THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in PME Group Limited (the "Company"), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

Pme

PME GROUP LIMITED

必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

(1) VERY SUBSTANTIAL ACQUISITION INVOLVING ACQUISITION OF SHAREHOLDINGS IN PROACTIVE TECHNOLOGY HOLDINGS LIMITED, (2) REFRESHMENT OF GENERAL MANDATE, (3) PROPOSED CHANGE OF NAME AND (4) RE-ELECTION OF A DIRECTOR

Independent financial adviser to the Independent Board Committee and Independent Shareholders

VEDA | CAPITAL
智略資本

A notice convening an extraordinary general meeting of the Company to be held at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong on Tuesday, 18 September 2007 at 10:00 a.m. is set out on pages 206 to 209 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the head office and principal place of business in Hong Kong of the Company at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting if you so wish.

* *for identification purposes only*

22 August 2007

CONTENTS

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

"Acquisition"	the acquisition by the Purchaser of the Sale Shares subject to and upon the terms and conditions of the Sale and Purchase Agreement
"AGM"	the annual general meeting of the Company held on 5 June 2007 for the Shareholders to approve, among other matters, the Current General Mandate
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Code" or "Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Company"	PME Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Sale and Purchase Agreement
"connected person(s)"	has the meaning ascribed to this term under the Listing Rules
"Consideration"	the aggregate consideration of HK$928,802,057.70 for the Acquisition
"Consideration Share(s)"	the 282,000,000 new Share(s) to be allotted and issued to the Vendor, credited as fully paid at the Issue Price in accordance with the terms of the Sale and Purchase Agreement

"Conversion Share(s)"	the Share(s) falling to be allotted and issued upon the exercise of the conversion right attaching to the Convertible Bonds
"Convertible Bonds"	the non-listed convertible bonds on the aggregate principal amount of HK$618,602,057.70 to be issued by the Company to the Vendor to satisfy part of the consideration under the Acquisition
"Current General Mandate"	the general mandate approved at the AGM to grant to the Directors to allot and issue Shares of up to 20% of the issued share capital of the Company as at the date of passing the relevant resolutions
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held and convened to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares and the issue of the Convertible Bonds, the Proposed Change of Name, the proposed grant of New General Mandate and the re-election of Mr. Chow as an independent non-executive Director
"Enlarged Group"	the Group immediately after the Completion
"GEM"	the Growth Enterprise Market of the Stock Exchange
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board, comprising the independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the granting of the New General Mandate, the voting at the EGM and whether the granting of the New General Mandate is in the interests of the Company and the Shareholders as a whole

"Independent Shareholder(s)"	Shareholders other than PME Investments (BVI) Co., Limited, Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and Ms. Chan Yim Fan and the other Directors (excluding the independent non-executive Directors) and their respective associates
"Independent Third Party"	any person or company 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 the Company and its connected persons
"Issue Price"	the issue price of HK$1.10 per Consideration Share
"Latest Practicable Date"	20 August 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Chow"	Mr. Chow Fu Kit Edward, an independent non-executive Director
"Mr. Liu"	Mr. Liu Yi Dong, his family trust being the beneficial owner of the entire issued share capital of the Vendor
"New General Mandate"	the general mandate proposed to be granted to the Directors at the EGM to allot, issue and otherwise deal with additional Shares not exceeding 20% of the issued share capital of the Company as at the date of the EGM and any additional Shares repurchased by the Company pursuant to the general repurchase mandate granted to the Directors at the AGM
"PRC"	the People's Republic of China
"Proactive"	China Railway Logistics Limited (formerly known as Proactive Technology Holdings Limited), a company incorporated in Bermuda and the issued Proactive Shares of which are listed on GEM
"Proactive Share(s)"	share(s) of HK$0.001 each in the capital of Proactive

"Proposed Change of Name"	the proposed change of name of the Company from "PME Group Limited" to "CR Investment (Holdings) Company Limited", and the new Chinese name "中鐵投資(控股)有限公司" to be adopted to replace "必美宜集團有限公司" for identification purpose only
"Purchaser"	Gainyear Worldwide Limited, being the purchaser named in the Sale and Purchase Agreement, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 25 June 2007 and entered into between the Vendor, the Purchaser for the sale and purchase of the Sale Shares
"Sale Shares"	52,415,466 issued Proactive Shares, which are fully paid up or credited as fully paid and are beneficially owned by the Vendor
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Veda Capital"	Veda Capital Limited, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the New General Mandate
"Vendor"	Well Support Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is wholly and beneficially owned by the family trust of Mr. Liu
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

PME GROUP LIMITED
必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

Executive Directors:
Mr. Cheng Kwok Woo
Mr. Cheng Kwong Cheong
Ms. Cheng Wai Ying
Mr. Chow Yin Kwang
Ms. Chan Yim Fan
Ms. Yeung Sau Han Agnes
Ms. Chan Shui Sheung Ivy

Independent non-executive Directors:
Mr. Anthony Francis Martin Conway
Mr. Leung Yuen Wing
Mr. Soong Kok Meng
Mr. Chow Fu Kit Edward

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
5th Floor, Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan
Shatin
Hong Kong

22 August 2007

To the Shareholders

Dear Sir or Madam

(1) VERY SUBSTANTIAL ACQUISITION INVOLVING ACQUISITION OF SHAREHOLDINGS IN PROACTIVE TECHNOLOGY HOLDINGS LIMITED, (2) REFRESHMENT OF GENERAL MANDATE, (3) PROPOSED CHANGE OF NAME AND (4) RE-ELECTION OF A DIRECTOR

INTRODUCTION

Reference is made to the announcement of the Company dated 4 July 2007 in which the Board announced that on 25 June 2007, the Purchaser entered into the Sale and Purchase Agreement with the Vendor in relation to the acquisition of the Sale Shares by the Purchaser from the Vendor for the total Consideration of HK$928,802,057.70.

* *for identification purposes only*

The Acquisition constitutes a very substantial acquisition on the part of the Company under the Listing Rules and is subject to the approval of Shareholders at the EGM.

Reference is also made to the announcement of the Company dated 30 July 2007 in which the Board announced that a special resolution will be proposed at the EGM to approve the proposed change of the Company's name from "PME Group Limited" to "CR Investment (Holdings) Company Limited" and upon the name change becoming effective, the new Chinese name "中鐵投資(控股)有限公司" will be adopted to replace "必美宜集團有限公司" for identification purpose only.

The purpose of this circular is to provide you with further information regarding (i) the Acquisition; (ii) the Proposed Change of Name; (iii) the proposed granting of the New General Mandate; (iv) the recommendation from the Independent Board Committee and the Independent Shareholders on the proposed granting of the New General Mandate; (v) the recommendation from Veda Capital to the Independent Board Committee and the Independent Shareholders on the proposed granting of the New General Mandate; (vi) the re-election of Mr. Chow as an independent non-executive Director; and (vii) the notice of EGM.

SALE AND PURCHASE AGREEMENT

Date:

25 June 2007

Parties:

(1) the Vendor as the vendor. The entire issued share capital of the Vendor is wholly and beneficially owned by the family trust of Mr. Liu; and

(2) the Purchaser as the purchaser.

The Vendor is incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holdings. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and Mr. Liu and their associates are Independent Third Parties. To the best of Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and Mr. Liu and their associates did not hold any Shares or other securities in the Company and is not party acting in concert with any Shareholder in respect of the Company as at the Latest Practicable Date.

The Purchaser, a wholly owned subsidiary of the Company, is incorporated in the British Virgin Islands and is principally engaged in investment holdings.

Asset to be acquired:

Pursuant to the Sale and Purchase Agreement, the Purchaser has agreed to acquire the Sale Shares comprising an aggregate of 52,415,466 Proactive Shares of HK$0.001 each in the share capital of Proactive, representing about 13.29% of the entire issued share capital of Proactive as at the date of the Sale and Purchase Agreement and the entire shareholding interest held by the Vendor in Proactive.

Proactive is incorporated in Bermuda with limited liability and the issued Proactive Shares (including the Sale Shares) are listed on GEM.

Under the Sale and Purchase Agreement, the Purchaser is not subject to any restriction on further sale of the Sale Shares.

Consideration:

The total Consideration for the Acquisition is HK$928,802,057.70, which shall be satisfied by the Purchaser at Completion in the following manner:

(a) HK$310,200,000 of the Consideration shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares to the Vendor credited as fully paid at the Issue Price; and

(b) HK$618,602,057.70 of the Consideration shall be satisfied by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor.

The Sale Shares

The consideration payable for each Sale Share is equivalent to approximately HK$17.72 per Sale Share, representing:

(a) a discount of approximately 3.70% to the closing price of HK$18.40 per Proactive Share as quoted on the Stock Exchange on 22 June 2007, being the last trading day of the Shares immediately before the date of the Sale and Purchase Agreement;

(b) a discount of approximately 0.02% to the average of the closing prices of HK$17.724 per Proactive Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 22 June 2007, being the last trading day of the Shares immediately before the date of the Sale and Purchase Agreement; and

(c) a premium of approximately 66.22% over the closing price of HK$10.66 per Proactive Share as quoted on the Stock Exchange on the Latest Practicable Date.

Based on the closing price of HK$18.4 per Proactive Share as quoted on the Stock Exchange on 22 June 2007, being the last trading day of the Shares immediately before the entering into of the Sale and Purchase Agreement, the market capitalisation of the Sale Shares amounts to approximately HK$964,444,574.40.

The Sale Shares represent approximately 13.29% of the issued share capital of Proactive as at the date of the Sale and Purchase Agreement and the entire shareholding interest held by the Vendor in Proactive. Immediately following Completion, the Company will become a substantial shareholder of Proactive based on the existing issued share capital of Proactive.

The Consideration Shares

The Issue Price represents:

(a) a discount of approximately 35.67% to the closing price of HK$1.71 per Share as quoted on the Stock Exchange on 22 June 2007, being the last trading day of the Shares immediately before the date of the Sale and Purchase Agreement;

(b) a premium of approximately 0.36% over the average of the closing prices of HK$1.096 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 22 June 2007, being the last trading day of the Shares immediately before the date of the Sale and Purchase Agreement;

(c) a discount of approximately 38.55% to the closing price of approximately HK$1.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(d) a premium of approximately 633.33% over the net asset value per Share of approximately HK$0.15 based on the audited consolidated accounts of the Group for the financial year ended 31 December 2006.

Based on the closing price of HK$1.71 per Share as quoted on the Stock Exchange on 22 June 2007, being the last trading day of the Shares before the entering into of the Sale and Purchase Agreement, the market capitalisation of the Consideration Shares amounts to approximately HK$482,220,000.

The allotment and issue of the Consideration Shares and the issue of the Convertible Bonds are subject to the passing of the ordinary resolutions by the Shareholders at the EGM approving and authorising the Sale and Purchase Agreement and the transactions contemplated thereby, including but not limited to the allotment and issue of the Consideration Shares and the issue of the Convertible Bonds.

The Consideration Shares represent:

(a) approximately 17.64% of the existing issued share capital of the Company;

(b) approximately 15.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; and

(c) approximately 11.54% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and allotment and issue of the Conversion Shares upon the exercise in full of the conversion rights attaching to the Convertible Bonds.

The Consideration Shares, when allotted and issued, will rank pari passu in all respects with each other and with the Shares in issue on the date of allotment and issue of the Consideration Shares. There are no restrictions on the transfer or subsequent sale of the Consideration Shares upon their issue.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Consideration and the Issue Price was arrived at after arm's length negotiations between the Purchaser and the Vendor with reference, mainly, to the five days average price per Share. The Directors (including the independent non-executive Directors) consider that the Consideration and the Issue Price is fair and reasonable and in the interests of the Shareholders as a whole.

Principal terms of the Convertible Bonds

Principal amount:	HK$618,602,057.70, which will be issued by the Company at its full face value.
Interest rate:	The Convertible Bonds shall carry interest at the rate of 8% per annum.
Maturity date:	Unless previously redeemed, repurchased and cancelled or converted, any outstanding Convertible Bonds shall be redeemed on the date falling on the third anniversary of the date of issue of the Convertible Bonds.
Ranking:	The Convertible Bonds constitute general and unsecured obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company.
Early redemption:	The Company shall be entitled at any time while the Convertible Bonds are outstanding to redeem the Convertible Bonds or any part thereof at the principal amount of the Convertible Bonds (in multiples of HK$5,000,000).
Conversion:	Provided that any conversion of the Convertible Bonds does not trigger off a mandatory offer under rule 26.1 of the Code on the part of the Vendor, the Vendor will have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares at any time and from time to time, from the date of issue of the Convertible Bonds up to and including their maturity date in amounts of not less than a whole multiple of HK$5,000,000 on each conversion. Pursuant to the Convertible Bonds, the Vendor will not exercise the conversion rights attaching to the Convertible Bonds if, immediately after the allotment and issue of the relevant Conversion Shares, a mandatory offer is triggered off under rule 26.1 of the Code as a result of Vendor holding an aggregate of 20% or more of voting rights in the Company and being deemed to act in concert with other parties in accordance with the Code. The Company will also not facilitate the issue of the Conversion Shares if any conversion under the Convertible Bonds triggers the 20% threshold and initiates a mandatory offer obligation as a result of the Vendor holding an aggregate of 20% or more of voting rights in the Company and being deemed to act in concert with other parties in accordance with the Code. The restriction regarding the conversion under the Convertible Bonds remains valid throughout the terms of the Convertible Bonds.

