388,381

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company is a limited company incorporated in British Virgin Islands (the "BVI"). The address of the registered office of the Company is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

In the opinion of the directors of the Company, Shellybeach Investments Limited, a limited company incorporated in the BVI, is the Company's ultimate holding company.

The Financial Information is presented in Hong Kong dollars, which is the same as the functional currency of the Company and its subsidiaries (the "Group").

The principal activity of the Group is investment holding.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations ("HK(IFRIC)-INTs") that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKASs, HKFRSs and HK(IFRIC)-INTs will have no material impact on the results and the financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-INT 8	Scope of HKFRS 2[4]
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-INT 11	HKFRS 2 - Group and Treasury Share Transactions[7]
HK(IFRIC)-INT 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods and are materially consistent with Proactive's accounting policies.

The Financial Information has been prepared in accordance with HKFRSs, the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited as applicable to the Accountants' Reports including in the listing documents of the Circular and the Companies Ordinance.

The Financial Information has been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair values, as explained in the principal accounting policies set out below.

(a) Basis of consolidation

The Financial Information incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(d) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Company's financial assets are generally classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of the financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including bank balances are carried at amortised cost using the effective interest method, less any identified impairment loss. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities. The accounting policy adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including other payable and amount due to a director are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(e) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Relevant Periods. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other period and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(f) Impairment losses (other than goodwill (see the accounting policy in respect of goodwill above))

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(g) Borrowing costs

All borrowing costs are recognised as profit or loss in the period in which they are incurred.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies, management makes various estimates and judgments (other than those involving estimates) based on past experience, expectations of the future and other information.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities related to goodwill impairment is contained on note 11.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include other payable and amount due to a director. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

As the Group has no significant interest-bearing liabilities, the Group's exposure to interest rate risk is minimum.

Currency risk

Most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollar and therefore the exchange rate risk to the Group is not significant.

Credit risk

The credit risk on liquidity funds is limited because the counterparty is bank with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

6. TURNOVER AND SEGMENT INFORMATION

The Group did not generate any turnover during the Relevant Periods.

According to HKAS 14 "Segment Reporting", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown as substantively the Group only engages in investment holding. It is therefore not considered appropriate to disclose segment information.

7. LOSS BEFORE TAXATION

	Period from 22 September 2006 (date of incorporation) to 31 December 2006	**Period from 1 January 2007 to 31 March 2007**
	HK$	*HK$*
Loss before taxation is stated after charging :		
Directors' remuneration	–	–
Auditors' remuneration	20,000	10,000

8. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the Relevant Periods.

There are no material unprovided deferred tax assets and liabilities as at the respective balance sheet dates.

The tax charge for the Relevant Periods can be reconciled to the loss before taxation per the consolidated income statement as follows:

	Period from 22 September 2006 (date of incorporation) to 31 December 2006	Period from 1 January 2007 to 31 March 2007
	HK$	*HK$*
Loss before taxation	(25,694)	(147,674)
Tax at domestic income tax rate of 17.5%	(4,496)	(25,843)
Tax effect of expenses not deductible for tax purposes	4,496	(25,843)
Tax charge for the Relevant Periods	–	–

9. EARNINGS PER SHARE

No earnings per share is presented as the calculation of basic earnings per share is not meaningful for the purpose of this report.

10. EMPLOYEE BENEFITS EXPENSES

(a) Directors' emoluments

During the Relevant Periods, no emoluments and no retirement benefit scheme contributions were paid or payable to the directors of the Company. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(b) Employee's emolument

No staff was employed by the Group during the Relevant Periods.

(c) During the Relevant Periods, no emoluments were paid by the Group to the directors or employee as an inducement to join or upon joining the Group or as compensation for loss of office.

(d) No remuneration was paid to key management personnel during the Relevant Periods.

11. GOODWILL

	HK$
COST	
Arising on acquisition of a subsidiary and at 31 March 2007	137,204
IMPAIRMENT	
Impairment loss recognised during the period ended 31 March 2007 and at 31 March 2007	(137,204)
CARRYING VALUE	
At 31 March 2007	–

The goodwill impairment for the period ended 31 March 2007 represents the goodwill arising from the acquisition of a subsidiary, Onway, as set out in note 15.

The principal activity of Onway is to engage in investment holding in a subsidiary established in the People's Republic of China (the "PRC") which is to engage in management and operation of a railway transportation and related logistics business in the PRC (the "PRC Subsidiary"). As at 31 March 2007, Onway has not yet invested in the PRC Subsidiary, the directors of the Company are of the opinion that the investment in the PRC Subsidiary is subject to certain uncertainties and are of the opinion that the recoverable amounts of the goodwill will not exceed the carrying amount in the consolidated balance sheet, therefore full impairment loss of HK$137,204 was recognised during the period ended 31 March 2007.

12. OTHER PAYABLE

The directors of the Company consider that the fair value of the amount at the balance sheet date approximated to the carrying amount.

13. AMOUNT DUE TO A DIRECTOR

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

The directors of the Company consider that the fair value of the amount at the balance sheet date approximated to the carrying amount.

14. SHARE CAPITAL

	Number of shares	**Amount**
		US$
Ordinary shares of US$1 each		
Authorised :		
At date of incorporation, at 31 December 2006 and at 31 March 2007	50,000	50,000
Issued and fully paid:		
On 29 September 2006, at 31 December 2006 and at 31 March 2007	50,000	50,000
Shown in the Financial Information as at 31 December 2006 and at 31 March 2007		HK$390,000

The Company was incorporated on 22 September 2006 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. On 29 September 2006, 50,000 ordinary shares of US$1 each were allotted and issued, for cash at par to the subscribers, as initial working capital.

15. ACQUISITION OF A SUBSIDIARY

During the period ended 31 March 2007, the Group acquired 61.25% of the issued share capital of Onway at a consideration of HK$6,125. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$137,204.

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the period ended 31 March 2007 have no significant differences from their respective carrying amounts. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount and fair value
	HK$
NET ASSETS ACQUIRED	
Bank balances and cash	10,200
Other payable	(10,000)
Amount due to a director	(214,207)
Minority interests	82,928
	(131,079)
Goodwill	137,204
	6,125
Net cash inflow arising on acquisition:	
Cash consideration	(6,125)
Bank balances and cash acquired	10,200
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	4,075

The subsidiary acquired during the period ended 31 March 2007 had no significant contribution to the Group's revenue and loss before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2007, there had no significant effect on the Group's revenue and loss for the period. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is intended to be a projection of future results.

16. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at the respective balance sheet dates.

B. SUBSEQUENT EVENTS

No significant subsequent events took place subsequent to 31 March 2007.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Group in respect of any period subsequent to 31 March 2007.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Miu Man
Practicing Certificate Number: P03603
Hong Kong

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

25 May 2007

The Directors
Proactive Technology Holdings Limited

Dear Sirs,

We set out below our report on the financial information of China Railway Television Freight and Logistics Transport Company Limited (the "Company") for the period from 5 March 2007 (date of incorporation) to 31 March 2007 (the "Relevant Period") (the "Financial Information"), prepared for inclusion in the circular of Proactive Technology Holdings Limited ("Proactive") dated 25 May 2007 (the "Circular") in connection with the proposed acquisition of the entire issued share capital and sale loan of Eternity Profit Investments Limited.

The Company was established in the People's Republic of China (the "PRC") with limited liability on 5 March 2007. The principal activity of the Company is to engage in management and operation of a railway transportation and related logistics business in the PRC.

We have acted as the auditors of the Company for the Relevant Period. The financial statements of the Company for the period from 5 March 2007 (date of incorporation) to 31 March 2007 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements").

We have examined the Underlying Financial Statements in accordance with the Auditing Guidelines 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information of the Company for the Relevant Period set out in this report has been prepared from the Underlying Financial Statements without adjustments.

The preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view is the responsibility of the directors of the Company. It is fundamental that appropriate accounting policies are selected and applied consistently. The directors of Proactive are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 March 2007 and of the loss and cash flows of the Company for the period from 5 March 2007 (date of incorporation) to 31 March 2007.

A FINANCIAL INFORMATION

INCOME STATEMENT

	NOTES	Period from 5 March 2007 (date of incorporation) to 31 March 2007 HK$
Turnover	5	–
Other operating income		19,088
Administrative expenses		(27,500)
Loss before taxation	6	(8,412)
Income tax expense	7	–
Loss for the period		(8,412)

BALANCE SHEET

	NOTES	**At 31 March 2007** *HK$*
Current asset		
Bank balances		50,780,509
Current liability		
Other payable	10	27,500
Net current assets		50,753,009
Capital and reserve		
Registered capital	11	50,761,421
Accumulated loss		(8,412)
Total equity		50,753,009

STATEMENT OF CHANGES IN EQUITY

	Registered capital *HK$*	Accumulated loss *HK$*	Total *HK$*
Paid up registered capital at date of establishment	50,761,421	–	50,761,421
Loss for the period	–	(8,412)	(8,412)
At 31 March 2007	50,761,421	(8,412)	50,753,009

CASH FLOW STATEMENT

	Period from 5 March 2007 (date of incorporation) to 31 March 2007
	HK$
OPERATING ACTIVITIES	
Loss before taxation	(8,412)
Adjustment for:	
Interest income	(19,088)
Operating cash flow before movements in working capital	(27,500)
Increase in other payable	27,500
NET MOVEMENT IN OPERATIONS	–
CASH FROM INVESTING ACTIVITY	
Interest received	19,088
CASH FROM FINANCING ACTIVITY	
Paid up of registered capital	50,761,421
NET INCREASE IN CASH AND CASH EQUIVALENTS AND AT THE END OF THE PERIOD, representing bank balances	50,780,509

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company is a limited company established in the PRC. The address of the registered office of the Company is 北京市海淀區羊坊店路11號中車大廈820室.

In the opinion of the directors of the Company Ministry of Railways of the People's Republic of China is the Company's ultimate holding company.

The principal activity of the Company is to engage in management and operation of a railway transportation and related logistics business in the PRC.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied the following new Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations ("HK(IFRIC)-INTs") that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKASs, HKFRSs and HK(IFRIC)-INTs will have no material impact on the results and the financial position of the Company are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-INT 8	Scope of HKFRS 2[4]
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-INT 11	HKFRS 2 - Company and Treasury Share Transactions[7]
HK(IFRIC)-INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Period and are materially consistent with Proactive's accounting policies.

The Financial Information has been prepared in accordance with HKFRSs, the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited as applicable to the Accountants' Reports including in the listing documents of the Circular and the Companies Ordinance.

The Financial Information has been prepared under the historical cost convention.

(a) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Company's financial assets are generally classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including bank balances are carried at amortised cost using the effective interest method, less any identified impairment loss. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's financial liabilities are generally classified as other financial liabilities. The accounting policy adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including other payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(b) Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(c) Foreign currencies translation

In the Financial Information, the financial statements of the Company originally presented in a currency different from Proactive's presentation currency, have been converted into Hong Kong Dollars ("HK$"). Assets and liabilities have been translated into HK$ at the closing rate at the balance sheet date. Income and expenses have been converted into HK$ at the average rates over the Relevant Period. Any differences arising from this procedure have been dealt with in the exchange translation reserve in equity. In the opinion of the directors of the Company, the presentation of the Financial Information of the Company in HK$ provides more relevant information about the proposed acquisition.

(d) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Relevant Period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other period and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include other payable. Details of the financial instrument are disclosed in note 10. The risks associated with the financial instrument and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

As the Company has no interest-bearing liabilities, the Company's exposure to interest rate risk is minimum.

Credit risk

The credit risk on liquidity funds is limited because the counterparty is bank with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The Company ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

5. TURNOVER AND SEGMENT INFORMATION

The Company did not generate any turnover during the Relevant Period.

According to HKAS 14 "Segment Reporting", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown as the Company did not commence business during the Relevant Period. It is therefore not considered appropriate to disclose segment information.

6. LOSS BEFORE TAXATION

	Period from 5 March 2007 (date of incorporation) to 31 March 2007 *HK$*
Loss before taxation is stated after charging (crediting):	
Directors' remuneration	–
Auditors' remuneration	10,000
Bank interest income	(19,088)

7. INCOME TAX EXPENSE

No provision for PRC enterprise income tax has been made as the Company has no assessable profits for the Relevant Period.

There are no material unprovided deferred tax assets and liabilities as at the balance sheet date.

The tax charge for the Relevant Period can be reconciled to the loss before taxation per the income statement as follows:

	Period from 5 March 2007 (date of incorporation) to 31 March 2007 *HK$*
Loss before taxation	(8,412)
Tax at dometic income tax rate of 33%	(2,776)
Tax effect of tax losses not recognised	2,776
Tax charge for the Relevant Period	–

8. EARNINGS PER SHARE

No earnings per share is presented as the calculation of basic earnings per share is not meaningful for the purpose of this report.

9. EMPLOYEE BENEFITS EXPENSES

(a) Directors' emoluments

During the Relevant Period, no emoluments and no retirement benefit scheme contributions were paid or payable to the directors of the Company. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

(b) Employee's emolument

No staff was employed by the Company during the Relevant Period.

(c) During the Relevant Period, no emoluments were paid by the Company to the directors or employee as an inducement to join or upon joining the Company or as compensation for loss of office.

(d) No remuneration was paid to key management personal during the Relevant Period.

10. OTHER PAYABLE

The directors of the Company consider that the fair value of the amount at the balance sheet date approximated to the carrying amount.

11. REGISTERED CAPITAL

	Amount
On establishment and at 31 March 2007	RMB50,000,000
Shown in the Financial Information as at 31 March 2007	HK$50,761,421

The Company was established on 5 March 2007 with a registered capital of RMB50,000,000 which has been fully paid up at the balance sheet date, as the initial working capital.

12. CONTINGENT LIABILITY

The Company did not have any significant contingent liability as at the balance sheet date.

B. SUBSEQUENT EVENTS

On 9 April 2007, the Beijing Municipal Bureau of Commerce (北京市商務局) has approved the Company to convert into a Chinese-foreign cooperative joint venture company to conduct the business of railway cargo transportation and the certificate of approval for the establishment of the Company as a Chinese-foreign cooperation joint venture company has been issued by the relevant PRC authority on 11 April 2007.

Save as aforesaid, no other significant event took place subsequent to 31 March 2007.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company in respect of any period subsequent to 31 March 2007.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Miu Man
Practicing Certificate Number: P03603
Hong Kong

Introduction to the unaudited pro forma financial information of the Enlarged Group

The accompanying unaudited pro forma financial information ("Unaudited Pro Forma Financial Information') of Proactive Technology Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Eternity Profit Investments Limited ("Eternity Profit") and its subsidiary (the "Eternity Profit Group"). Eternity Profit will indirectly own 49% equity interest in a PRC subsidiary, China Railway Television Freight and Logistics Transport Co. Ltd. ("China Railway Television") upon completion of the reorganisation (Details of the reorganisation are set out in the sub-section headed "The Reorganisation" of this circular) (together with the Group, the Eternity Profit Group and China Railway Television upon its completion of the reorganisation, hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company to illustrate the effect of the acquisition of entire issued share capital and sale loan of Eternity Profit, at a consideration of HK$681,450,000 which shall be satisfied by (i) HK$6,000,000 by way of a refundable deposit and (ii) HK$675,450,000 by way of the allotment and issue of the consideration shares upon completion (the "Acquisition"). The following is the Unaudited Pro Forma Financial Information of the Enlarged Group as if the Acquisition has been completed on 31 December 2006 for the unaudited pro forma consolidated balance sheets and on 1 January 2006 for the unaudited pro forma consolidated income statements and unaudited pro forma consolidated cash flow statements.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the directors of the Company and based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purpose only. Accordingly, as a result of the uncertain nature of the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position or results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the Accountants' Report on Eternity Profit Group and China Railway Television as set out in Appendices II and III respectively, the historical financial information on the Group as set out in Appendix I and other financial information included elsewhere in this circular.

(I) Unaudited pro forma consolidated balance sheet of the Enlarged Group

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group, assuming that the Acquisition has been completed on 31 December 2006. The unaudited pro forma consolidated balance sheet is based on the audited consolidated balance sheet of the Group as at 31 December 2006, the audited consolidated balance sheet of Eternity Profit as at 31 December 2006 and the audited balance sheet of China Railway Television as at 31 March 2007 as set out in Appendices I, II and III to this circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

	The Group as at 31 December 2006	Eternity Profit Group as at 31 December 2006	China Railway Television as at 31 March 2007	Pro forma adjustment #1 (Note 1)	Pro forma adjustment #2 (Note 2)	Pro forma adjustment #3 (Note 3)	Pro forma adjustment #4 (Note 4)	Pro forma adjustment #5 (Note 5)	Pro forma adjustment #6 (Note 6)	Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Non-current assets										
Machinery and equipment	1,236	-	-							1,236
Goodwill	-	-	-			8	(2)		686,764	686,770
Investments in subsidiaries	-	-	-		50,761	(50,761)				-
Available-for-sale financial assets	286	-	-							286
	1,522	-	-							688,292
Current assets										
Inventories	210	-	-							210
Trade receivables	1,982	-	-							1,982
Amount due from an associate	17	-	-							17
Prepayments, deposits and other receivables	11,022	-	-						(6,000)	5,022
Bank balances and cash	4,773	384	50,781	4	(50,761)			50,761		55,942
	18,004	384	50,781							63,173