Conversion price: The conversion price is initially HK$1.10 per Conversion Share, subject to adjustment for adjustment events as set out below. The initial conversion price represents:

(a) a discount of approximately 35.67% to the closing price of HK$1.71 per Share as quoted on the Stock Exchange on 22 June 2007, being the last trading day of the Shares immediately before the date of the Sale and Purchase Agreement;

(b) a premium of approximately 0.36% over the average of the closing prices of HK$1.096 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 22 June 2007, being the last trading day of the Shares immediately before the date of the Sale and Purchase Agreement;

(c) a discount of approximately 38.55% to the closing price of approximately HK$1.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(d) a premium of approximately 633.33% over the net asset value per Share of approximately HK$0.15 based on the audited consolidated accounts of the Group for the financial year ended 31 December 2006.

Adjustment to the conversion price: The conversion price is subject to adjustment based on the prescribed formulas as set out in the instrument forming the Convertible Bonds for the happening of the adjustment events, include but not limited:

(i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) by the Company of any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);

(iii) a capital distribution (in cash or in specie) to Shareholders (whether on a reduction of capital or otherwise);

(iv) an offer of new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares at a price which is less than 80% of the market price of the Shares of the date of the announcement of the terms and offer or grant being made; and

	(v) an issue of Shares being made wholly for cash at a price less than 80% of the market price of the Shares on the date of announcement of the issue (whether or not such issue is subject to the approval of the Shareholders).
	Every adjustment to the conversion price shall be certified (at the option of the Company) either by the auditors of the Company for the time being or by an approved merchant bank.
	An "approved merchant bank" means a merchant bank of repute holding banking license in Hong Kong selected by the Company for the purpose of providing a specific opinion or calculation or determination for adjustment under the Convertible Bonds.
Voting:	The Vendor will not be entitled to attend or vote at any general meeting of the Company by reason only of it being the holder of the Convertible Bonds.
Transfer:	With the prior written consent of the Company, the Convertible Bonds may be transferable provided always that no transfer or assignment of the Convertible Bonds shall be made to any connected person of the Company.

Based on the conversion price of HK$1.10 per Conversion Share, a maximum number of 562,365,507 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full, which represent: (i) approximately 43.27% of the issued share capital of the Company as at the date of the Sale and Purchase Agreement; (ii) approximately 26.02% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares; and (iii) approximately 23.02% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion shares. There are no restrictions on the transfer or subsequent sale of the Conversion Shares upon their issue.

Conditions:

Completion of the Sale and Purchase Agreement is conditional upon the satisfaction of the following:

(a) the warranties given by the Vendor under the Sale and Purchase Agreement in relation to, among other matters, the ownership of the Sale Shares, remaining true, accurate and complete in all material respects;

(b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares and the Conversion Shares;

(c) all necessary consents and approvals required to be obtained on the part of the Vendor and Mr. Liu in respect of the Sale and Purchase Agreement and the transactions contemplated hereby having been obtained;

(d) if necessary, the Listing Committee of the Stock Exchange approving the issue of the Convertible Bonds; and

(e) the passing by the Shareholders at the EGM of the necessary resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereby, including but not limited to the allotment and issue of the Consideration Shares and the issue of the Convertible Bonds.

Save for conditions (b), (c), (d) and (e), which are incapable of being waived, the Purchaser may at any time waive in writing the condition (a) set out above. If the conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before 4:00 p.m. on 31 August 2007 (or such later date as the parties to the Sale and Purchase Agreement may agree), the Sale and Purchase Agreement shall cease and determine and thereafter neither party to the Sale and Purchase Agreement shall have any obligations and liabilities towards each other hereunder save for any antecedent breaches of the terms hereof. The Purchaser does not have any current intention to waive the condition (a).

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares. No application will, however, be made for the listing of the Convertible Bonds on any stock exchanges.

Completion:

Completion is expected to take place on the second Business Day after the fulfillment (or waiver) of the conditions (or such later date as the parties to the Sale and Purchase Agreement may agree) mentioned above.

Upon Completion, the Company will be interested in 52,415,466 Proactive Shares. The Company has no intention to nominate any director to the board of directors of Proactive upon Completion and will treat the Sale Shares as long term investment. The investment in the Sale Shares will be accounted for as "Available-for-sale investments" as part of non-current assets of the Group.

INFORMATION ON PROACTIVE

Proactive is a company incorporated in Bermuda with limited liability which together with its subsidiaries engaged principally in the design, development and sale of value-added telecommunication products and computer telephony products focusing on business applications.

Proactive's telecommunications products target telecommunications carriers and services providers while its computer telephony products are marketed mostly to corporate customers in different industries. Proactive is a company listed on GEM of the Stock Exchange.

Reference is also made to the announcement and the circular of Proactive dated 22 March 2007 and 25 May 2007 respectively, in which Proactive announced that it would tap into the field of the logistic transportation in the PRC through the acquisition of Eternity Profit Investments Limited. Upon completion of the acquisition, Proactive intends to enter into logistic business that involves purchases of cargo trains and management and operation of railway transportation and related logistics business in the PRC. As disclosed in the 2007 first quarterly report of Proactive, in view of the ongoing reforms and consolidation in the IT and telecom industry, Proactive has decided to gradually exit the IT and telecom market to focus on the existing opportunities in the field of logistics transportation.

As disclosed in the audited consolidated financial statements of Proactive, the turnover, net loss before taxation and net loss after taxation for the financial year ended 31 December 2005 were approximately HK$20,982,000, HK$1,764,000 and HK$1,764,000 respectively. As disclosed in the audited consolidated financial statements of Proactive, the turnover, net loss before taxation and net loss after taxation for the year ended 31 December 2006 was approximately HK$11,880,000, HK$3,611,000 and HK$3,611,000 respectively.

The audited consolidated total assets and net assets of Proactive as at 31 December 2006 were approximately HK$19,526,000 and HK$15,984,000 respectively.

REASONS FOR THE ACQUISITION

The Group is principally engaged in manufacturing and trading of polishing materials and equipments.

Reference is made to the announcement and the circular of Proactive dated 22 March 2007 and 25 May 2007 respectively, in which Proactive announced that it would tap into the field of the logistic transportation in the PRC through its acquisition of Eternity Profit Investments Limited. As the economy in the PRC has undergone a continuous growth over the past few years, the Directors believe that there are great potentials in various areas of business in the PRC, including the logistic transportation business in the PRC. In this regard, the Directors are of the opinion that there are huge growth potentials in the logistic business of Proactive in the PRC.

The Group intends to hold the Sale Shares as long term investment. As the Proactive Shares are listed on the GEM of the Stock Exchange, the Group is able to realise the investments in the Sale Shares in the open market, which represents an efficient mean for the realisation of the investments in the Sale Shares.

The Directors consider that the value of investments in a company lies in its future potential growth, which in turn depends on the future prospects and potential of the underlying company. Given that it is an unprecedented opportunity for Proactive, a non-PRC party, to enter into the railway transportation and logistic business in the PRC, Proactive has demonstrated its growing potential with the successful fund raising exercises in which various institutional investors have invested for more than HK$1 billion in Proactive since the beginning of this year. Based on above, the Directors believed that the upside potential for the investment in Proactive will be promising. In addition, given that the consideration of the Acquisition shall be satisfied by the Company with Consideration Shares and the Convertible Bonds, the Directors are of the view that the Acquisition provides the Company the opportunity to acquire an investment with good potential without depleting the cash resources of the Group which is to the interests of the Shareholders and the Company.

Although the Company will only hold approximately over 10% of shareholdings in Proactive immediately upon completion of the Acquisition, the Directors consider that the value of the Sale Shares will steadily grow in parallel with the development of the railway logistic transport business of Proactive in future.

In view of the growing potential of Proactive, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Acquisition, including but not limited to the allotment and issue of Consideration Shares and the issue of Convertible Bonds, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 1,598,600,000 Shares in issue. The shareholding structure of the Company before and after the allotment and issue of Consideration Shares and the full exercise of the conversion rights under the Convertible Bonds are as follows:

Shareholder	At the Latest Practicable Date		Immediately after the allotment and issue of the Consideration Shares but before the exercise of conversion rights under the Convertible Bonds		Immediately after the allotment and issue of the Consideration Shares and the exercise of conversion rights under the Convertible Bonds to 19.99%		Immediately after the allotment and issue of the Consideration Shares and the full exercise of conversion rights under the Convertible Bonds	
	No. of Shares	*Approximate percentage*	*No. of Shares*	*Approximate percentage*	*No. of Shares*	*Approximate percentage*	*No. of Shares*	*Approximate percentage*
PME Investments (BVI) Co. Ltd. and its associates *(Note 1)*	461,638,000	28.88%	461,638,000	24.55%	461,638,000	23.11%	461,638,000	18.90%
Ms. Chan Yim Fan *(Note 2)*	2,705,333	0.17%	2,705,333	0.14%	2,705,333	0.14%	2,705,333	0.11%
The Vendor *(Note 3)*	–	–	282,000,000	15.00%	399,400,250	19.99%	844,365,507	34.56%
Public Shareholders	1,134,256,667	70.95%	1,134,256,667	60.31%	1,134,256,667	56.76%	1,134,256,667	46.43%
Total	1,598,600,000	100%	1,880,600,000	100%	1,998,000,250	100%	2,442,965,507	100%

Notes:

1. PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands, is the beneficial owner of 318,438,000 Shares. The entire issued share capital of PME Investments is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying, all are Directors. In addition, each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong personally holds 54,400,000 Shares and Ms Cheng Wai Ying personally holds 34,400,000 Shares.

2. Ms. Chan Yim Fan is an executive Director.

3. The Vendor cannot exercise the conversion rights attaching to the Convertible Bonds if such conversion will trigger off a mandatory offer under Rule 26.1 of the Code, which includes but not limited to the circumstances that (i) the Vendor acquire control (i.e. 30% of voting rights) in the Company; and (ii) the Vendor will become parties acting in concert, whether deemed or actual, with others to form a concert group which will take control (as defined in the Code) of the Company.

To the best belief, information and knowledge of the Directors, neither the Vendor nor its ultimate beneficial owner is a party acting in concert with any Shareholders and none of the Company or its connected persons (as defined in the Listing Rules) is a party acting in concert with any shareholders of Proactive. There will not be a change of control in the Company as a result of the Acquisition.

FINANCIAL EFFECTS ON THE GROUP

Assets and liabilities

Set out in Appendix IV to this circular is the unaudited pro forma consolidated financial information of the Enlarged Group. Upon Completion, the consolidated total assets of the Enlarged Group would be increased by approximately 231% from approximately HK$275 million to approximately HK$912 million and the consolidated total liabilities of the Group would be increased by approximately 1,785% from approximately HK$34 million to approximately HK$650 million assuming the completion of the Acquisition, including the allotment and issue of the Consideration Shares, had taken place on 31 December 2006.

Earnings

The Group recorded an audited consolidated net profits attributable to the equity holders of the Company of approximately HK$5,504,000 for the year ended 31 December 2006. Based on the unaudited pro forma financial statements of the Enlarged Group set out in Appendix IV to this circular, the unaudited consolidated net loss attributable to the equity holders of the Company would be approximately HK$44,284,000, assuming the completion of the Acquisition, including the allotment and issue of the Consideration Shares, had taken place on 1 January 2006.

PROSPECTS OF THE ENLARGED GROUP

Prospect of the Group

As an enterprise where PRC is its major market, the Directors are filled with hope for the future as the PRC economy continues to grow. In 2007, it shall be the 50th anniversary of the setup of the polishing business and the Directors will continue to bring new elements and environment to create a new future of the Group. Through the establishment of Shanghai PME-XINHUA Polishing Materials Systems, a joint venture in Shanghai, which commenced operations in March 2007, the pace of expanding to the Yangtze River Delta market will accelerate. In addition, more new products will be developed to cater for different market needs. The Group is endeavor to capture the market through improved distribution network as it would be the most effective and economical way to obtain higher market shares.

Prospect of Proactive

A subsidiary of Proactive has been approved to conduct in PRC, 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). 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.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition on the part of the Company under the Listing Rules and is subject to the approval of the Shareholders at the EGM. To the best of the Directors' knowledge, no Shareholder have a material interest in the Acquisition and will be required to abstain from voting for the relevant resolution to approve the Acquisition at the EGM.

CURRENT GENERAL MANDATE

At the AGM, the Shareholders approved, among other things, an ordinary resolution to grant to the Directors the Current General Mandate to allot and issue not more than 229,920,000 Shares, being 20% of the entire issued share capital of the Company of 1,149,600,000 Shares as at the date of passing of the resolution. During the period from the granting of the Current General Mandate to the Latest Practicable Date, the Current General Mandate had been utilised as to 229,000,000 Shares being placed out by CCB International Capital Limited as placing agent of the Company pursuant to a placing agreement dated 5 July 2007, being approximately 99.60% of the entire number of Shares which may be allotted and issued under the Current General Mandate. Please refer to the announcement of the Company dated 6 July 2007 for further details regarding the above matter.