	The Group as at 31 December 2006	Eternity Profit Group as at 31 December 2006	China Railway Television as at 31 March 2007	Pro forma adjustment #1 *(Note 1)*	Pro forma aadjustment #2 *(Note 2)*	Pro forma adjustment #3 *(Note 3)*	Pro forma adjustment #4 *(Note 4)*	Pro forma adjustment #5 *(Note 5)*	Pro forma adjustment #6 *(Note 6)*	Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Current liabilities										
Trade payables	878	-	-							878
Accruals and other payables	2,112	20	28	10						2,170
Receipts in advance	552	–	-							552
Amount due to a director	-	–	-	214						214
	3,542	20	28							3,814
Net current assets	14,462	364	50,753							59,359
Total assets less liabilities	15,984	364	50,753							747,651
Capital and reserves										
Share capital	278	390	50,761			(50,761)			(295)	373
Reserves	15,706	(26)	(8)	(137)		8	(40,609)	35,068	681,059	691,061
Equity attributable to equity holders of the Company	15,984	364	50,753							691,434
Minority interests	–	–	-	(83)			40,607	8,767		49,291
Total equity	15,984	364	50,753							740,725
Non-current liability										
Shareholders' loan	–	–	–					6,926		6,926
	15,984	364	50,753							747,651

(II) Unaudited pro forma consolidated income statement of the Enlarged Group

The following is the unaudited pro forma consolidated income statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2006. The unaudited pro forma consolidated income statement is based on the audited consolidated income statement of the Group for the year ended 31 December 2006, the audited consolidated income statement of the Eternity Profit Group for the period from 22 September 2006 (date of incorporation) to 31 December 2006 and the audited income statement of China Railway Television for the period from 5 March 2007 (date of incorporation) to 31 March 2007 as set out in Appendices I, II and III to this circular respectively. Such information is adjustment to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated income statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 December 2006 *HKD'000*	Eternity Profit Group for the period from 22 September 2006 (date of incorporation) to 31 December 2006 *HKD'000*	China Railway Television for the period from 5 March 2007 (date of incorporation) to 31 March 2007 *HKD'000*	Pro forma adjustment #1 *(Note 1)* *HKD'000*	Pro forma adjustment #4 *(Note 4)* *HKD'000*	Pro forma adjustment #5 *(Note 5)* *HKD'000*	Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group *HKD'000*
Turnover	11,880	-	-				11,880
Cost of sales	(5,049)	-	-				(5,049)
Gross profit	6,831	-	-				6,831
Other operating income	1,249	-	20				1,269
Distribution and selling expenses	(23)	-	-				(23)
General and administrative expenses	(11,656)	(26)	(28)	(137)	(40,609)		(52,456)
Finance costs	(12)	-	-			(460)	(472)
Loss for the year / period	(3,611)	(26)	(8)				(44,851)
Attributable to:							
Equity holders of the Company	(3,611)	(26)	(8)	(137)	(40,609)	(368)	(44,759)
Minority interests	-	-	-			(92)	(92)
	(3,611)	(26)	(8)				(44,851)

(III) Unaudited pro forma consolidated cash flow statement of the Enlarged Group

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2006. The unaudited pro forma consolidated cash flow statement is based on the audited consolidated cash flow statement of the Group for the year ended 31 December 2006, the audited consolidated cash flow statement of Eternity Profit Group for the period from 22 September 2006 (date of incorporation) to 31 December 2006 and the audited cash flow statement of China Railway Television for the period from 5 March 2007 (date of incorporation) to 31 March 2007 as set out in Appendices I, II and III to this circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated cash flow statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 December 2006	Eternity Profit Group for the period from 22 September 2006 (date of incorporation) to 31 December 2006	China Railway Television for the period from 5 March 2007 (date of incorporation) to 31 March 2007	Pro forma adjustment #1 *(Note 1)*	Pro forma adjustment #3 *(Note 3)*	Pro forma adjustment #4 *(Note 4)*	Pro forma adjustment #5 *(Note 5)*	Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Operating activities								
Loss before taxation	(3,611)	(26)	(8)	(137)		(40,609)	(460)	(44,851)
Adjustments for:								
Interest income	(148)	-	(20)					(168)
Finance costs	12	-	-				460	472
Depreciation of machinery and equipment	296	-	-					296
Net loss on disposal of machinery and equipment	179	-	-					179
Allowance for amount due from an associate	234	-	-					234
Recovery of allowance for bad and doubtful receivables	(201)	-	-					(201)
Allowance for obsolete and slow-moving inventories	249	-	-					249
Impairment loss recognised in respect of goodwill	-	-	-	137				137
Loss on disposal of partial interest in a subsidiary	-	-	-			40,609		40,609

	The Group for the year ended 31 December 2006	Eternity Profit Group for the period from 22 September 2006 (date of incorporation) to 31 December 2006	China Railway Television for the period from 5 March 2007 (date of incorporation) to 31 March 2007	Pro forma adjustment #1 *(Note 1)*	Pro forma adjustment #3 *(Note 3)*	Pro forma adjustment #4 *(Note 4)*	Pro forma adjustment #5 *(Note 5)*	Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Operating cash flows before movements in working capital	(2,990)	(26)	(28)					(3,044)
Decrease in inventories	50	-	-					50
Decrease in trade receivables	159	-	-					159
Increase in prepayments, deposits and other receivables	(10,314)	-	-					(10,314)
Decrease in amount due from an associate	455	-	-					455
Increase in trade payables	137	-	-					137
(Decrease) increase in accruals and other payables	(41)	20	28					7
Decrease in receipts in advance	(84)	-	-					(84)
Cash used in operations	(12,628)	(6)	-					(12,634)
Interest paid	(12)	-	-					(12)
Net cash used in operating activities	(12,640)	(6)	-					(12,646)
Investing activities								
Decrease in pledged bank deposits	2,000	-	-					2,000
Purchase of machinery and equipment	(1,057)	-	-					(1,057)
Interest received	148	-	20		(20)			148
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	-	-	-	4	20			24
Net cash from investing activities	1,091	-	20					1,115

	The Group for the year ended 31 December 2006	Eternity Profit Group for the period from 22 September 2006 (date of incorporation) to 31 December 2006	China Railway Television for the period from 5 March 2007 (date of incorporation) to 31 March 2007	Pro forma adjustment #1 *(Note 1)*	Pro forma adjustment #3 *(Note 3)*	Pro forma adjustment #4 *(Note 4)*	Pro forma adjustment #5 *(Note 5)*	Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Financing activities								
Proceeds from issue of shares net of shares issued	10,765	390	50,761		(50,761)			11,155
Decrease in trust receipts bank loans	(576)	–	–					(576)
Loan from minority shareholders	–	–	–				50,761	50,761
Net cash from financing activities	10,189	390	50,761					61,340
Net (decrease) increase in cash and cash equivalents	(1,360)	384	50,781					49,809
Cash and cash equivalents at the beginning of the year/period	6,039	-	-					6,039
Effect of changes in foreign exchange rate	94	-	-					94
Cash and cash equivalents at the end of the year/period, represented by bank balances and cash	4,773	384	50,781					55,942

Notes to the unaudited pro forma financial information of the Enlarged Group:

1. In accordance with HKFRS 3 "Business Combinations", the Group will apply the purchase method to account for the acquisition of Onway Logistics Limited ("Onway Logistics"), China Railway Television and Eternity Profit. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of Onway Logistics, China Railway Television and Eternity Profit Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of acquisition. Any goodwill or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair values of the identifiable assets, liabilities and contingent liabilities of Onway Logistics, China Railway Television and Eternity Profit Group at the date of acquisition. Negative goodwill resulting from the business combinations should be recognised immediately in the consolidated income statement.

   This pro forma adjustment reflects the acquisition of 61.25% equity interest in Onway Logistics by Eternity Profit on 1 March 2007 at a consideration of approximately HK$6,000 and recognition of impairment loss on goodwill of approximately HK$137,000 arising from the acquisition of Onway Logistics.

   On completion of acquisition of Onway Logistics, goodwill of approximately HK$137,000 arising from the acquisition of Onway Logistics represents the difference between the consideration and the fair value of 61.25% of Onway Logistics as at 1 March 2007.

2. By assuming the Reorganisation is completed on 31 December 2006, China Railway Television is therefore, considered by the directors of the Company as a subsidiary of the Company because it will be controlled by the Group after the completion of the Reorganisation.

   This pro forma adjustment reflects the HK$50,761,000 (equivalent to RMB50,000,000) considerations will be paid by Onway Logistics in connection to the propose transfer of 90% equity interests in China Railway Television held by Guangdong China Railway Television Media Limited ("Guangdong China Railway") and 10% equity interests in China Railway Television held by Beijing Run Tong Transportation Consulting Company Limited ("Beijing Run Tong") to Onway Logistics pursuant to an approval granted by Beijing Municipal Bureau of Commerce (北京市商務局) on 9 April 2007 for the conversion of China Railway Televisionn into a Chinese-foreign cooperative joint venture company (the "MOC Approval").

3. This pro forma adjustment reflects the elimination of the Onway Logistics's investment in China Railway Television.

   Goodwill of approximately HK$8,000 arising from the acquisition of China Railway Television represents the difference between the consideration and the fair value of 100% of the China Railway Television's net assets as at 31 March 2007. For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the carrying value of the net assets of China Railway Television as per the Accountants' Report as set out in Appendix III of this circular are taken to be the fair values.

   On completion of the acquisition of China Railway Television, the fair value of the consideration and the net identifiable assets and liabilities of China Railway Television will have to be assessed. As a result of the assessment, the amount of goodwill may be different from that estimated based on the basis stated above for the purpose of preparation of the Unaudited Pro Forma Financial Information.

4. This pro forma adjustment reflects the disposal of 16% and 4% equity interests in China Railway Television to Guangdong China Railway and Beijing Run Tong, respectively, after the cash injection of approximately HK$152,284,000 (equivalent to RMB150,000,000) by Onway Logistics, pursuant to the MOC Approval and a joint venture agreement dated 6 March 2007 entered into by Onway Logistics, China Railway Television and Beijing Run Tong.

   The calculation of loss on disposal of partial interest in a subsidiary is as follows:

	HK$'000
Consideration	–
Net asset value of China Railway Television before cash injection	50,753
Cash injection	152,284
	203,037
20 % of equity interest being disposed	40,607
Loss on disposal of partial interest in a subsidiary	40,607
Release on goodwill	2
Loss on disposal of partial interest in a subsidiary	40,609

5. This pro forma adjustment reflects the recognition of the capital contribution by the shareholders of approximately HK$44,295,000 of which approximately HK$35,436,000 is attributable to the equity holders of the Company and the recognition of imputed interest of approximately HK$460,000 for the year of which approximately HK$368,000 is attributable to the equity holders of the Company, in accordance to HKAS 39 "Financial Instruments: Recognition and Measurement", to reflect the fair values of the financial liabilities of the interest-free shareholders' loan of approximately HK$50,761,000 (equivalent to RMB50,000,000) from the minority shareholders of China Railway Television pursuant to a resolution passed on the board of directors' meeting on 12 April 2007, if such loan was charged interest at market rate.

6. This pro forma adjustment reflects the acquisition of entire issue share capital and sale loan of Eternity Profit Group (including its acquisition of 49% interest in China Railway Television).

   Pursuant to the sale and purchase agreement signed between Dragon Billion Limited ("Dragon Billion"), a wholly-owned subsidiary of the Company and Shellybeach Investments Limited ("Shellybeach") on 12 March 2007, the Group through Dragon Billion to acquire the entire issued share capital and sale loan of Eternity Profit at a consideration of HK$681,450,000 which is to be satisfied by (i) paying a refundable deposit of HK$6,000,000, which already paid to Shellybeach during the year ended 31 December 2006 and recorded as other deposits of the Group as at 31 December 2006 and (ii) procuring the Company to issue 95,000,000 consideration shares at HK$7.11 each. The consideration shares have a total market value of approximately HK$641,250,000, which is calculated based on the closing price of HK6.75 per share as quoted on The Stock Exchange of Hong Kong Limited on 12 March 2007 (being the trading day immediately prior to the entering into of the agreement) and represent a premium of approximately 5.33% over this closing price.

   Goodwill of approximately HK$686,764,000 arising from the acquisition of Eternity Profit Group (including its acquisition of 49% interest in China Railway Television), which is derived from the consideration of HK$681,450,000 and the net liabilities of Eternity Profit Group acquired amounted to approximately HK$5,314,000 as at 31 December 2006.

   The calculation of the goodwill is as follows:

	HK$'000
Consideration	681,450
Net asset value of Eternity Profit Group *(Note a)*	(5,314)
Goodwill	686,764

   Note a:

	HK$'000
Net asset value of Eternity Profit Group as per the Accountants Report as set out in Appendix II	364
Impairment loss on goodwill arising from acquisition of Onway Logistics as set out in Note 1 above	(137)
Loss on disposal of partial interest in a subsidiary as set out in Note 4 above	(40,609)
Share of capital contribution as set out in Note 5 above	35,068
Net asset value of Eternity Profit Group	(5,314)

   On completion of the Acquisition, the fair values of the consideration and the net identifiable assets and liabilities of Eternity Profit will have to be assessed. As a result of the assessment, the amount of goodwill may be different from that estimated based on the basis stated above for the purpose of preparation of the Unaudited Pro Forma Financial Information.

7. No adjustment has been made to reflect the costs of the Acquisition as such costs are not considered to be material.

8. The cash injection by Onway Logistics into China Railway Television will not have any cash impact on the Enlarged Group since China Railway Television will be consolidated into the Enlarged Group upon the completion of the Reorganisation.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Proactive Technology Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Eternity Profit Investments Limited ("Eternity Profit") and its subsidiary (the "Eternity Profit Group"). Eternity Profit will indirectly own 49% equity interest in a PRC subsidiary, China Railway Television Freight and Logistics Transport Co. Ltd. ("China Railway Television") upon completion of the reorganisation (Details of the reorganisation are set out in the sub-section headed " The Reorganisation" of this circular) (together with the Group, the Eternity Profit Group and China Railway Television upon its completion of the reorganisation, hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed acquisition of the entire issued share capital and sale loan of Eternity Profit (the "Acquisition"), might have affected the financial information presented for inclusion in Appendix IV of the circular of the Company dated 25 May 2007 (the "Circular"). The basis of preparation for the Unaudited Pro Forma Financial Information of the Enlarged Group is set out on page 132 to this Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 December 2006 or any future date; or
- the result and cash flows of the Enlarged Group for the year ended 31 December 2006 or for any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants

Lau Min Man
Practicing Certificate Number: P03603
Hong Kong

GRANT SHERMAN APPRAISAL LIMITED

Room 904
9th Floor, Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

25 May 2007

The Directors
Proactive Technology Holdings Limited
25/F., Sunshine Plaza
353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs/Madams,

In accordance with your instructions, we have made an appraisal of the fair market value of the business enterprise of China Railway Television Freight and Logistics Transport Co. Limited. ("中鐵視自備列物流運輸有限公司") (the "Company"). The Company is established in China on March 5, 2007. The principal business of the Company is railway freight and transportation, domestic trade, import and export trades of goods and technology.

This letter identifies the property appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. Excluded from this appraisal are all real estate property, machinery, equipment, supplies, stocks, spare parts, materials on hand, computer software, inventories, current assets, current liabilities or any intangible assets that may exist.

Business enterprise is defined for this appraisal as the total invested capital, net of the value of debt but including shareholders' loans (if any), and is equivalent to shareholders' equity plus shareholders' loans.

The purpose of this appraisal is to express an independent opinion of the fair market value of a 100% equity interest of the Company as of February 28, 2007. It is our understanding that this appraisal is used for acquisition purposes.

INTRODUCTION

The Background

China Railway Television Freight and Logistics Transport Co. Ltd ("The Company") is registered in Beijing, PRC, on March 5, 2007 with a registered capital of RMB50,000,000, and is owned 90% by Guangdong China Railway Television Media Company Limited (廣東中鐵媒体有限公司 or "GDCRTM") and 10% by Beijing Run Tong Transportation Consulting Company Limited (北京潤通運輸諮詢有限公司 or "Beijing Run Tong"), both are wholly owned subsidiaries of Ministry of Railways ("MOR") of People's Republic of China ("PRC").

On January 25, 2007, Onway Logistics Limited ("Onway") entered into a joint venture agreement with GDCRTM and Beijing Run Tong, pursuant to which, GDCRTM and Beijing Run Tong agreed to transfer the Company into a Sino-Foreign Cooperative Joint Venture of Onway, GDCRTM, and Beijing Run Tong, in return Onway agreed to inject new capital to the Company. At the same time, the three parties entered into another Capital Increase Agreement, pursuant to which, the registered capital of the Company will be increased from RMB50,000,000 to RMB200,000,000, and upon completion of the capital increase, Onway, GDCRTM, and Beijing Run Tong will have a 80%, 16%, and 4% equity interest in the Company, respectively. On April 9, 2007, the Company has obtained the approval of capital increase and conversion of the Company into a Sino-Foreign cooperative Joint Venture Company application from Beijing Municipal Bureau of Commence ("Beijing MOC").

Onway is established in Hong Kong on 17 June 2006 and became a Sino-Foreign Joint Venture on 25 January 2007 under a joint venture agreement entered into between China Railway Television Media (Hong Kong) Limited and Eternity Profit Investments Limited ("Eternity Profit"). Pursuant to the joint venture agreement, China Railway Television Media (Hong Kong) Limited, which is a wholly owned subsidiary of GDCRTM, owns 38.75% and Eternity Profit owns 61.25% share interest in Onway, respectively. Eternity Profit is a wholly owned subsidiary of Dragon Billion Limited, whose sole shareholder being Proactive Technology Limited ("Proactive"), a company listing on the GEM board of The Stock Exchange of Hong Kong Limited.