PROPOSED GRANT OF NEW GENERAL MANDATE

The Company will convene the EGM at which ordinary resolutions will be proposed to the Independent Shareholders that:

(i) the Directors be granted the New General Mandate to allot and issue Shares not exceeding 20% of the issued share capital of the Company as at the date of passing the relevant ordinary resolution; and

(ii) the New General Mandate be extended to Shares repurchased by the Company pursuant to the general mandate granted to the Directors at the AGM.

As at the Latest Practicable Date, the Company had an aggregate of 1,598,600,000 Shares in issue. Subject to the passing of the ordinary resolutions for the approval of the New General Mandate and on the basis that no further Shares are issued and/or repurchased by the Company between the Latest Practicable Date and the date of the EGM, the Company would be allowed under the New General Mandate to allot and issue up to 319,720,000 Shares, being 20% of the total number of Shares in issue as at the Latest Practicable Date.

REASONS FOR THE NEW GENERAL MANDATE

As explained in the paragraph headed "Current General Mandate" above, the Current General Mandate had been utilised as to 229,000,000 placing Shares having been issued and allotted under, being approximately 99.60% of the entire number of Shares which may be allotted and issued under the Current General Mandate.

The Board believes that granting of the New General Mandate is in the best interests of the Company and the Shareholders as a whole by maintaining the financial flexibility necessary for the Group's future business development. The Board considers equity financing to be an important avenue of resources to the Group since it does not create any interest paying obligations on the Group. In appropriate circumstances, the Group will also consider other financing methods such as debt financing or internal cash resources to fund its future business development. While the Board considers that there is no immediate funding need for the Group's current operations and that there is currently no concrete proposal presented by potential investors for investment in the Shares, the Board is now proposing to seek the approval of Independent Shareholders at the EGM of the New General Mandate such that should future funding needs arise or attractive terms for investment in the Shares become available from potential investors, the Board will be able to respond to the market promptly.

There has not been any refreshment of the Current General Mandate since the AGM. The following table summarises the use of the Current General Mandate since the AGM:

Date of initial announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
6 July 2007	Placing of 229,000,000 placing Shares by the Company with CCB International Capital Limited being the placing agent	HK$563 million	General working capital	The net proceeds have not been utilised and is deposited in the bank accounts of the Company. It is expected that the net proceeds will be utilised towards the general working capital of the Group as intended

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprises Mr. Anthony Francis Martin Conway, Mr. Leung Yuen Wing, Mr. Soong Kok Meng and Mr. Chow Fu Kit Edward, all being the independent non-executive Directors. It has been established to advise the Independent Shareholders on the granting of the New General Mandate.

Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the granting of the New General Mandate.

The Independent Board Committee and the Directors, having taken into account the advice of Veda Capital, consider that the granting of the New General Mandate is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned and accordingly recommends the Independent Shareholders to vote in favour of the ordinary resolutions which will be proposed at the EGM for approving the granting of the New General Mandate.

The text of the letter from the Independent Board Committee is set out on page 22 of this circular and the text of the letter from Veda Capital containing its advice is set out on pages 23 to 27 of this circular.

PROPOSED CHANGE OF COMPANY NAME

Reference is made to the announcement of the Company dated 30 July 2007. The Board proposes to change the name of the Company from "PME Group Limited" to "CR Investment (Holdings) Company Limited" and upon the name change becoming effective, the new Chinese name "中鐵投資(控股)有限公司" will be adopted to replace "必美宜集團有限公司" for identification purpose only, subject to the conditions set out below being fulfilled. Due to the diversification in the scope of business of the Company, the Board considers that the proposed new name will reflect the corporate nature of the Company more accurately. The proposed new name can also refresh the corporate image and identity of the Company.

The Proposed Change of Name will be subject to the following:

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

2. the Registrar of Companies in the Cayman Islands approving the change of the Company's name.

The new name of the Company will take effect from the date of entry of the new name on the register maintained by the Registrar of Companies in the Cayman Islands. The Company will then carry out all necessary filing procedures with the Companies Registry in Hong Kong.

Effects of change of Company's name

The Proposed Change of Name will not affect any rights of the holders of securities of the Company. All existing certificates of securities in issue bearing the present name of the Company shall, after the Proposed Change of Name becoming effective, continue to be evidence of title to such securities and the existing share certificates will continue to be valid for trading, settlement, registration and delivery purposes. There will not be any arrangement for exchange of the existing certificates of securities. Once the change of the Company's name becomes effective, new share certificates will be issued only in the new name of the Company.

The Company will make further announcements as and when appropriate on the results of the EGM, the arrangement relating to the change of Company name, the trading and dealings in the securities of the Company on the Stock Exchange under the new name of the Company and as to when the new name of the Company will become effective.

RE-ELECTION OF A DIRECTOR

Reference is made to the announcement of the Company dated 17 August 2007 in relation to, among other matters, the appointment of Mr. Chow as an independent non-executive Director.

In accordance with the articles of association of the Company, Mr. Chow will retire at the EGM and being eligible, offer himself for re-election. A resolution for re-electing Mr. Chow as a Director will be proposed at the EGM. Disclosure required under the Listing Rules pursuant to such re-election is included in the paragraph headed "Details of the Director to be re-elected" in appendix V to this circular.

EGM

Set out on pages 206 to 209 is a notice convening the EGM to be held at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong on Tuesday, 18 September 2007 at 10:00 a.m.. Relevant resolution(s) will be proposed to the Shareholders at the EGM to consider and, if thought fit, approve the Acquisition and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares, the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon exercise of the convertible rights under the Convertible Bonds.

Pursuant to Rule 13.36(4)(a) of the Listing Rules, the New General Mandate requires the approval of the Independent Shareholders at the EGM at which any of the controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the relevant resolutions. As at the Latest Practicable Date, PME Investments (BVI) Co., Ltd. is the beneficial owner of 318,438,000 Shares and PME Investments (BVI) Co., Ltd. is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying, all being Directors. In addition, each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong personally holds 54,400,000 Shares and Ms. Cheng Wai Ying personally holds 34,400,000 Shares. Ms. Chan Yim Fan personally holds 2,705,333 Shares. Each of the other three executive Directors, Mr. Chow Yin Kwang, Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy, does not hold any Shares as at the Latest Practicable Date. Each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and Ms. Chan Yim Fan are executive Directors. There is no controlling Shareholder (as defined under the Code) as at the Latest Practicable Date and thus the Directors (excluding the independent non-executive Directors) are required to abstain from voting in favour of the grant of New General Mandate. Accordingly, each of PME Investments (BVI) Co., Ltd., Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying, Ms. Chan Yim Fan and their respective associates are required to abstain from voting in favour of the resolutions to approve the granting of the New

General Mandate at the EGM. The Board was advised that each of PME Investments (BVI) Co., Ltd., Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and Ms. Chan Yim Fan have no intention to vote against the granting of the New General Mandate. Further, pursuant to Rule 13.39(4)(b) of the Listing Rules, any vote of the Independent Shareholders at the EGM will be taken by poll.

To the best of the Directors' information, knowledge and belief, no Shareholders is required to abstain from voting at the EGM in respect of the special resolution approving the Proposed Change of Name and the ordinary resolution approving the re-election of Mr. Chow as an independent non-executive Director.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the head office and principal place of business in Hong Kong of the Company at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

PROCEDURE FOR DEMANDING A POLL AT GENERAL MEETING

According to Article 66 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded. A poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised 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 the shares conferring that right; or

(e) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at the meeting.

RECOMMENDATION

The Board considers that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution approving the Acquisition as set out in the notice of the EGM.

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 EGM for the approval of the Proposed Change of Name.

The Directors are also of the view that the re-election of Mr. Chow as an independent non-executive Director is in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the relevant resolution at the EGM in respect of the re-election.

Your attention is drawn to the letter of advice from Veda Capital set out on pages 23 to 27 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in connection with the granting of the New General Mandate and the letter from the Independent Board Committee set out on page 22 of this circular which contains its recommendation to the Independent Shareholders in relation to the granting of the New General Mandate. The Independent Board Committee, having taken into account the advice of Veda Capital in relation to the New General Mandate, is of the opinion that the New General Mandate is in the best interest of the Company and is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Board also recommends the Independent Shareholders to vote in favour of the ordinary resolutions for the grant of New General Mandate at the EGM.

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 the Board
PME Group Limited
Cheng Kwok Woo
Chairman

PME GROUP LIMITED
必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

22 August 2007

To the Independent Shareholders

Dear Sir or Madam,

REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES

We refer to the circular of the Company dated 22 August 2007 (the "Circular") of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the proposed grant of the New General Mandate are fair and reasonable so far as the Independent Shareholders are concerned. Veda Capital has been appointed as the independent financial adviser to advise us in this respect.

Having considered the principal reasons and factors considered by, and the advice of, Veda Capital as set out in its letter of advice to us on pages 23 to 27 of the Circular, we are of the opinion that the granting of the New General Mandate is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the granting of the New General Mandate. Independent Shareholders are however advised to take note of the possible dilution effect on their shareholding interests in the Company when and if the New General Mandate is utilised.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Anthony Francis Martin Conway
Independent non-executive Director

Mr. Leung Yuen Wing
Independent non-executive Director

Mr. Soong Kok Meng
Independent non-executive Director

Mr. Chow Fu Kit Edward
Independent non-executive Director

* *for identification purposes only*

The following is the full text of the letter from Veda Capital setting out the advice to the Independent Board Committee and the Independent Shareholders in relation to the refreshment of the Current General Mandate for inclusion in this circular.

Veda Capital Limited
Suite 11-12, 13/F, Nam Fung Tower
173 Des Voeux Road Central, Hong Kong

22 August 2007

To the Independent Board Committee and the Independent Shareholders of
PME Group Limited

Dear Sirs and Madams,

REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES

INTRODUCTION

We refer to the circular dated 22 August 2007 issued by the Company to the Shareholders of which this letter forms part (the "**Circular**") and our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed grant of the New General Mandate, details of which are set out in the letter from the Board contained in the Circular (the "**Board Letter**"). Capitalised terms used in this letter, unless the context otherwise requires, shall have the same meaning ascribed to them in the Circular.

Pursuant to Rule 13.36(4) of the Listing Rules, the proposed grant of the New General Mandate requires the approval of the Independent Shareholders at the EGM at which any of the controlling Shareholders (as defined in the Listing Rules) and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates are required to abstain from voting in favour of the resolutions proposed for the approval of such refreshment and under Rule 13.39(4)(b) of the Listing Rules, any vote of the Independent Shareholders will be taken by way of poll.

We understand that, as at the Latest Practicable Date and to the best of the knowledge and belief of the Directors having made all reasonable enquiries, PME Investments (BVI) Co., Ltd., being the controlling Shareholder, is the beneficial owner of 318,438,000 Shares and PME Investments (BVI) Co. Ltd. is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying, all being executive Directors. In addition, each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong personally holds 54,400,000 Shares and Ms. Cheng Wai Ying personally holds 34,400,000 Shares. Ms. Chan Yim Fan, also an executive Director, personally holds 2,705,333 Shares. Each of the other three executive Directors, Mr. Chow Yin Kwang, Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy, does not hold any Shares as at the Latest Practicable Date. There is no controlling Shareholder (as defined under the Code) as at the Latest Practicable Date. Accordingly, each of PME Investments (BVI) Co., Ltd., Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying, and Ms. Chan Yim Fan and the other Directors (excluding the independent non-executive Directors) and their respective associates are required to abstain from voting in favour of the resolutions in respect of the grant of the New General Mandate to be proposed at the EGM.

The Independent Board Committee, comprises Mr. Anthony Francis Martin Conway, Mr. Leung Yuen Wing, Mr. Soong Kok Meng and Mr. Chow Fu Kit Edward, all being independent non-executive Directors, has been established to advise the Independent Shareholders on the proposed grant of the New General Mandate.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and its management. We have assumed that all statements, information, facts, opinions and representations made to us or referred to in the Circular were true, accurate and complete at the time when they were made and continued to be true, accurate and complete as at the date of the Circular. We have relied on such information and opinions and have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and its management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We consider that we have been provided with sufficient information to reach an informed view to provide a reasonable basis for our opinion.

All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the proposed grant of the New General Mandate, we have taken the following principal factors and reasons into consideration:

Background

The Group is principally engaged in manufacturing and trading of polishing materials and equipment.

At the AGM, the Directors were granted the Current General Mandate to allot and issue up to 229,920,000 new Shares, representing 20% of the entire issued share capital of the Company of 1,149,600,000 Shares as at the date of passing the resolution.

Subsequent to the AGM and as at the Latest Practicable Date, the Current General Mandate has been nearly fully utilised as to 229,000,000 Shares placed out by CCB International Capital Limited as placing agent of the Company pursuant to a placing agreement dated 5 July 2007, details of which were disclosed in the announcement of the Company dated 6 July 2007.