The Company and its Business

The Company is set up to develop a nationwide railway freight logistics services provider. It is among the first non-PRC parties to enter into the rail freight business in the PRC. The main activity of the Company is railway freight and transportation, domestic trade, import and export trades of goods and technology. The Company offers rail freight transportation services nationwide from major coal-production basis to major coastal cities, and western regions of the country. The railway lines departing from (1) Zhengzhou Railway Bureau has onward destinations Beijing, Shanghai, Wuhan, and Jinan, (2) Taiyuan Railway Burean has onward destinations Zhengzhou, Jinan, Shanghai, Chengdu, and Guangzhou, (3) Sian Railway Bureau has onward destinations Jinan, Shanghai, Liuzhou, Chengdu, and Guangzhou, (4) Huhehaote Railway Bureau has onward destinations Beijing, Jinan, Shenyang, and Guangzhou, (5) Chengdu Railway Bureau has onward destinations Guangzhou, Liuzhou, and Shanghai, and (6) Liuzhou Railway Bureau has onward destinations Guangzhou and Shanghai.

The Company will be developed in two phases, according to its business plan. During the first phase, the Company will acquire a total of 300 trains each with 55 70-tons capacity wagons, by the first quarter of 2009. According to the Management of the Company ("the Management"), the Company will commence discussions with China Northern Locomotive and Rolling Stock Industry (Group) Corporation ("CNR[1]") and/or China Southern Locomotive and Rolling Stock Industry (Group) Corporation ("CSR[1]") regarding the purchase of trains and place the order for the initial batch of 30 trains on/before 16 April 2007. The cost will be around RMB400,000 per wagon or RMB 22 million per train. To cope with the expanding business, the Company will acquire an additional 250 trains with each train made up of 55 wagons during the second phase of development for the rail freight transportation of oil and metal ores.

According to the Management, train operation will commence on July 1, 2007, with 16 railway lines departing in 6 departing stations (Zhengzhou Railway Bureau, Taiyuan Railway Bureau, Sian Railway Bureau, Huhehaote Railway Bureau, Chengdu Railway Bureau, and Liuzhou Railway Bureau). The average distance for the trains to travel, among the various routes, is estimated to be 946km and the trains have a nominal speed of up to 90 km per hour. At such, it is estimated that it will not take more than 5 days to complete a round trip journey, including loading and offloading time for the cargo as well as idle time and time for repair and maintenance check. In the first phase of development with 300 trains, the yearly coal loading volume could reach 76 million tons, and an estimated utilization rate will be 91.4% and 45.7% for the onward and return trip respectively. According to the Circular on Adjustment of Part of Railway Freight Rates (國家發展改革委、鐵道部關於調整鐵路貨物運輸價格的通知), the unit transportation revenue is set at the standard rate of RMB 0.0905 per ton per km[2]. Also, under MOR's pricing policy for return trips, if the trains are unable to secure contracts or users or if the trains are emptied for some unforeseen reasons, the contracted users who would have their cargo transported from Shaanxi Province and Inner Mongolia to their onward destinations is obligated to pay the Company the full amount of the return trip expenses. However, in market practice, the amount is usually negotiable and it is also highly unlikely that the train would return empty. The type of cargo transported on the return trip is typically metal ores which is associated with a lower tariff; therefore, the revenue for transport for the return trip is at a lower rate of RMB 0.067 per ton per km, which is around 70% of the rate for onward trip. The Company is also obliged to pay a Sales Tax of 5% of gross revenue and 35% of Management Fee to MOR for the usage of rail networks, according to the document presented by the Company.

China's Railway Market

Railway is one of the most advanced transportation among road, waterway, and aviation. Railway played an important role in the world's industrial, economic, and social development with its unique characteristics such as huge transport volume, high safety performance and reliability, environmental

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1 CNR and CSR were established after the restructuring of its former China National Railway Locomotive & Rolling Stock Industry Corporation (LORIC) in September 2000. They are directed by State-owned Assets Supervision and Administration Commission of the State Council. CNR's principal business includes design, manufacturing, refurbishment, overhaul and maintenance of electric locomotives, diesel locomotives, passenger coaches and freight wagons, electric and diesel multiple units, traction motors and rolling stock. CSR's principal business includes design, manufacture and service provision of railway locomotives, rolling stocks and metro cars, etc.

2 This standard rate is in respect of 5500 calorie of coal, is standard rate nationwide, which rate is determined by MOR and approved by State Council.

friendly with low fuel consumption levels, etc. Except the United States, in most countries the railway industry is a monopoly, owned by a few operators and therefore lacked competition. Since the 1980s, Europe and Japan had gradually opened their railway market, introduced competition among operators, and diversified its operations. China has a typical monopolized railway market. Till 2004, the China Government owns 96.5% railways with 3.5% remaining owned by local government and cooperative investors. After joining WTO, China started to reform the railway industry. The foreign investors are permitted to own majority shares in a cooperation of railway operation not later than 11 December 2004, and will be permitted to wholly own such a cooperation not later than 11 December 2007 according to the government document, The PRC's Reduction Schedule of Detail Promises for Serve Trade Industry (中華人民共和國服務貿易具体承諾減讓表).

Development of Railway Industry

China has the busiest railway system in the world. China has only 6% of the world's track length yet it handles 25% of the world's total traffic. Its transport density is 33.6 million converted RTK(mn)/km, ranking the third in the world. China's railway track length is 75,438 km, ranking the third in the world.[1] Total tonnage of freight transport was 2.87 billion tons in 2006, representing an increase of 6.6% YoY, and for 2007 it is projected to reach 3.06 billion tons with a 6.6% YoY increase, according to MOR. The increase in freight transportation was mainly due to: (1) the continuing increase in demand for raw materials such as coal and ore owing to the continuous and rapid economic growth in China, that coal represents almost half of the total freight turnover; and (2) the centralized upward adjustments of railway freight tariffs implemented since April 2005 has exerted positive influence on the increase in outbound freight revenue. The number of passengers increased 8.5% YoY to 1.25 billion in 2006, and projected of a 9.2% YoY increase for 2007 to reach 1.36 billion, according to MOR. The increase in passenger transportation was mainly due to: (1) the continuing increase in the number of business persons and workers coming from inland to cities such as Shenzhen and Guangzhou as a result of the continuous and rapid economic growth and the gradual improvement of the labor market environment; and (2) the large-scale operation of temporary passenger trains during the Spring Festival and Golden Week holidays led to an increase in passenger volume and revenue.

Exhibit 1 2000-2007 China's Railway Transportation Business Indicators

	Freight Turnover *(million tons)*	**Passenger Turnover** *(million persons)*
2000	1,780	1,050
2001	1,925	1,051
2002	2,042	1,056
2003	2,204	972
2004	2,481	1,117
2005	2,692	1,155
2006	2,870	1,250
2007E	3,060	1,365

Source: MOR

[1] Deutshche Bank, *China Railway Sector*, 1st Quarter 2007

According to MOR, China's top six trunk routes account for only 13% of the country's total track length, but are responsible for 59% and 35% of passenger and freight turnover, respectively. The most congested passenger tracks are Beijing-Shanghai (JH Line) and Beijing-Guangzhou (JG Line), and the most congested cargo tracks are DQ and JG Line. Among other means of transportation like road, waterway, and aviation; railway accounts for 34.7% and 54.7% market share in passenger traffic and freight traffic, respectively. From 1990 to 2005, railway network has grown 1100 km annually and capital investment on railway increased year by year and the growth is expected to continue.

Demand/Supply and Future Development

Due to China's booming economy, the society's demand for railway transportation has increased continuously, in terms of transport capacity, efficiency, service, and technology. Therefore, the railway industry has tremendous improvements by system reform in: (1) separation of railway industry, education, construction sectors from Ministry of Railway; (2) eliminate the unnecessary bureaucratic layers in the operation management system; (3) restructure the layout of the freight stations and depots; and (4) increase capital investment and financing reform. However, due to the severe capacity bottleneck, China's railway traffic growth is still operated under a supply-driven model over the last few years. There are serious shortages on major trunk lines, seasonal demand causing serious passenger transport problem, and the market supply can only satisfy 35% of the market demand for coal transport.

The China government therefore has developed a Mid and Long-term Railway Network Plan and, which acts as the blueprint for development of China Railways. The 11th Five Year Development Plan states, by 2010, 17,000 km of railway will be built, including 7000 km of dedicated passenger lines, and railway route length will reach 90,000 km. Double track and electrification will cover 45% of the whole network. The country will focus on the construction of passenger traffic network, coal transport corridors and intermodel corridor, and improve the railway network construction in the middle of Eastern and Western China. The long-term development plan states, by 2020, railway route length will reach 100,000 km, double-track and electrified percentage will achieve 50%, transport capacity will meet demand of national economy growth and social development, and main technological equipment achieves or approaches international advanced level. From 2003 to 2020, China will form a nation-wide rapid passenger transport network and freight transport network with great capacity, establish a railway network in the West, and further improve the structure of railway network in Middle and East China. By 2020, the top ten coal transport corridors will be completed with outbound transport capacity of 2 billion tons. Trains departing in the evening will arrive in the morning on about 2000 km lines and trains of one-day arrival will be on about 4000 km rail lines. China government's development plan in the railway system marks a great potential in the railway transportation market.

BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the business enterprise of the Company on the basis of fair market value. *Fair market value* is defined as the estimated amount at which the business enterprise might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

Our investigation included discussions with the management in relation to the history and nature of the business, a study of the financial projection for the Company ("the Projections"), a review of the information provided by the management in connection with the business plan of the Company. We have discussed with the management the bases and assumptions upon which the Projections have been made. We have also considered statistics, related government policies, one research report[1], articles and other public information related to the business of the Company, and we are of the opinion that the business plan and the projection of the Company have been prepared on a reasonable basis. Before arriving at our opinion of value, we have considered the following principal factors:

– The nature and prospect of the railway freight and transportation business in China;

– The economic outlook in general and the specific economic and competitive elements affecting the Company's business, the industry and its market;

– The market–derived investment returns of entities engaged in a similar line of business;

– The risks relating to the Company when implementing its business plan; and

– The financial projection and the business plan of the Company

Due to the changing environment in which Company is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the business enterprise. The major assumptions adopted in this appraisal are:

– There will be no major changes in the existing political, legal, and economic conditions in China, in which the Company will carry on its business ;

– There will be no major changes in the current taxation law in China, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

– Exchange rates and interest rates will not differ materially from those presently prevailing;

– Industry trends and market conditions for related industries in China will not deviate significantly from project forecasts and the industry is expected to grow at a long term inflation rate of 3%;

– The business plan and the projection have been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration;

– The availability of finance will not be a constraint on the forecast growth of the Company's operation in accordance to the business plan and the projection;

– The Company will retain and have competent management, key personnel, and technical staff to implement its business plan;

– The Company will obtain all the necessary governmental consents and approvals required for the railway cargo transportation business in the PRC, including the operating permit ("鐵路運輸許可證") from the Ministry of Railways ("MOR"), so that the Central Scheduling

[1] Deutsche Bank, *China Railway Sector*, 1st Quarter 2007

Department of MOR will schedule and dispatch the Company's trains/wagons at least 6 times per month and the corresponding railway bureaus will issue the on-rail transportation permit ("鐵路運輸上軌證");

– The Company is obligated to pay Ministry of Railways (鐵道部) a management/operating fee of 35% of gross revenue for operating the trains/wagons and for using their rail infrastructure network(s); and

– The Company will successfully develop railway cargo transport business which will achieve onward and returning wagon utilization rates of 91.39% and 45.7% respectively.

– The discount rate applied in this appraisal is around 17.11%, its development is explained in detail in the valuation methodology section.

VALUATION METHODOLOGY

The fair market value of the business enterprise of the Company was developed through the application of the income approach technique known as the Discounted Cash Flow Method. In this method, the value depends on the present worth of future economic benefits to be derived from ownership of equity and shareholders' loans. Thus, an indication of value was developed by discounting future free cash flow available for distribution to shareholders and for servicing shareholders' loans to their present worth at market-derived rates of return appropriate for the risks and hazards (discount rate) associated with the comparable business.

A discount rate is the expected rate of return that an investor would have to give up by investing in the subject investment instead of in available alternative investments that are comparable in terms of risk and other investment characteristics. When developing a discount rate to apply to the free cash flow from operation, the discount rate is the cost of equity of the company.

The cost of equity was developed using Capital Asset Pricing Model ("CAPM"), a model widely used by the investment community. CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated with the return from the stock market are referred to as systematic; other risks are referred to as non-systematic. Under CAPM, the appropriate cost of equity is the sum of the risk-free rate and the equity premium required by investors to compensate for the systematic risk assumed with adjustment for increments for risk differentials of the Company being valued versus those of the comparative companies, which include adjustments for size (the "Small Capitalization Risk Premium") and other risk factors in relation to start-up of a new business (the "Start-up Risk Premium") and the liquidity of an ownership interest (the "Discount for Lack of Marketability").

Several listed companies with similar business nature are selected as comparable company in developing the discount rate for the Company[1]. The risk-free rate associated with each comparable company is the yield on bonds issued by the government of the country in which the comparable company locates. Our analysis suggested that a discount rate of 17.11 percent was appropriate for valuing the business enterprise of the Company[2].

1 Comparable companies: Daqin Railway Co Ltd., Guanshen Railway Co Ltd., China Railway Tielong Container Logistics Co Ltd., Union Pacific Corporation, Norfold Southern Corporation, and CSX Corporation.

2 CAPM was used to calculate the Company's cost of equity at 11.23%. Several other factors, including a small size premium of 3.88% and a start-up risk premium of 2%, were taken into consideration. Thereafter, it was concluded that the discount rate of 17.11% is appropriate.

We were furnished by the Management for the purpose of this appraisal, with a financial projection of the Company as well as other records and documents. In arriving at our opinion of value, we have relied upon such projection, records and documents, as well as financial and business information from other sources.

ADDITIONAL VALUATION CONSIDERATION

Startup Risk Premium

The risks associated with the Company are ones typically associated with a start-up business, mainly related to the successful establishment and implementation of the business plan. Uncertainty results from the business of the Company of not having long historical financial records. Therefore, the readers of this report should carefully consider the start-up nature of the business and the risks associated. To reflect the startup risk associated with the Company, we have added an additional risk premium of 2% in developing the discount rate for the Company. This valuation is based on numerous assumptions which are inherently subject to significant economic and uncertainties beyond the Company's control.

Small Capitalization Risk Premium

Small capitalization risk premium is the excess return that an investor would demand in order to compensate for the additional risk over that of the entire stock market when investing in a small size company. This premium reflects the fact that the cost of capital increases with decreasing size of the company. A number of studies were conducted in the U.S. which concludes that the risk premium associated with a small company is over and above the amount that would be warranted just as a result of the company's systematic risk derived from the CAPM model. We concluded that a small capitalization risk premium of 3.88 percent is appropriate for the Company.

The startup risk premium and small capitalization risk premium comprise the company specific risk premium we deemed appropriate for the valuation of the Company.

Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

A number of studies[1] were conducted in the U.S. in an attempt to determine average levels of discounts for lack of marketability. These studies all fall into one of two basic categories, depending on the type of market transaction data on which they are based:

- Restricted ("letter") stock studies.
- Studies of transactions in closely held stocks prior to initial public offerings (IPOs).

[1] Examples of studies such as Analysis of Restricted Stock Discounts by Revenue Size Based upon Data from the Management Planning, Inc., Study, Gelman Study, Maher Study, Moroney Study, Silber Study, etc.

In this case, a lack of marketability discount of 30 percent is deemed to be reasonable for the equity interest of the Company[1].

Sensitivity Analysis

We have identified the discount rate and the industry growth rate as the variables in our model whose sensitivities on the fair market value of the Company are being tested. Our conclusion of the fair market value of the Company falls in the range of RMB7,348.3 million and RMB8,848.6 million as the discount rate decreases from 18.11% to 16.11%. Moreover, the fair market value of the Company will fall in the range of RMB8,047.4 million and RMB8,468.2 million as the industry growth rate increases from 3% to 5%.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that as of February 28, 2007 the fair market value of a 100% equity interest in the business enterprise of China Railway Television Freight and Logistics Transport Co. Ltd. is reasonably stated by the amount of **RMB EIGHT BILLION FORTY SEVEN MILLION FOUR HUNDRED THOUSAND (RMB8,047,400,000) ONLY**.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the Company, Proactive Technology Holdings Limited or the value reported.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Keith C.C. Yan, ASA
Managing Director

Investigation and report by:
Keith C.C. Yan, ASA
Jacqueline W. Huang, Ph.D.
Helena M.C. Lee, MA

Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation) and he has been conducting business valuation of various industries, including computer software, in the Greater China region for various purposes since 1988.

[1] Based on the studies mentioned above, the lack of marketability discount usually falls in a range of 25% to 35%.

A. Report from Cachet Certified Public Accountants Limited

Cachet Certified Public Accountants Limited
德揚會計師事務所有限公司

25 May 2007

The Board of Directors
Proactive Technology Holdings Limited
14th Floor
Bangkok Bank Building
18 Bonham Strand West Street
Sheung Wan
Hong Kong

Dear Sirs,

We refer to the valuation report dated 25 May 2007 (the "Valuation Report") prepared by Grant Sherman Appraisal Limited (the "Valuer") in respect of the 100% equity interest in中鐵視自備列物流運輸有限公司 (China Railway Television Freight and Logistics Transport Co. Ltd.) (the "PRC Subsidiary") (the "Valuation") .

The Valuation, including the bases and assumptions as set out in the Valuation Report, for which the directors of the PRC Subsidiary, Proactive Technology Holdings Limited (the "Company") and the Valuer are responsible, has been prepared by the valuation approach known as the discounted cash flow analysis. Pursuant to paragraph 19.61 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, any valuation of assets (other than land and buildings) or businesses acquired by a listed issuer based on discounted cash flows or projections of profits, earnings or cash flows will be regarded as a profit forecast adopted for the purpose of preparing the Valuation. The profit projection of the PRC Subsidiary (the "Profit Forecast") has been prepared by the directors of the PRC Subsidiary and the Company using a set of assumptions that include hypothetical assumptions about future events and other assumptions that may or may not necessarily be expected to occur. Consequently, readers are cautioned that the Profit Forecast may not be appropriate for purposes other than for deriving the Valuation of the PRC Subsidiary as at 28 February 2007. Even if the events anticipated under the hypothetical assumptions occur, actual results are still likely to be different from the Profit Forecast since the other anticipated events may or may not occur as expected.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" with reference to the procedures under Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants. Our work was performed solely to assist the directors of the Company to evaluate whether the Profit Forecast was complied properly so far as the accounting policies that have been used and the related calculations are concerned. We have reviewed and compared the accounting policies underlying the Profit Forecast with the accounting policies normally adopted by the Company and its subsidiaries (the "Group"). We found that the accounting policies are consistent with those accounting policies normally adopted by the Group. Our work does not constitute any valuation of the PRC Subsidiary and we were unable to obtain sufficient appropriate evidence to evaluate or express any opinion on the appropriateness of the bases and assumptions made.

In our opinion, the Profit Forecast, so far as the calculations are concerned, has been properly compiled in accordance with bases and assumptions adopted by the directors of the Company and the PRC Subsidiary in preparing the Profit Forecast and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group.

This letter is provided solely for your information. In performing our duties in the subject matter, subject to the industry standards of which we are a member, we accept no liability to any other party who is shown or gains access to this letter.

Yours faithfully,

CACHET CERTIFIED PUBLIC ACCOUNTANTS LIMITED
Certified Public Accountants
Hong Kong

Chan Chi Yuen
Practising Certificate Number P02671

B. Report From CCB International Capital Limited

建银国际
CCB International

25 May 2007

The Directors
Proactive Technology Holdings Limited
14th Floor Bangkok Bank Building
18 Bonham Strand West Street
Sheung Wan
Hong Kong

Dear Sirs,

We refer to the valuation report dated 25 May 2007 prepared by Grant Sherman Appraisal Limited ("Grant Sherman") in relation to the appraisal of the fair market value of 100% equity interest in 中鐵視自備列物流運輸有限公司 (China Railway Television Freight and Logistics Transport Co. Ltd.) ("PRC Subsidiary") as at 28 February 2007 (the "Valuation") as set out in Appendix V to the circular issued by Proactive Technology Holdings Limited (the "Company") dated 25 May 2007 and the requirements under the Rules 19.62(3) and 19.64(3) of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

We note that the Valuation has been developed by Grant Sherman through the application of the valuation approach known as the discounted cash flow analysis based on the profit projection of the PRC Subsidiary (the "Forecast") and under Rule 19.61 of the GEM Listing Rules, any valuation of assets (other than land and buildings) or businesses acquired by a listed issuer based on discounted cash flows or projections of profits, earnings or cash flows will be regarded as a profit forecast. Accordingly, the Valuation is regarded as a profit forecast under the GEM Listing Rules.

We have discussed with Grant Sherman and the Company on the bases and assumptions, including the Forecast, upon which the Valuation has been made. The preparation of the Forecast is the responsibility of, and has been approved by, the directors of the Company. We have also considered the letter dated 25 May 2007 addressed to you from Cachet Certified Public Accountants Limited regarding the calculations upon which the Forecast has been made.

On the basis above, we are of the opinion that the Forecast, for which you are solely responsible, have been made after your due and careful consideration.

Yours faithfully
For and on behalf of
CCB International Capital Limited

Simon Lee
Deputy Managing Director

(1) RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respect and is not misleading;

(b) there are no matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

(2) SHARE CAPITAL OF THE COMPANY

		HK$
Authorised		
100,000,000,000	Shares	100,000,000
Issued and to be issued, fully paid and/or credited as fully paid		
333,400,000	Shares in issue as at the Latest Practicable Date	333,400
95,000,000	Consideration Shares to be allotted and issued	95,000
428,400,000	Total Shares in issue upon completion of the Acquisition	428,400

(3) DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they are deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows.

Name of Director	Nature of interests	Number of the underlying Shares to be issued	Approximate percentage of issued share capital
Koh Tat Lee, Michael	Beneficial	3,330,000	0.99%
Lim Kwok Choi	Beneficial	600,000	0.18%
Ng Kam Wing	Beneficial	3,330,000	0.99%
Zeng Bangjian	Beneficial	3,330,000	0.99%

Note:

These underlying Shares are to be issued upon exercise of share options granted to the Directors.

(L) Long position

As at the Latest Practicable Date, none of the Directors nor chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which requires notification to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they are deemed or taken to have under such provisions of the SFO, or which are required, pursuant to section 352 of the SFO, to be entered in the register therein, or which require, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, notification to the Company and the Stock Exchange.

(b) Interests of substantial Shareholders

So far as it is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or are deemed to have, interests or short positions in the Shares or underlying Shares which would require disclosure to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who are or are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Nature of interests	Number of Shares held	Approximate percentage of issued share capital
Well Support Limited *(Note 1)*	Beneficial	52,415,466 (L)	15.70%
Gorgeous Overseas Limited *(Note 2)*	Beneficial	22,898,000 (L)	6.87%
Century Dragon Development Limited *(Note 3)*	Beneficial	27,000,000	8.11%
Credit Suisse Group	Beneficial	24,350,000(L)	7.30%

(L) Long position

Notes

1. Well Support Limited is beneficially owned y Liu Yi Dong Family Trust and the beneficiaries of which are Mr. Liu Y i Dong and his family members.

2. Gorgeous Overseas Limited is wholly-owned by Mr. Yang Yongxia.

3. Century Dragon Development Limited is wholly-owned by Mr. Wu Wai Leung.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosable to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(4) LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group is engaged in any litigation, arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of Enlarged the Group.

(5) MATERIAL CONTRACTS

(a) on 21 November 2006, Well Support Limited entered into a placing agreement pursuant to which the placing agent agreed to place, on a fully underwritten basis, 46,400,000 Shares at a price of HK$0.241 per Share on behalf of Well Support Limited;

(b) on 21 November 2006, Well Support Limited entered into a subscription agreement pursuant to which the Company agreed to allot, and Well Support Limited agreed to subscribe 46,600,000 Shares at a price of HK$0.241 per Share;

(c) the Placing Agreement;

(d) the Subscription Letters; and

(e) the Agreement;

Save for the aforementioned, no contract, not being contracts in the ordinary course of business carried on by the Company or any of its subsidiaries, has been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date.

(6) SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing or propose any service contracts with the Company or any member company of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

(7) INTEREST IN CONTRACTS AND ASSETS

No contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries is a party and in which any Director has a material interest, whether directly or indirectly, subsist at the date of this circular.

None of the Directors and experts referred in the paragraph headed "Qualification and consent of experts" in this appendix has any direct or indirect interest in any asset which has been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were compiled, up to and including the Latest Practicable Date.

(8) COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, management shareholders (as defined in the GEM Listing Rules) or Substantial Shareholder or any of their respective associates has an interest in a business which competes or may compete with any business of the Group or has any other conflict of interest which any such person has or may have with the Group.

(9) MATERIAL ADVERSE CHANGE

Save as disclosed herein, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group was compiled.

(10) QUALIFICATION AND CONSENT OF EXPERTS

Each of Cachet, CCBI, Grant Sherman and SHINEWING has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinion, letter or advice and/or references to its name, in the form and context in which they respectively appear.

The following are the respective qualifications of the experts who have been named in this circular or have given their opinions, letters or advice which are contained in this circular:

Name	**Qualification**
Cachet Certified Public Accountants Limited	Certified Public Accountants
CCB International Capital Limited	a licensed corporation for type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Grant Sherman Appraisal	Professional valuer
SHINEWING (HK) CPA Limited	Certified Public Accountants

(11) MISCELLANEOUS

1. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

2. The head office and principal place of business of the Company in 14th Floor Bangkok Bank Building, 18 Bonham Strand West Street, Sheung Wan, Hong Kong.

3. The principal share registrar and transfer office of the Company is Butterfield Fund Services (Bermuda) Limited at Rosebank Centre, 11 Bermudian Road, Pembroke HM08, Bermuda.