In order to maintain the financial flexibility necessary for the Group's future business development, the Board proposes to seek the approval of the Independent Shareholders at the EGM for the grant of the New General Mandate. The Company had an aggregate of 1,598,600,000 Shares in issue as at the Latest Practicable Date. Subject to the passing of the ordinary resolutions for the approval of the grant of the New General Mandate and assuming that no Shares are issued and/or repurchased by the Company between the Latest Practicable Date and the date of the EGM, the Company would be allowed under the New General Mandate to allot and issue up to 319,720,000 Shares, representing 20% of the total number of Shares in issue as at the date of the EGM.

Reasons for the New General Mandate

With reference to the announcement of the Company dated 6 July 2007, a total of 229,000,000 new Shares were issued and allotted pursuant to the relevant placing agreement. Since all of such new Shares were issued and allotted under the authority of the Current General Mandate, the Current General Mandate has been utilised as to 229,000,000 Shares, representing approximately 99.60% of the Current General Mandate.

As referred to in the Board Letter, the Board believes that the granting of the New General Mandate is in the best interests of the Company and the Shareholders as a whole by maintaining the financial flexibility necessary for the Group's future business development. The Board also considers equity financing to be an important avenue of resources to the Group since it does not create any interest paying obligations on the Group.

In light of the above, we are of the opinion that the New General Mandate would provide the Company with the necessary flexibility essential for fulfilling any possible funding needs for future business development and/or investment decisions in a timely manner. As such, we are of the view that the granting of the New General Mandate will be in the interest of the Company and the Independent Shareholders as a whole.

Other financing alternatives

As debt financing may incur interest burden to the Group, equity financing such as issuance of new Shares for cash or equity swaps may be an appropriate mean to fund such investments and/or acquisitions and provide additional working capital for the future development and expansion of the Group, given the Group's financial position, capital structure, cost of funding and the then financial market condition. Other financing methods such as debt financing or internal cash resources to fund future business development of the Company shall be taken into consideration in appropriate circumstances.

We consider that the grant of the New General Mandate will provide the Company with an additional alternative and it is reasonable for the Company to have the flexibility in deciding the financing methods for its future development, including equity issuance. As such, we are of the view that the grant of the New General Mandate will be in the interests of the Company and the Independent Shareholders as a whole.

Potential dilution to shareholdings of the Independent Shareholders

Set out below is a table showing the shareholdings of the Company as at the Latest Practicable Date and; for illustrative purpose, the potential dilution effect on the shareholdings upon full utilisation of the New General Mandate, assuming no Shares are issued or repurchased during the period between the Latest Practicable Date and the date of the EGM:

	As at the Latest Practicable Date		**Upon full utilisation of the New General Mandate**	
	No. of Shares	*%*	*No. of Shares*	*%*
PME Investments (BVI) Co. Ltd. and its associates *(Note)*	461,638,000	28.88	461,638,000	24.06
Public Shareholders	1,136,962,000	71.12	1,136,962,000	59.27
Shares to be issued under the New General Mandate	–	–	319,720,000	16.67
Total	1,598,600,000	100.00	1,918,320,000	100.00

Note: PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands, is the beneficial owner of 318,438,000 Shares. The entire issued share capital of PME Investments is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying, all are Directors. In addition, each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong personally holds 54,400,000 Shares and Ms Cheng Wai Ying personally holds 34,400,000 Shares.

As illustrated in the table above, the existing aggregate shareholding of the public Shareholders will decrease from approximately 71.12% as at the Latest Practicable Date to approximately 59.27% upon full utilisation of the New General Mandate. Taking into account the benefits of the New General Mandate as discussed above and the fact that the shareholdings of all Shareholders will be diluted proportionately, we consider such dilution or potential dilution of shareholding to be acceptable.

RECOMMENDATION

Having considered the factors and reasons as stated above, we are of the view that the grant of the New General Mandate is in the interests of the Company and Independent Shareholders as a whole, and is fair and reasonable. Accordingly, we recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the grant of the New General Mandate to be proposed at the EGM. Independent Shareholders are however advised to take note of the possible dilution effect on their shareholding interests in the Company when and if the New General Mandate is utilised.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong	**Julisa Fong**
Managing Director	*Director*

嘉漫(香港)有限公司
CASTORES MAGI (HONG KONG) LIMITED
REGISTERED PROFESSIONAL SURVEYORS
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES MAGI

Unit B, 23rd Floor
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

22nd August, 2007

The Directors
PME Group Limited
5th Floor, Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong.

Dear Sirs,

In accordance with your instructions to value the properties in which PME Group Limited (the "Company") and its subsidiaries (together the "Group") have interests, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the relevant properties as at 31st July, 2007 ("date of valuation").

Our valuations of the properties in Group I are on the basis of Market Value which we would define as "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase and without offset for associated taxes.

Our valuations of the property interests in Group I have been made on the assumption that the owner sells the properties on the open market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the properties.

The property interests in Group I have been valued on a market basis by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

In valuing the property interests in Group I in which the Government Leases expire before 30th June, 1997, we have taken into account the provisions of Annex III of the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China (the "PRC") on the question of Hong Kong and the New Territories Leases (Extension) Ordinance (Chapter 150 of the Laws of Hong Kong) stipulating that such leases may be extended without premium until 30th June, 2047, and that an annual rent at three per cent. of the rateable value of the property will be charged from the date of extension.

In accordance with International Valuation Guidance Note No. 8 published by The International Valuation Standards Committee, the buildings and structures of the property in Group II belong to the category of specialized properties, which are rarely if ever sold on the open market, except by way of sale of the business or entity of which they are a part, due to their uniqueness, which arises from the specialized nature and design of the buildings, their configuration, size, location or otherwise. Consequently, reliable sale comparables cannot generally be identified for specialized properties.

Our valuation of the property in Group II is on the basis of Depreciated Replacement Cost which is used for the valuation of specialized properties. It is a method used in financial reporting to arrive at a surrogate for the market value of specialized and limited market properties, for which market evidence is unavailable. Depreciated Replacement Cost is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimization.

In valuing the capital value of the property in Group II, we have made the summation of the market value of the land use rights and the depreciated replacement cost of the buildings and structures as at the date of valuation.

In valuing the property interests, we have adopted the basis of valuation and have made the valuation assumptions in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

In our valuations, we have complied with all the requirements contained in Chapter 5 and the Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The current status of the property in Group II regarding major approvals, consents or licences required in the PRC is as follows:

Document/Approval	**Property 1 in Group II**
State-owned Land Use Rights Certificate	Yes
Realty Title Certificates	Yes

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rental, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our valuation experience of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have inspected the exterior and, where possible, the interior of the properties, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey, investigation or examinations have been made, but in the course of our inspections we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

We have been shown copies of various documents relating to the properties and have caused searches to be made at the Land Registry regarding the properties in Hong Kong. However, we have not searched the original documents to verify any amendments which may not appear on the copies handed to us. Due to restrictions of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the property in Group II or any material encumbrances that might be attached to the property. We are not in a position to advise on the Group's title to the property in Group II. However, we have made reference to the opinion given by the Company's legal advisers on PRC laws in respect of the Group's title to the property in Group II.

The scope of valuations has been determined with reference to the property list provided by the Group. All properties on the list have been included in this valuation certificate.

We have had no reason to doubt the authenticity and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars. The adopted exchange rate for the valuation of property interests is the prevailing rate as at the date of valuation, being HK$1 to RMB0.97 and no significant fluctuation in exchange rate has been found between that date and the date of this letter.

The conclusion of values is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercise our professional judgment in arriving at the valuation, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Company or the value reported.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
Castores Magi (Hong Kong) Limited
Ernest Cheung Wah Fu
Member of China Institute of Real Estate Appraisers
China Registered Real Estate Appraiser
B.Sc. MRICS MHKIS RPS(GP) MCIArb
Director

Note: Ernest Cheung Wah Fu is a Registered Professional Surveyor who has over 14 years of experience in valuing properties in Hong Kong and the PRC. His name is included in the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.

SUMMARY OF VALUES

Group I – Property interests owned and occupied by the Group in Hong Kong

	Property	Capital value in existing state as at 31st July, 2007 *HK$*
1.	Units A, B and D on 5th Floor and Lorry Parking Space 23 on 1st Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.	13,770,000
2.	Unit C on 5th Floor, Van Parking Space 1 on 1st Floor and Lorry Parking Space 29 on 1st Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.	5,270,000
3.	Van Parking Space 8 on 1st Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.	300,000
	Sub-total:	19,340,000

Group II – Property interest held by the Group in Guangdong Province, the PRC

	Property	Capital value in existing state as at 31st July, 2007
		HK$
1.	Various buildings erected on two adjoining parcels of land located at No. 18 First High-Tech Road, High-Tech Industrial Zone, Xinlian Zhen, Humen Town, Dongguan City, Guangdong Povince, The PRC.	84,650,000
	Sub-total:	84,650,000
	Grand total:	103,990,000

VALUATION CERTIFICATE

Group I – Property interests owned and occupied by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st July, 2007 *HK$*
1.	Units A, B and D on 5th Floor and Lorry Parking Space 23 on 1st Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong. 36/920th shares of and in Sha Tin Town Lot No. 67 (the "Lot")	The property comprises three adjoining workshop units on the 5th Floor and one lorry parking space on 1st Floor of a 16-storey industrial building which was completed in about 1983. The property (excluding the lorry parking space) has a total saleable area of approximately 13,657 sq. ft. (approximately 1,268.8 sq. m.). The Lot is held under a Government Lease for a term of 99 years commencing from 1st July, 1898 which was extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance (Cap. 150 of the Laws of Hong Kong). The current annual Government Rent payable for the Lot is equal to 3% of the rateable value for the time being of the Lot.	Units A and D on 5th Floor and Lorry Parking Space 23 on 1st Floor are currently occupied by the Group for warehouse, ancillary office and lorry parking purposes. Unit B on 5th Floor is currently leased to a third party.	13,770,000

Note: The registered owner of the property is PME International (BVI) Company Limited, a wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st July, 2007 *HK$*
2.	Unit C on 5th Floor, Van Parking Space 1 on 1st Floor and Lorry Parking Space 29 on 1st Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong. 15/920th shares of and in Sha Tin Town Lot No. 67 (the "Lot")	The property comprises a workshop unit on the 5th Floor, one van parking space and one lorry parking space on 1st Floor of a 16-storey industrial building which was completed in about 1983. The property (excluding the van and the lorry parking spaces) has a saleable area of approximately 4,620 sq. ft. (approximately 429.2 sq. m.). The Lot is held under a Government Lease for a term of 99 years commencing from 1st July, 1898 which was extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance (Cap. 150 of the Laws of Hong Kong). The current annual Government Rent payable for the Lot is equal to 3% of the rateable value for the time being of the Lot.	The property is currently occupied by the Group for warehouse and van/lorry parking purposes.	5,270,000

Note: The registered owner of the property is Fook Cheong Ho International Limited, a wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st July, 2007 *HK$*
3.	Van Parking Space 8 on 1st Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong. 1/920th share of and in Sha Tin Town Lo No. 67 (the "Lot")	The property comprises one van parking space on 1st Floor of a 16-storey industrial building which was completed in about 1983. The Lot is held under a Government Lease for a term of 99 years commencing from 1st July, 1898 which was extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance (Cap. 150 of the Laws of Hong Kong). The current annual Government Rent payable for the Lot is equal to 3% of the rateable value for the time being of the Lot.	The property is currently occupied by the Group for van parking purpose.	300,000

Note: The registered owner of the property is Unison Base Investment Limited, a wholly-owned subsidiary of the Company.

Group II – Property interest held by the Group in Guangdong Province, the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st July, 2007 *HK$*
1.	Various buildings erected on two adjoining parcels of land located at No. 18 First High-Tech Road, High-Tech Industrial Zone, Xinlian Zhen, Humen Town, Dongguan City, Guangdong Province, The PRC.	The property comprises five various buildings erected on two adjoining parcels of land having a total site area of 61,561 sq. m. The buildings erected thereon have a total gross floor area of approximately 44,981.4 sq. m. and were completed in 1996. The property is subject to two land use rights each for a term of 50 years commencing from July, 1994 to July, 2044 for industrial purpose.	The property is currently occupied by the Group for production, storage, office and dormitory purposes.	84,650,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Dong Fu Guo Yong (1994) Zi Di Te No. 617 (國有土地使用證 – 東府國用(1994)字第特617號) dated 30th August, 1995 issued by the People's Government of Dongguan Shi (東莞市人民政府), the land use rights of a parcel of land was granted to "東莞必美宜拋光材料器材有限公司" for a land use term of 50 years commencing from July, 1994 to July, 2044. This parcel of land has a site area of 44,581 sq. m. and was designated for industrial purpose.

2. Pursuant to another State-owned Land Use Rights Certificate – Dong Fu Guo Yong (1994) Zi Di Te No. 618 (國有土地使用證 – 東府國用(1994)字第特618號) dated 30th August, 1995 issued by the People's Government of Dongguan Shi (東莞市人民政府), the land use rights of a parcel of land was granted to "東莞必美宜拋光材料器材有限公司" for a land use term of 50 years commencing from July, 1994 to July, 2044. This parcel of land has a site area of 16,980 sq. m. and was designated for industrial purpose.

3. According to five Realty Title Certificates – Yue Fang Di Zheng Zi Di Nos. C0374339, C0374340, C0374350, C0374352 and C0374357 (房地產權證 – 粵房地證字第C0374339, C0374340, C0374350, C0374352及C0374357號) all dated 21st November, 2001 and issued by the People's Government of Guangdong Province (廣東省人民政府), the realty title of three workshop buildings, one administration building and one dormitory building was granted to "東莞必美宜拋光材料器材有限公司". These buildings have a total gross floor area of 44,981.4 sq. m.

4. According to the legal opinion provided by the Company's PRC legal advisers, Guangdong Kingda Attorneys & Counselors, the followings, inter alia, were noted:

    1. "東莞必美宜拋光材料器材有限公司" is the unique legal holder of the land use rights and the unique owner of the buildings;

    2. "東莞必美宜拋光材料器材有限公司" can transfer, let and mortgage the property without any consent from a third party;

    3. the property is pledged to 中國農業銀行東莞市虎門支行.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for each of the three years ended 31 December 2006. A summary of the audited results, assets and liabilities of the Group as extracted from the annual reports of the Company is set out below.

	For the year ended 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
RESULTS			
Turnover	163,640	191,964	235,226
Cost of sales	(105,287)	(151,113)	(191,859)
Gross profit	58,353	40,851	43,367
Other income	866	4,037	2,597
Selling and distribution expenses	(7,886)	(12,879)	(12,367)
Administrative expenses	(26,584)	(25,242)	(25,902)
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement	554	895	320
Finance costs	(896)	(750)	(1,348)
Profit before taxation	24,407	6,912	6,667
Taxation	(3,169)	(1,754)	(1,165)
Profit for the year	21,238	5,158	5,502

	At 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES			
Total assets	258,224	264,031	275,319
Total liabilities	(25,517)	(28,031)	(34,485)
Equity	232,707	236,000	240,834

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP

The following is the audited financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2006.

Consolidated Income Statement

For the year ended 31st December, 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Turnover	*6*	235,226	191,964
Cost of sales		(191,859)	(151,113)
Gross profit		43,367	40,851
Other income	*8*	2,597	4,037
Selling and distribution expenses		(12,367)	(12,879)
Administrative expenses		(25,902)	(25,242)
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement		320	895
Finance costs	*9*	(1,348)	(750)
Profit before taxation		6,667	6,912
Taxation	*12*	(1,165)	(1,754)
Profit for the year	*13*	5,502	5,158
Attributable to:			
Equity holders of the Company		5,504	5,112
Minority interests		(2)	46
		5,502	5,158
Dividends	*14*	1,274	1,629
Earnings per share	*15*		
Basic		HK0.57 cents	HK0.53 cents

Consolidated Balance Sheet
At 31st December, 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Non-current assets			
Property, plant and equipment	*16*	122,499	119,172
Prepaid lease payments	*17*	10,214	10,012
Available-for-sale investments	*18*	–	1,379
Deposits placed with an insurer	*19*	3,559	3,903
Club debentures		350	350
		136,622	134,816
Current assets			
Inventories	*20*	27,672	31,586
Debtors, deposits and prepayments	*21*	76,732	64,707
Loan receivables	*22*	7,400	6,105
Prepaid lease payments	*17*	249	244
Taxation recoverable		940	1,487
Bank balances and cash	*21*	25,704	25,086
		138,697	129,215
Current liabilities			
Creditors and accruals	*23*	10,671	10,312
Taxation payable		682	765
Obligations under a finance lease	*24*	61	175
Bank loans	*25*	19,467	12,232
Bank overdraft, unsecured	*25*	–	185
		30,881	23,669
Net current assets		107,816	105,546
Total assets less current liabilities		244,438	240,362
Non-current liabilities			
Obligations under a finance lease	*24*	–	60
Deferred taxation	*26*	3,604	4,302
		3,604	4,362
		240,834	236,000
Capital and reserves			
Share capital	*27*	9,580	9,580
Share premium and reserves		230,999	226,172
Equity attributable to equity holders of the Company		240,579	235,752
Minority interests		255	248
		240,834	236,000

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006

	Attributable to equity holders of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000* *(Note)*	Translation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1st January, 2005	9,580	202,296	(38,581)	–	6,641	633	52,138	232,707	–	232,707
Exchange difference arising on translation of foreign operations	–	–	–	1,022	–	–	–	1,022	(20)	1,002
Revaluation decrease on buildings	–	–	–	–	(253)	–	–	(253)	–	(253)
Reversal of deferred tax arising on revaluation on buildings	–	–	–	–	68	–	–	68	–	68
Loss on fair value changes of available-for-sale investments	–	–	–	–	–	(1,275)	–	(1,275)	–	(1,275)
Net income (expense) recognised directly in equity	–	–	–	1,022	(185)	(1,275)	–	(438)	(20)	(458)
Profit for the year	–	–	–	–	–	–	5,112	5,112	46	5,158
Total recognised income and expense for the year	–	–	–	1,022	(185)	(1,275)	5,112	4,674	26	4,700
Dividends paid	–	–	–	–	–	–	(1,629)	(1,629)	–	(1,629)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	222	222
At 31st December, 2005	9,580	202,296	(38,581)	1,022	6,456	(642)	55,621	235,752	248	236,000
Exchange difference arising on translation of foreign operations	–	–	–	1,938	–	–	–	1,938	9	1,947
Revaluation decrease on building	–	–	–	–	(3,129)	–	–	(3,129)	–	(3,129)
Reversal of deferred tax arising on revaluation on buildings	–	–	–	–	1,146	–	–	1,146	–	1,146
Transfer to gain on disposal of available-for-sale investments	–	–	–	–	–	642	–	642	–	642
Net income (expense) recognised directly in equity	–	–	–	1,938	(1,983)	642	–	597	9	606
Profit (loss) for the year	–	–	–	–	–	–	5,504	5,504	(2)	5,502
Total recognised income and expense for the year	–	–	–	1,938	(1,983)	642	5,504	6,101	7	6,108
Dividends paid	–	–	–	–	–	–	(1,274)	(1,274)	–	(1,274)
At 31st December, 2006	9,580	202,296	(38,581)	2,960	4,473	–	59,851	240,579	255	240,834

Note: Special reserve represented the difference between the nominal amount of the share capital issued by PME International (BVI) Company Limited, the then holding company of the Group, and the aggregate of the nominal amount of the issued share capital and other reserves accounts of the subsidiaries which was acquired by PME International (BVI) Company Limited pursuant to the group reorganisation carried out in 1997.

Consolidated Cash Flow Statement
For the year ended 31st December, 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Operating activities			
Profit before taxation		6,667	6,912
Adjustments for:			
Discount on acquisition of a subsidiary		–	(28)
Interest income		(579)	(686)
Imputed interest income on other assets		(485)	–
Dividend income from listed investments		–	(144)
Depreciation of property, plant and equipment		6,937	6,082
Release of prepaid lease payment		249	238
Finance costs		1,348	750
Loss on disposals of property, plant and equipment		248	–
Gain on derecognition of available-for-sale investments		(83)	(250)
Reversal of revaluation decrease on leasehold land and buildings previously charged to income statement		(320)	(895)
Allowance for doubtful debts		1,003	1,758
Allowance for obsolete inventories		–	546
Operating cash flows before movements in working capital		14,985	14,283
Decrease (increase) in inventories		4,199	(3,448)
Increase in debtors, deposits and prepayments		(12,005)	(18,957)
Increase in creditors and accruals		263	4,209
Effect of foreign exchange		(2,229)	–
Cash generated from (used in) operations		5,213	(3,913)
Income tax refunded		318	–
Income tax paid		(580)	(6)
Net cash generated from (used in) operating activities		4,951	(3,919)
Investing activities			
Interest received		579	686
Dividend income from listed investments		–	144
Proceeds on derecognition of available-for-sale investments		5,014	3,740
Purchases of property, plant and equipment		(10,620)	(12,040)
Purchases of available-for-sale investments		(2,910)	–
Advances of loan receivables		(7,400)	(7,957)
Repayments of loan receivables		6,105	9,712
Proceeds from disposal of property, plant and equipment		652	–
Acquisition of a subsidiary	*29*	–	382
Disposal of a subsidiary	*30*	–	7
Net cash used in investing activities		(8,580)	(5,326)

	2006 *HK$'000*	2005 *HK$'000*
Financing activities		
New bank loans raised	21,502	30,908
Repayments of bank loans	(14,474)	(31,073)
Repayments of obligations under a finance lease	(174)	(165)
Interest paid	(1,340)	(733)
Finance lease charges paid	(8)	(17)
Dividends paid	(1,274)	(1,629)
Net cash generated from (used in) financing activities	4,232	(2,709)
Net increase (decrease) in cash and cash equivalents	603	(11,954)
Cash and cash equivalents at beginning of the year	24,901	36,800
Effect of foreign exchange rate changes	200	55
Cash and cash equivalents at end of the year, represented by	25,704	24,901
Bank balances and cash	25,704	25,086
Bank overdrafts	–	(185)
	25,704	24,901

Notes to the Financial Statements

For the year ended 31st December, 2006

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information on the annual report.

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

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 36.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, 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 standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

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 1st January, 2007

2 Effective for annual periods beginning on or after 1st January, 2009

3 Effective for annual periods beginning on or after 1st March, 2006

4 Effective for annual periods beginning on or after 1st May, 2006

5 Effective for annual periods beginning on or after 1st June, 2006

6 Effective for annual periods beginning on or after 1st November, 2006

7 Effective for annual periods beginning on or after 1st March, 2007

8 Effective for annual periods beginning on or after 1st January, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain leasehold properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 their respective dates of acquisition or up to the dates of disposal, as appropriate.

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

All significant intercompany transactions and balances within the Group have been 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's interest 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.

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.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rates 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 carrying amount.

Dividend income from investments is recognised when the Group rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment other than leasehold land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, as follows:

Leasehold land and building	Over the shorter of the term of leases or 50 years
Plant and machinery	10 years
Other property, plant and equipment	3 to 5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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

Prepaid lease payments

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the relevant lease terms.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as finance lease.

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 Group's financial assets comprise of loans and receivable and available-for-sale financial assets.

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 debtors, deposits placed with an insurer, loan receivables and bank balances 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 non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in 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 definition of a financial liability and a 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 accounting policies adopted in respect of financial liabilities are set out below.

Financial liabilities

Financial liabilities including creditors, bank borrowings and bank overdraft 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 the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

Club debentures

Club debentures are stated at cost less any identified impairment loss.

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 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. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another HKFRS, in which case the impairment loss is treated as revaluation decrease under that HKFRS.

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, unless the relevant asset is carried a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling prices less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

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 the respective 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 period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period 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 Group 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 period, 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 period in which the foreign operation is disposed of.

Taxation

Taxation 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 net 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 income statement 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 the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 realised. Deferred tax is charged or credited in 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.

Retirement benefit costs

Payments to the defined contribution retirement benefits schemes are charged as an expense as when employees have rendered service entitling them to the contribution.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. When the actual useful lives of property, plant and equipment due to the change of commercial environment are different from their estimated useful lives, such difference will impact the deprecation charges and the amounts of assets written down for future periods.

Estimated allowance of doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other debtors. Allowances are applied to trade and other debtors where events or change in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the present value of estimated future cash flows discounted at the original effective interest rate is lower than the carrying amount, such difference represents allowance for doubtful debts recognised as expense in the consolidated income statement. When the actual future cash flows are less than the expected, a material impairment loss may arise.

5. FINANCIAL INSTRUMENTS

5a. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, loans receivables, bank balances, bank borrowings, debtors and creditors. 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

The Group operates mainly in Hong Kong and the Mainland China. Several subsidiaries of the Company have sales and purchases and the relevant debtors and creditors denominated in currencies other than the functional currency of the relevant group companies, which expose the Group to foreign currency risk. The management manages and monitors the currency risk exposure and would consider the use of forward contract to mitigate the risk.

Interest rate risk

The Group was exposed to interest rate risk through the impact of rate changes on bank balances, loan receivables, bank borrowings and obligations under a finance lease. The management manages and monitors the interest rates exposures and would consider the use of interest rate swap to mitigate the risk. The interest rates and terms of bank balances, loan receivables, obligations under a finance lease and bank borrowings were disclosed in notes 21, 22, 24 and 25 respectively.

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 debt 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.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

5b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. TURNOVER

Turnover represents the amounts received and receivable from the manufacture of abrasive products, polishing compounds and polishing wheels, trading of polishing materials and polishing equipment and provision of technical consultancy service, net of allowances and returns, during the year.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing	–	manufacture of abrasive products, polishing compounds and polishing wheels
Trading	–	trading of polishing materials and polishing equipment
Technical service	–	provision of technical consultancy service

Segment information about these businesses is presented below.