4. The Hong Kong branch share registrar and transfer office of the Company is Union Registrars Limited, Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

5. The company secretary and qualified accountant of the Company is Mr. Li Kam Cheung, Ivan. Mr. Li is currently an associate member of the Hong Kong Institute of Certified Public Accountant and Association of International Accountants. He has approximately 9 years of experience in the audit field. Mr. Li graduated from the Curtin University of Technology in Australia with a Master degree in Accounting.

6. The compliance officer of the Company is Mr. Ng Kam Wing.

7. The audit committee of the Company comprises the four independent non-executive Directors, Mr. Leung Lok Ming, Mr. Chan Ho Wah, Terence, Mr. Chong Cha Hwa, Mr. Lok Shing Kwan, Sunny. The audit committee reviews and provides supervision over the financial reporting process and internal control of the Group.

8. Details of the Directors are as follows:

   Mr. Tsang Chi Hin, aged 48, is executive director of the Company since February 2000 and chairman and chief executive officer of the Company. He is co-founder of the Group responsible for corporate strategic planning and management. Mr. Tsang holds a bachelor degree in economics and a higher certificate in electronic engineering with over 21 years of experience in telecommunications and electronic industries. Mr. Tsang started his marketing career in 1984. He then joined Hongkong Telecom as a consultant in marketing data communication services in 1987 and his last position in Hongkong Telecom was Account Director.

   Mr. Zeng Bangjian, aged 54, is executive director of the Company since December 2006. Mr. Zeng has completed diploma education. He had more than 20 years of management experience in logistics and transportation trade in China.

   Mr. Ng Kam Wing, aged 57, is executive director of the Company since December 2006. Mr. Ng has more than 20 years of experience in financial and management and is an executive director and financial controller of a public listed company.

Mr. Koh Tat Lee, Michael, aged 41, is executive director of the Company since January 2007. Mr. Koh holds a Master of Electrical Engineering degree and a Master of Industrial Engineering degree from Columbia University in the United States. Mr. Koh possesses more than 10 years of experience in the telecommunications industry and has worked at Bell South and AT & T in the United States and was promoted to technical director before he left AT & T. Mr. Koh was vice president of First Pacific Company Limited, a company listed on the Main Board of the Stock Exchange. During his tenure at First Pacific Company Limited from year 1994 to 1997, Mr. Koh founded a private company called Tuntex Telecom in Taiwan and assumed the post of president for the period from year 1995 to 1997. Mr. Koh currently is an executive director of M Dream Inworld Limited, which is a company listed on the GEM of the Stock Exchange.

Mr. Lim Kwok Choi, aged 44, is the executive director of the Company since January 2007. Mr. Lim holds a Master of Business Administration degree. Mr. Lim has over 20 years of experience in banking and finance, hotel management and import/export trade working as senior management for both private and listed companies. Mr. Lim previously served as a non-executive director of First Natural Foods Holdings Limited from year 2002 to 2003, and as an executive director of LeRoi Holdings Limited from year 2004 to 2006, which are listed company on the Main Board of the Stock Exchange.

Independent Non-Executive Directors

Mr. Leung Lok Ming, aged 35, is the independent nonexecutive Director of the Company since July 2004. Mr. Leung is a certified public accountant in Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Leung is currently a director of Union Alpha CPA Limited.

Mr. Chan Ho Wah, Terence, aged 36, is the independent non-executive Director of the Company since August 2005. Mr. Chan is a Chartered Financial Analyst. He holds a bachelor of engineering degree and a Master of Science degree in real estate (general practice surveying) from the University of Hong Kong. Mr. Chan has extensive years of experience in the field of finance. Mr. Chan was an independent non-executive director of Sino-Tech International Holdings Limited (formerly known as Semtech International Holdings Limited), a company listed on the main board of the Stock Exchange from 13 November 2003 to 2 January 2004.

9. The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

(12) PROCEDURES FOR THE DEMAND BY POLL

The following sets out the procedures by which the Shareholders may demand a poll at the SGM.

Pursuant to Bye-law 66 of the Bye-laws:

"Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Bye-laws, at any general meeting on a show of hands every Member present in person (or being a corporation, is present by a representative duly authorized under Section 78 of the Act), or by proxy shall have one vote and on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in these Bye-laws, where more than one proxy is appointed by a Member which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. A resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three Members present in person (or in the case of a Member being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting;

(c) by a Member or Members present in person (or in the case of a Member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting;

(d) by a Member or Members present in person (or in the case of a Member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

(e) if required by the rules of the Designated Stock Exchange, by the Chairman of such meeting and/or the Directors who, individually or collectively, hold proxies in respect of shares representing five per cent (5%) or more of the total voting rights of all Members having right to vote at such meeting.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorized representative shall be deemed to be that same as a demand by a Member."

(13) DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company in Hong Kong at 14th Floor, Bangkok Bank Building, 18 Bonham Strand West Street, Sheung Wan, Hong Kong during normal business hours on any weekday other than public holidays, from the date of this circular up to and including the date of the SGM and at the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual report of the Company for the years ended 31 December 2005 and 2006;

(c) the interim report of the Company for the six months ended 30 June 2006;

(d) the accountants' report of Target Group and PRC subsidiary, the text of which are set out in Appendix II and III respectively of this circular;

(e) the letter from SHINEWING in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(f) the valuation report prepared by Grant Sherman, the text of which is set out in Appendix V of this circular;

(g) the written consents of the experts referred to in the paragraph headed "Qualification and consent of experts" in this appendix;

(h) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(i) this circular.

PROACTIVE TECHNOLOGY HOLDINGS LIMITED
(寶訊科技控股有限公司)*

(Incorporated in Bermuda with limited liability)
(Stock Code: 8089)

NOTICE IS HEREBY GIVEN that a special general meeting ("**SGM**") of Proactive Technology Holdings Limited (the "**Company**") will be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 20 June 2007 at 2:00 p.m. for the purpose of considering and, if thought fit, with or without amendments, the following resolutions:

ORDINARY RESOLUTION

1. "**THAT**

(a) the sale and purchase agreement (the "**Agreement**") dated 22 March 2007 entered into among Dragon Billion Limited, a wholly owned subsidiary of the Company, as the purchaser, Shellybeach Investments Limited (the "**Vendor**") as the vendor and Madam Cheung Yu Ching as guarantor in relation to, among other matters, the sale and purchase of the entire issued share capital of Eternity Profit Investments Limited (a copy of which is marked "A" and produced to the SGM and signed by the chairman of the SGM for identification purpose) be and is hereby ratified, confirmed and approved and the directors (the "**Directors**") of the Company be and are hereby authorised to all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Agreement and the transactions contemplated thereunder; and

(b) the allotment and issue of 95,000,000 ordinary shares (the "**Consideration Shares**" and each a "**Consideration Share**") of HK$0.001 each of the Company credited as fully paid at an issue price of HK$7.11 per Consideration Share to the Vendor pursuant to the Agreement be and is hereby approved and any Director be and are hereby authorised to allot and issue the Consideration Shares in accordance with the terms of the Agreement and to take all steps necessary, desirable or expedient in his opinion to implement or give effect to the allotment and issue of the Consideration Shares."

SPECIAL RESOLUTION

2. "**THAT** subject to and conditional upon the approval of the Registrar of Companies in Bermuda being obtained, the name of the Company be and is hereby changed from "Proactive Technology Holdings Limited" to "China Railway Logistics Limited" and upon the name change becoming effective, the name Chinese name "中國鐵路貨運有限公司" will be adopted to replace "寶訊科技控股有限公司" for identification with effect from the date of entry of the new name on the register maintained by the Registrar of Companies in

* *For identification purposes only*

Bermuda and that the Directors be and are hereby authorised to do all such acts and things and execute all such documents they consider necessary or expedient to give effect to the aforesaid change of name of the Company."

By order of the board of Directors
Proactive Technology Holdings Limited
Koh Tat Lee, Michael
Director

Hong Kong, 25 May 2007

Registered office:
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Head office and principal place of business in Hong Kong:
14/F Bangkok Bank Building
18 Bonham Strand West Street
Sheung Wan
Hong Kong

Notes:

1. A member entitled to attend and vote at the SGM may appoint one or more than one proxy to attend and to vote in his/her stead. A proxy need not be a shareholder of the Company.

2. Where there are joint registered holders of any shares of the Company (the "**Shares**"), any one of such persons may vote at the SGM, either personally or by proxy, in respect of such Share as if he/she/it were solely entitled thereto. However, if more than one of such joint registered holders is present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall be entitled to vote in respect thereof to the exclusion of the votes of the other joint holders.

3. A form of proxy for use at the SGM is enclosed with this circular. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof must be delivered to the branch share registrar of the Company in Hong Kong, Union Registrars Limited, at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM and any adjournment thereof.

4. Delivery of the form of proxy appointing a proxy will not preclude a member from attending and voting in person at the SGM or adjourned meeting.