Income statement for the year ended 31st December, 2006

	Manufacturing	**Technical**	**Trading service**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	122,314	106,398	6,514	235,226
Result				
Segment result	5,708	3,862	891	10,461
Unallocated corporate expenses				(5,363)
Other income				2,597
Reversal of revaluation decrease in leasehold land and buildings previously charged to the consolidated income statement				320
Finance costs				(1,348)
Profit before taxation				6,667
Taxation				(1,165)
Profit for the year				5,502

Balance sheet at 31st December, 2006

	Manufacturing	Technical	Trading service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	177,512	55,291	2,393	235,196
Unallocated corporate assets				40,123
Consolidated total assets				275,319
Liabilities				
Segment liabilities	6,299	4,120	252	10,671
Unallocated corporate liabilities				23,814
Consolidated total liabilities				34,485

Other information

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	6,736	3,661	223	10,620
Depreciation of property, plant and equipment	5,309	1,484	144	6,937
Release of prepaid lease payment	249	–	–	249
Allowance for doubtful debts	522	451	30	1,003

Income statement for the year ended 31st December, 2005

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	98,666	85,689	7,609	191,964
Result				
Segment result	2,918	2,524	2,915	8,357
Unallocated corporate expenses				(5,627)
Other income				4,037
Reversal of revaluation decrease in leasehold land and buildings previously charged to the consolidated income statement				895
Finance costs				(750)
Profit before taxation				6,912
Taxation				(1,754)
Profit for the year				5,158

Balance sheet at 31st December, 2005

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	164,888	51,984	3,386	220,258
Unallocated corporate assets				43,773
Consolidated total assets				264,031
Liabilities				
Segment liabilities	5,276	4,463	573	10,312
Unallocated corporate liabilities				17,719
Consolidated total liabilities				28,031

Other information

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	8,155	3,568	317	12,040
Depreciation of property, plant and equipment	4,753	1,219	110	6,082
Release of prepaid lease payment	238	–	–	238
Allowance for doubtful debts	903	785	70	1,758
Allowance for obsolete inventories	546	–	–	546

Geographical segments

The Group's operations are located in Hong Kong and Mainland China. The Group's trading divisions are mainly located in Hong Kong and Mainland China. Manufacturing and technical service are carried out in Mainland China.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of customers:

	Turnover	
	2006	**2005**
	HK$	*HK$*
Hong Kong	97,316	83,622
Mainland China	118,367	95,762
Other Asian region	15,462	8,383
North America and Europe	1,159	1,400
Other countries	2,922	2,797
	235,226	191,964

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006	**2005**	**2006**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
Hong Kong	127,622	115,056	254	1,534
Mainland China	107,574	105,202	10,366	10,506
	235,196	220,258	10,620	12,040

8. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Other income comprises:		
Discount on acquisition of a subsidiary	–	28
Gain on disposal of available-for-sale investments	83	250
Interest income from banks	35	322
Other interest income	544	364
Imputed interest income on deposits placed with an insurer	485	–
Net foreign exchange gains	558	2,218
Dividend income from listed investments	–	144
Rental income	127	–
Sundry income	765	711
	2,597	4,037

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Finance costs comprise:		
Interests on bank borrowings wholly repayable within five years	1,340	733
Finance lease charges	8	17
	1,348	750

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2005: ten) directors were as follows:

Name of Director	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheng Kwok Woo	–	1,071	–	48	1,119
Cheng Kwong Cheong	–	1,055	–	48	1,103
Chow Yin Kwang	–	752	–	35	787
Cheng Wai Ying	–	501	–	24	525
Chan Yim Fan	–	367	–	17	384
Zheng Jin Hong	50	–	–	–	50
Anthony Francis Martin Conway	120	–	–	–	120
Leung Yuen Wing	120	–	–	–	120
Lam Hon Ming, Edward	60	–	–	–	60
Total for the year 2006	350	3,746	–	172	4,268

Name of Director	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheng Kwok Woo	–	1,063	–	84	1,147
Cheng Kwong Cheong	–	1,063	–	84	1,147
Chow Yin Kwang	–	739	–	33	772
Cheng Wai Ying	–	607	–	42	649
Chan Yim Fan	–	358	–	16	374
Chung Kam Fai, Raymond	–	57	–	1	58
Zheng Jin Hong	50	–	–	–	50
Anthony Francis Martin Conway	120	–	–	–	120
Leung Yuen Wing	120	–	–	–	120
Lam Hon Ming, Edward	60	–	–	–	60
Total for the year 2005	350	3,887	–	260	4,497

No directors waived any emoluments in the year ended 31st December, 2006 and 2005.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: four) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining one highest paid individual in 2006 were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	420	401
Retirement benefit scheme contributions	19	18
	439	419

12. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong	590	572
Other regions in the PRC	122	348
Other jurisdictions	5	60
	717	980
Overprovision in prior year		
Hong Kong	–	(70)
	717	910
Deferred taxation *(note 26)*		
Current year	448	844
	1,165	1,754

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

In accordance with the relevant tax laws and regulations of The People's Republic of China ("PRC"), the PRC subsidiary is exempted from Enterprise Income Tax ("EIT") for two years starting from its first profit making year after utilisation of carried forward tax losses and is eligible for a 50% relief on the EIT in the following three years. 2003 is the first profit marking year.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	6,667	6,912
Tax at Hong Kong Profits Tax rate of 17.5%	1,167	1,210
Tax effect of expenses not deductible for tax purpose	196	527
Tax effect of income not taxable for tax purpose	(82)	(134)
Tax effect of tax loss not recognised	1	155
Tax effect of utilisation of tax losses previously not recognised	(83)	–
Tax effect of income tax on concessionary rate granted to the PRC subsidiary	(36)	(68)
Effect of different tax rate of subsidiaries operating in other jurisdictions	42	116
Overprovision in respect of prior year	–	(70)
Others	(40)	18
Tax charge for the year	1,165	1,754

The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

13. PROFIT FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	6,937	6,082
Release of prepaid lease payment	249	238
Staff costs, including directors' remuneration	17,170	17,603
Auditors' remuneration	930	830
Allowance for doubtful debts	1,003	1,758
Allowance for obsolete inventories	–	546
Loss on disposal of property, plant and equipment	248	–
Cost of inventories recognise as expenses	191,859	151,113
Rental income	(127)	–
Less: Direct expenses that generated rental income	24	–
	(103)	–

Contributions to retirement benefits schemes of HK$520,000 (2005: HK$662,000) are included in staff costs.

14. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim dividend of HK0.033 cent (2005: HK0.17 cent) per share	316	1,629
Final dividend in respect of the year ended 31st December, 2005 – HK0.1 cent (year ended 31st December, 2004: Nil) per share	958	–
	1,274	1,629

The directors do not recommend payment of final dividend for the year ended 31st December 2006.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Earnings attributable to equity holders of the Company for the purposes of basic earnings per share	5,504	5,112

	Number of shares	
	2006	2005
	'000	*'000*
Number of ordinary shares for the purpose of basic earnings per share	958,000	958,000

No diluted earnings per share was presented for both years as the Company has no potential dilutive ordinary shares during both years.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Yachts HK$'000	Total HK$'000
AT COST OR VALUATION						
At 1st January, 2005	88,320	34,343	11,253	4,466	1,317	139,699
Effect on exchange adjustments	1,773	382	57	23	–	2,235
Additions	–	11,265	488	287	–	12,040
Disposals	–	(244)	–	–	–	(244)
Decrease in revaluation	(1,613)	–	–	–	–	(1,613)
At 31st December, 2005	88,480	45,746	11,798	4,776	1,317	152,117
Effect on exchange adjustments	3,415	899	114	56	–	4,484
Additions	–	10,274	224	122	–	10,620
Disposals	–	(1,297)	(49)	(1,064)	–	(2,410)
Decrease in revaluation	(5,405)	–	–	–	–	(5,405)
At 31st December, 2006	86,490	55,622	12,087	3,890	1,317	159,406
Comprising:						
At cost	–	55,622	12,087	3,890	1,317	72,916
At valuation 2006	86,490	–	–	–	–	86,490
	86,490	55,622	12,087	3,890	1,317	159,406
ACCUMULATED DEPRECIATION						
At 1st January, 2005	–	14,299	9,210	4,081	1,317	28,907
Effect on exchanges adjustments	203	180	50	22	–	455
Provided for the year	2,052	3,173	639	218	–	6,082
Eliminated on disposals	–	(244)	–	–	–	(244)
Eliminated on revaluation	(2,255)	–	–	–	–	(2,255)
At 31st December, 2005	–	17,408	9,899	4,321	1,317	32,945
Effect on exchanges adjustments	512	464	106	49	–	1,131
Provided for the year	2,084	3,984	609	260	–	6,937
Eliminated on disposals	–	(423)	(49)	(1,038)	–	(1,510)
Eliminated on revaluation	(2,596)	–	–	–	–	(2,596)
At 31st December, 2006	–	21,433	10,565	3,592	1,317	36,907
CARRYING VALUES						
At 31st December, 2006	86,490	34,189	1,522	298	–	122,499
At 31st December, 2005	88,480	28,338	1,899	455	–	119,172

At 31st December, 2006, leasehold land and buildings of HK$86,490,000 (2005: HK$88,480,000) were held under medium term lease.

The leasehold land and buildings of the Group were revalued by Castores Magi (Hong Kong) Limited, an independent firm of registered professional surveyors, at 31st December, 2006 by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards. The revaluation gave rise to a net revaluation deficit of HK$2,809,000 (2005: surplus of HK$642,000) of which HK$3,129,000 (2005: HK$253,000) has been charged to the property revaluation reserve and HK$320,000 (2005: HK$895,000) has been credited to the consolidated income statement.

If the leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	2006	**2005**
	HK$'000	*HK$'000*
Cost	99,678	94,493
Accumulated depreciation	(17,322)	(14,764)
Carrying values	82,356	79,729

Motor vehicles include an amount of HK$15,000 (2005: HK$199,000) in respect of asset held under a finance lease.

At 31st December, 2006, leasehold land and buildings with an aggregate carrying value of HK$79,063,000 (2005: HK$83,996,000) was pledged to banks to secure banking facilities granted to the Group.

17. PREPAID LEASE PAYMENTS

The leasehold land outside Hong Kong was held under medium-term lease.

	2006	**2005**
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current asset	10,214	10,012
Current asset	249	244
	10,463	10,256

At 31st December, 2005 and 2006, the leasehold land was pledged to a bank to secure a banking facility granted to the Group.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2006	**2005**
	HK$'000	*HK$'000*
Equity securities:		
Listed in Hong Kong, at market value	–	1,379

All available-for-sale investments were stated at fair value and disposed of during the year. Fair value of those investments have been determined by reference to bid prices quoted in active market.

19. DEPOSITS PLACED WITH AN INSURER

The deposits are attached to life insurance policies. Upon initial recognition, the premium relating to the insurance policies are recognised separately. The deposits are carried at amortised cost at the effective interest rate of 5%. The initial premium for the insurance policies are included in debtors, deposits and prepayments and amortised over the insurance period.

The insured persons are the directors of the Company and the Company is the beneficiary of the life insurance policies. The life insurance funds have guaranteed returns over the respective policy periods.

During 2006, deposits were pledged to a bank to secure a banking facility granted to the Group.

20. INVENTORIES

	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	5,678	5,947
Work in progress	45	176
Finished goods	21,949	25,463
	27,672	31,586

21. OTHER FINANCIAL ASSETS

Debtors, deposits and prepayments

The Group has a policy of allowing average credit period of 60 to 90 days to its trade debtors. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK$64,115,000 (2005: HK$54,587,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within 30 days	20,797	20,555
Between 31 to 60 days	20,802	15,748
Between 61 to 90 days	15,181	11,186
Over 90 days	7,335	7,098
	64,115	54,587
Other debtors, deposits and prepayments	12,617	10,120
	76,732	64,707

Bank balances and cash

Bank balances carry interest at market rates which range from 2.25% to 2.5% (2005: 0.01% to 2.5%).

22. LOAN RECEIVABLES

The loans were made to independent third parties and were repayable within one year. Interests were charged at prime rate plus 3% to 5% (2005: prime rate plus 3% to 5%) on the outstanding balances of the loans.

The effective interest rates on the Group's loan receivables were ranging from 10.75% to 17.5% (2005: 10.00% to 12.75%).

At 31st December, 2006, loan receivables with an aggregate carrying amount of HK$6,800,000 (2005: HK$4,805,000) were secured by personal guarantees.

23. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK$5,396,000 (2005: HK$6,780,000) which are included in the Group's creditors and accruals is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within 30 days	1,994	2,686
31 to 60 days	2,423	984
61 to 90 days	777	1,615
Over 90 days	202	1,495
	5,396	6,780
Other creditors and accruals	5,275	3,532
	10,671	10,312

24. OBLIGATIONS UNDER A FINANCE LEASE

The lease term of the finance lease was five years. Interest rate is fixed at 2.28% at the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under a finance lease:				
Within one year	62	183	61	175
More than one year, but not exceeding two years	–	61	–	60
	62	244	61	235
Less: future finance charges	(1)	(9)	–	–
Present value of lease obligations	61	235	61	235
Less: Amount due within one year shown under current liabilities			(61)	(175)
Amount due after one year			–	60

25. BANK LOANS AND OVERDRAFT

	2006	2005
	HK$'000	*HK$'000*
Bank loans comprise:		
Trust receipt loans	6,381	5,876
Other bank loans	13,086	6,356
	19,467	12,232
Analysed as:		
Secured	8,010	4,593
Unsecured	11,457	7,639
	19,467	12,232
Bank overdraft, unsecured	–	185

All bank loans are due for repayment within one year.

Bank loans and overdraft included bank loans of HK$4,800,000 (2005: HK$4,593,000) was fixed-rate loans which carried interest at 5.85% (2005: 5.58%). The remaining bank loans and bank overdraft were variable-rate borrowings and their effective interest rates were ranging from 6.00% to 7.13% (2005: 2.56% to 5.13%).

26. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Revaluation of properties	Tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2005	1,601	2,456	–	(531)	3,526
Charge (credit) to consolidated income statement for the year	733	157	(335)	289	844
Credit to equity for the year	–	(68)	–	–	(68)
At 31st December, 2005	2,334	2,545	(335)	(242)	4,302
Charge (credit) to consolidated income statement for the year	610	56	(250)	32	448
Credit to equity for the year	–	(1,146)	–	–	(1,146)
At 31st December, 2006	2,944	1,455	(585)	(210)	3,604

At the balance sheet date, the Group has unused tax losses of HK$4,913,000 (2005: HK$3,962,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$3,331,000 (2005: HK$1,914,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,582,000 (2005: HK$2,048,000) due to the unpredictability of future profit streams.

27. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Nominal value	
	2006	**2005**	**2006**	**2005**
	'000	*'000*	*HK$'000*	*HK$'000*
Authorised:				
At 31st December, 2005 and 31st December, 2006	10,000,000	10,000,000	100,000	100,000
Issue and fully paid:				
At 31st December, 2005 and 31st December, 2006	958,000	958,000	9,580	9,580

28. SHARE OPTIONS

Pursuant to the Company's share options scheme adopted on 23rd October, 2002, the board of directors of the Company may, at its discretion, grant options to full-times employees (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant.

The maximum number of shares which may be in issue upon exercise of options granted and yet to be exercised under the share option scheme and any other scheme of the Company shall not exceed 30% of the total issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted (included both exercised and outstanding options) in any 12 months period up to the date of grant to each eligible person shall not exceed 1% of the total issued share capital of the Company in issue, unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein; and (iii) the relevant eligible person and its associates abstain from the voting on the resolution.

A nominal consideration of HK$1 is payable on acceptance of each grant.

No share options have been granted under the scheme since its adoption.

29. ACQUISITION OF SUBSIDIARY

On 1st May, 2005, the Group acquired 71% of the issued share capital of Wels International Company Limited for consideration of HK$517,000. This acquisition has been accounted for using the purchase method. The directors of the Company determined that the fair value of the assets and liabilities of the subsidiary acquired approximated to their carrying amounts before combination, accordingly no fair value adjustments have been put through.

The net assets acquired in 2005 were as follows:

	HK$'000
Net assets acquired:	
Inventories	295
Debtors, deposits and prepayments	743
Bank balances and cash	899
Creditors and accruals	(1,130)
Taxation payable	(40)
Net assets acquired	767
Minority interest	(222)
Discount on acquisition	(28)
	517
Satisfied by:	
Cash consideration	517
Net cash inflow arising on acquisition:	
Cash consideration paid	517
Cash and cash equivalents acquired	(899)
	(382)

Wels International Company Limited contributed HK$6,556,000 to the Group's turnover and HK$159,000 to the Group's profit for the period between the date of acquisition and 31st December, 2005.

If the acquisition had been completed on 1st January, 2005, total group revenue for the year ended 31st December, 2005 would have been HK$193,859,000, and profit for the year ended 31st December, 2005 would have been HK$5,206,000. The proforma 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 1st January, 2005, nor is it intended to be a projection of future results.

30. DISPOSAL OF A SUBSIDIARY

The Group disposed of a subsidiary in 2005. The net assets of this subsidiary disposed in 2005 were as follows:

	HK$'000
Debtors, deposits and prepayments	4,282
Bank balances and cash	1
Creditors and accruals	(3,243)
Taxation payable	(1,032)
	8
Satisfied by:	
Cash consideration	8
Net cash inflow (outflow) arising on disposal:	
Cash consideration	8
Bank balances and cash disposed of	(1)
	7

31. CAPITAL COMMITMENTS

On 29th September, 2006, the Group entered a joint venture agreement with a third party to establish a joint venture in which the Group will invest approximately HK$5,830,000 to develop manufacturing facilities in the PRC. The Group's commitment for contribution of HK$5,830,000 has not been provided in the consolidated financial statements.

There was no (2005: HK$29,000) capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

32. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was HK$127,000 (2005: nil). The property has committed tenants for the next 2 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	382	–
In the second to fifth year inclusive	254	–
	636	–

33. EMPLOYEE RETIREMENT BENEFITS

The operating subsidiaries in Hong Kong joined the mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contribution to the MPF Scheme at rates specified in the rules of the MPF Scheme. The obligation of the Group with respect of MPF Scheme is to make the required contribution under the MPF Scheme. The retirement benefits cost charged to the consolidated income statement represents contributions payable to the MPF Scheme by the Group.

The PRC employees of the subsidiary in the PRC are members of the pension scheme operated by the PRC local government. The subsidiary is required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contributions under the pension scheme.

34. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2006	**2005**
	HK$'000	*HK$'000*
Short-term benefits	4,096	4,237
Post-employment benefits	172	260
	4,268	4,497

Details of Directors' remuneration (being the compensation of key management personnel) are set out in note 10.

35. POST BALANCE SHEET EVENT

On 2nd April, 2007, the Company entered into a placing agreement to place 191,600,000 new shares of the Company at HK$0.172 per share. The placing was completed on 16th April, 2007.

On 12th April, 2007, the Company entered into a placing agreement to place 220,000,000 unlisted warrants of the Company at issue price of HK$0.046 per warrant. The placing of the unlisted warrants is not yet completed.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries which are wholly-owned by the Company as at 31st December, 2006 are as follows:

Name of subsidiary	**Place of incorporation/ registration**	**Issued and fully paid share capital/ registered capital** *(notes a and b)*	**Principal activities**
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK$300,000 *(note c)* Ordinary shares HK$10,000	Trading of polishing materials and equipment
PME International (BVI) Company Limited	British Virgin Islands	Ordinary shares US$30,000	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(note c)* Ordinary shares HK$1,000	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co. Limited	Hong Kong	Ordinary shares HK$60,000	Trading of polishing equipment

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *(notes a and b)*	Principal activities
Dongguan PME Polishing Materials & Equipments Co., Ltd.	PRC	Registered capital *(note d)* HK$40,000,000	Manufacturing and trading of polishing materials

Notes:

(a) The Company directly holds the entire interest in PME International (BVI) Company Limited. The interests of all other subsidiaries are indirectly held by the Company.

(b) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. which operates in the PRC, all the principal subsidiaries operate principally in Hong Kong.

(c) The 5% non-voting deferred shares of HK$1 each are not held by the Group and practically carrying no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining asset of the companies only after the distribution of HK$1,000,000 million, as specified in the articles of association, to holders of ordinary shares.

(d) Established as a wholly foreign owned enterprises.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at 31st December, 2006 or at any time during the year.

3. INDEBTEDNESS FOR THE GROUP

As at the close of business on 31 July 2007, the Group did not have contingent liability and capital commitment. As at 31 July 2007, save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group had bank borrowings of approximately HK$15,110,000.

4. WORKING CAPITAL

Taking into account the internally generated funds and the presently available credit facilities, the Directors are of the opinion that the Enlarged Group will, following the completion of the Sale and Purchase Agreement, have sufficient working capital for its present requirements, that is for at least 12 months from the date of this circular, in the absence of unforeseeable circumstances.

5. MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis for the year ended 31 December 2006

Business Review and Financial Performance

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name Pme and the trading of various branded industrial abrasive products. Over 90% of the Group's turnover and profits was contributed from the markets in Hong Kong and the Pearl River Delta in Mainland China.

The Group's turnover for the year 2006 has increased by 22.5% from approximately HK$191.9 million in 2005 to approximately HK$235.2 million. The net profit for the year under review was slightly increased from approximately HK$5.2 million in 2005 to approximately HK$5.5 million.

The increase in turnover is mainly due to increase in sales to wholesale distributors in Mainland China market. During the year, the price of raw materials were slightly increased and being kept at high level, therefore the gross profit margin was slightly decreased. Due to effectiveness cost control enhanced, selling and administrative expenses were steadily kept in the same level as compared with last year, led the Group's profit slightly improved in 2006 as compared with last year.

Liquidity and Financial Resources

At 31 December 2006, the Group had interest-bearing bank borrowings of approximately HK$19.5 million (31 December 2005: HK$12.3 million), which were of maturity within one year. The directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group's operations. At 31 December 2006, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$83.1 million (31 December 2005: HK$98.8 million) have been pledged to banks to secure the banking facilities granted to the Group.

At 31 December 2006, current assets of the Group amounted to approximately HK$138.7 million (31 December 2005: HK$129.2 million). The Group's current ratio was approximately 4.49 as at 31 December 2006 as compared with 5.46 as at 31 December 2005. At 31 December 2006, the Group had total assets of approximately HK$275.3 million (31 December 2005: HK$264.0 million) and total liabilities of approximately HK$34.5 million (31 December 2005: HK$28.0 million), representing a gearing ratio (measured as total liabilities to total assets) of 12.5% as at 31 December 2006 as compared with 10.6% as at 31 December 2005.

Foreign Exchange Exposures

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are either in Hong Kong dollars or Renminbi. As Hong Kong dollars have been pledged with US dollars, and the exchange rate of Renminbi against Hong Kong dollars is relatively stable, the directors consider that the Group has no material currency exchange risk exposures.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2006 and 31 December 2005.

Capital Commitments

At 29 September 2006, the Group has entered a joint venture agreement with a third party to establish a joint venture in which the Group will invest approximately HK$5,830,000 to develop manufacturing facilities in the PRC.

Apart from the above mentioned, there was no (2005: HK$29,000) capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

Outlook

As an enterprise where PRC is its major market, we are filled with hope for the future as the PRC economy continues to grow.

In 2007, we are celebrating the 50th anniversary of the setup of the polishing business. We will bring new elements and environment to create a new future of the Group: (1) Shanghai PME-XINHUA Polishing Materials Systems, a joint venture in Shanghai, has been formally established and commenced operations in March 2007. It is expected that the pace of expanding to the Yangtze River Delta market will accelerate; (2) Except for sales of high-end products, we will develop more and more products to suit the market needs. We will capture the market through distribution network as we believe that it is the most effective and economical way to obtain higher market shares.

The placement of new shares in April 2007 has increased the capital base of the Company and improved the financial position of the Group. Proceeds from the placement enable the Group to further expand its distribution network in the PRC and also to explore new business opportunity.

Employees and Remuneration

At 31 December 2006, the Group had approximately 238 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

Management Discussion and Analysis for the year ended 31 December 2005

Business Review and Financial Performance

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name Pme and the trading of various branded industrial abrasive products. Over 90% of the Group's turnover and profits was contributed from the markets in Hong Kong and the Pearl River Delta in Mainland China.

The Group's turnover for the year 2005 has increased by 17.3% from approximately HK$163.6 million in 2004 to approximately HK$192.0 million. The net profit for the year under review decreased from approximately HK$21.2 million in 2004 to approximately HK$5.1 million. The increase in turnover is mainly due to increase in sales of trading products and increase in sales to Mainland China market. However, the continued increase in raw materials costs, manufacturing overheads and the costs of trading products, which have not been able to fully transfer to our customers due to keen competition in market, reduced the Group's profit margin. The increase in marketing expenses to promote the Group's products to Mainland market and bad debt provisions made during the year also resulted in a decrease in net profit.

Liquidity and Financial Resources

At 31 December 2005, the Group had interest-bearing bank borrowings of approximately HK$12.2 million (31 December 2004: HK$12.3 million), which were of maturity within one year. The directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group's operations. At 31 December 2005, the Group's leasehold land and buildings and prepaid lease payments with aggregate carrying value of approximately HK$94.3 million (31 December 2004: HK$94.6 million) have been pledged to banks to secure the banking facilities granted to the Group.

At 31 December 2005, current assets of the Group amounted to approximately HK$129.2 million (31 December 2004: HK$127.0 million). The Group's current ratio was approximately 5.46 as at 31 December 2005 as compared with 5.84 as at 31 December 2004. At 31 December 2005, the Group had total assets of approximately HK$264.0 million (31 December 2004: HK$258.2 million) and total liabilities of approximately HK$28.0 million (31 December 2004: HK$25.5 million), representing a gearing ratio (measured as total liabilities to total assets) of 10.6% as at 31 December 2005 as compared with 9.9% as at 31 December 2004.

Foreign Exchange Exposures

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are either in Hong Kong dollars or Renminbi. As Hong Kong dollars have been pledged with US dollars, and the exchange rate of Renminbi against Hong Kong dollars is relatively stable, the directors consider that the Group has no material currency exchange risk exposures.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2005 and 31 December 2004.

Capital Commitments

At 31 December 2005, the Group had capital commitment of HK$29,000 (2004: HK$96,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

Future Prospect

Taking a macro-view of the economic environment, the growth of Mainland China, as in previous years, will continue; Hong Kong also has a positive economic outlook. As an enterprise where the PRC is its major market, we will try our best to grasp market opportunities so as to maximize shareholders' return. In 2006, in the areas of market and product development, we will continue to develop the distribution network so as to widen our sales channels; actively introduce new products which suit the market needs; increase the market value of Pme brand. Following the positive progress in the negotiations with the Mainland joint venture partner, it is expected that our development in the market among the Yangtze River Delta region will be accelerated. Cost control remains our top issue this year. The organisational restructuring will be undergone to increase operational effectiveness.

Employees and Remuneration

At 31 December 2005, the Group had approximately 260 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

Management Discussion and Analysis for the year ended 31 December 2004

Business Review and Financial Performance

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name Pme and the trading of various branded industrial abrasive products. Over 90% of the Group's turnover and profits was contributed from the markets in Hong Kong and Pearl River Delta in Mainland China.

Despite of the continued increase in the prices of raw materials during the second half of 2004, the Group has achieved moderate results for the financial year ended 31 December 2004. The Group's turnover for the year 2004 increased by 5.5% from approximately HK$155.1 million in 2003 to approximately HK$163.6 million in 2004. The net profit for the year under review was approximately HK$21.2 million, representing a decrease of 30.7% as compared with the net profit of approximately HK$30.6 million last year. The increase in turnover was mainly due to the increased demand of the Group's products and technical services from the customers in Mainland China. However, the substantial increase in the prices of raw materials has reduced the gross profit margin by around 11% from 46.6% in 2003 to 35.7% in 2004 and thus resulting a decrease of net profit from HK$30.6 million in 2003 to HK$21.2 million in 2004. During the year, the Group has implemented effective cost control measures to reduce the selling and administrative expenses.

Liquidity and Financial Resources

At 31 December 2004, the Group had interest-bearing bank borrowings of approximately HK$12.3 million (31 December 2003: HK$22.2 million), which were of maturity within one year. The Directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group's operations. At 31 December 2004, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$88.7 million (31 December 2003: HK$104.4 million) were pledged to banks to secure the banking facilities granted to the Group.

At 31 December 2004, current assets of the Group amounted to approximately HK$126.8 million (31 December 2003: HK$82.8 million). The Group's current ratio was approximately 5.83 as at 31 December 2004 as compared with 2.19 as at 31 December 2003. At 31 December 2004, the Group had total assets of approximately HK$262.5 million (31 December 2003: HK$204.2 million) and total liabilities of approximately HK$26.7 million (31 December 2003: HK$42.8 million), representing a gearing ratio (measured as total liabilities to total assets) of 10.2% as at 31 December 2004 as compared with 21.0% as at 31 December 2003.

Foreign Exchange Exposures

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are either in Hong Kong dollars or Renminbi. As Hong Kong dollars have been pledged with US dollars, and the exchange rate of Renminbi against Hong Kong dollars is relatively stable, the Directors consider that the Group has no material currency exchange risk exposures.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2003 and 2004.

Capital Commitments

At 31 December 2004, the Group had capital commitment of HK$96,000 (2003: HK$1,957,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

Employees and Remuneration

At 31 December 2004, the Group had approximately 310 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

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

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

RESULTS

	2006 *HK$'000*	2005 *HK$'000*	2004 *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 *HK$'000*	2005 *HK$'000*	2004 *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 UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

The following information has been extracted from the interim results announcement of Proactive for the six months ended 30 June 2007.

Condensed Consolidated Income Statement

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

Condensed Consolidated Balance Sheet

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

Condensed Consolidated Cash Flow Statements

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

Condensed Consolidated Statement of Change in Equity

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

Notes to the Interim Financial Statements

1. COMPANY INFORMATION

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Group's unaudited condensed consolidated results have been prepared in accordance with the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed consolidated results have been prepared on the historical cost basis. The accounting policies adopted in preparing the unaudited condensed consolidated results for the Half-Yearly Period and the Last Corresponding Period are consistent with those followed in the preparation of Group's annual audited consolidated financial statements for the year ended 31 December 2006.

3. SEGMENT INFORMATION

a. Turnover

Turnover represents (i) net invoiced value for the supply, development and integration of telecommunications, computer telephony systems and other computer products, after allowances for return and discounts; (ii) rental income from leasing telecommunications and computer telephony equipment; and (iii) fees for consulting and maintenance services. Turnover by business segments is as follows:

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

b. Loss attributable to equity holders of the parent

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

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

4. LOSS BEFORE TAX

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

	(Unaudited) Six months ended 30 June		(Unaudited) Three months ended 30 June	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
After charging:				
Staff costs (including directors' emoluments)				
– Salaries and allowances	6,796	2,109	2,914	984
– Equity-settled shared based payment expenses	21,851	–	21,851	–
– Retirement benefits scheme costs	136	80	74	40
	28,783	2,189	2,988	1,024
Cost of inventories	2,387	2,042	1,252	848
Operating lease rentals of premises	923	322	452	80
Interest expenses				
– bank borrowings wholly repayable within five years	318	11	318	3
Provision for and write-off of bad and doubtful receivables	1,726	(231)	1,726	(231)
Provision for and write-off of obsolete and slow-moving inventories	110	240	110	240
Depreciation of machinery and equipment	267	168	175	74
Net exchange (gain)/loss	(296)	29	295	25
After crediting:				
Rental income				
– leasing of telecommunications and computer telephony equipment	1,116	476	607	79
Interest income				
– bank deposits	4,274	70	4,145	58

5. INCOME TAX EXPENSES

The Company is not subject to taxation in Bermuda on its profit or capital gains until March 2016. Hong Kong profits tax has not been provided for the Second Quarter and the Last Corresponding Period as the Group did not generate any assessable profits in Hong Kong during these periods. No provision for overseas income tax has been provided for the Half-Yearly Period and the Last Corresponding Period as the Group did not generate any assessable profits in other jurisdictions during these periods.

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

6. INTERIM DIVIDENDS

The Directors do not recommend the payment of interim dividends for the Half-Yearly Period (2006: Nil).

7. LOSS PER SHARE

The calculation of the basic loss per share for the Half-Yearly Period is based on the unaudited consolidated loss attributable to equity holders of the parent of approximately HK$43,576,000 (2006: HK$538,000) and on the weighted average number of 314,970,422 (2006: 232,000,000) shares.

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

8. PROPERTY, PLANT & EQUIPMENT

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

9. AVAILABLE-FOR-SALE FINANCIAL ASSET

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

10. DEPOSIT FOR ACQUISITION IN AN INVESTMENT

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

11. INVENTORIES

Inventories consisted of:

	(Unaudited) As at 30 June 2007 *HK$'000*	**(Audited)** Year ended 31 December 2006 *HK$'000*
Telecommunications and computer telephony hardware products	404	873
Less: Provision for obsolete and slow-moving inventories	(110)	(300)
	294	573

12. TRADE RECEIVABLES

Trade receivables consisted of:

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

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

	(Unaudited) As at 30 June 2007 *HK$'000*	(Audited) Year ended 31 December 2006 *HK$'000*
0 to 1 month	1,136	1,222
1 to 2 months	191	243
2 to 3 months	69	398
3 to 6 months	18	67
6 to 9 months	92	106
9 to 12 months	–	640
Over 12 months	1,442	847
	2,948	3,523

13. AMOUNT DUE FROM AN ASSOCIATE

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

14. TRADE PAYABLES

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

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

15. OBLIGATIONS UNDER FINANCE LEASE

	(Unaudited) As at 30 June 2007	(Audited) Year ended 31 December 2006
	HK$'000	*HK$'000*
Within one year	180	–
In the second to fifth year inclusive	720	–
	900	–

16. SHARE CAPITAL

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

17. OPERATING LEASE COMMITMENTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

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

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

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

BUSINESS REVIEW AND FUTURE PROSPECTS

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

CAPITAL STRUCTURE

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

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

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

CHARGES ON GROUP ASSETS

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

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

Save as disclosed above, there were no significant investments held, material acquisitions or disposals of subsidiaries during the Half-Yearly Period.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The reporting currency adopted by the Group was Hong Kong dollars. Majority of the Group's sales, receivables, bank borrowings and expenditures were dominated in Hong Kong dollars and United States dollars. As Hong Kong dollars is closely linked with United States dollars, therefore foreign currency exposure to the Group shall be minimal.

CONTINGENT LIABILITIES

As at 30 June 2007, the Group did not have any contingent liabilities.

EMPLOYEE INFORMATION, SHARE OPTIONS AND REMUNERATION POLICIES

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

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

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

As at 30 June 2007, 9 employees (30 June 2006: 9) had completed the required number of years of service under the Employment Ordinance to be eligible for long service payments on termination of their employment with the Group. The Group is only liable to make such payments where termination meets the required circumstances specified in the Employment Ordinance. As at 30 June 2007, the estimated amount provided for such purpose amounted to approximately HK$250,000 (30 June 2006: HK$250,000).

DIRECTORS' INTEREST IN SHARES

As at 30 June 2007, the interests and short positions of the Directors and their respective associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") adopted by the Company, or to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares

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

Save as disclosed above, as at 30 June 2007, none of the directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, persons who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or was, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

Long position in shares

Name	Number of shares	Capacity	Type of interests	Percentage of interests
Well Support Limited *(Note 1)*	52,415,466	Beneficial owner	Corporation	10.71%
Credit Suisse Group *(Note 2)*	30,446,000	Interest of controlled corporation	Corporation	6.22%
Century Dragon Development Limited *(Note 3)*	27,000,000	Beneficial owner	Corporation	5.52%

Notes:

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

2. Credit Suisse Group is wholly-owned by Credit Suisse.

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

Save as disclosed above, no other shareholders or other persons had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group as at 30 June 2007.

COMPETING INTERESTS

Mr. Tsang Chi Hin is the chairman of the Company and a director of Beijing Teletron Systems Integration Company Limited which is also engaged in the provision of telecommunications and computer telephony solutions. The Directors believe that there is a risk that such business may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Tsang in the telecommunications and computer telephony industry will complement the development of the Group's business.

As at 30 June 2007, save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had an interest in business which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with the Group.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Half-Yearly Period.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the code provisions of Code on Corporate Governance Practices ("CG Code") set out in Appendix 15 of the GEM Listing Rules throughout the Half-Yearly Period, except that there is no division of roles of chairman and chief executive officer that they are performed by Mr. Tsang Chi Hin. The reasons for such deviation from the code provisions had been stated in the Company's 2006 annual report.

AUDIT COMMITTEE

The Company has established an audit committee on 3 May 2000. The previous terms of reference of the audit committee were established with reference to Rule 5.29 of the GEM Listing Rules. New written terms of reference were adopted on 12 August 2005 in compliance with code provision C.3.3 of the CG Code. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports and to provide advices and comments with respect to internal control of the Board.

The members of the audit committee, all being independent non-executive directors, throughout the Half-Yearly Period are Mr. Leung Lok Ming, Mr. Chan Ho Wah, Terence, Mr. Chong Cha Hwa and Mr. Lok Shing Kwan, Sunny. The audit committee has reviewed the Company's interim results for the six months ended 30 June 2007.

OTHER BOARD COMMITTEES

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

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the Half-Yearly Period. Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings and its code of conduct regarding securities transactions by directors.

INTERNAL CONTROL

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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

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

Consolidated Income Statement

For the year ended 31st December 2006

	Notes	2006 HK$'000	2005 HK$'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)*	**Share premium**	**Contributed surplus**	**Exchange translation reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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 *HK$'000*	**2005** *HK$'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
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	2005
	HK$'000	*HK$'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.

	2005				
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	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	**2005**
	HK\$'000	*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 *HK$'000*	Computer equipment *HK$'000*	Equipment on leased to customers *HK$'000*	Equipment for development *HK$'000*	Total *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	**2005**
	HK$'000	*HK$'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 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

27. BALANCE SHEET OF THE COMPANY

	2006 HK$'000	2005 HK$'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 noncancellable 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		Principal activity
				Directly	*Indirectly*	
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.

4. THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

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

Consolidated Income Statement

For the year ended 31st December 2005

	Notes	2005 HK$'000	2004 HK$'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 HK$'000	2004 HK$'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	2004
	HK$'000	*HK$'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)

	2005 *HK$'000*	2004 *HK$'000*
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
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	**2004**
	HK$'000	*HK$'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	2004
	HK$'000	*HK$'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	2004
	HK$'000	*HK$'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:

	2005				
Name of director	**Non-executive directors' fees**	**Executive directors' salaries**	**Housing allowance**	**Contributions to retirement benefits scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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 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.

	2004				
Name of director	**Non-executive directors' fees**	**Executive directors' salaries**	**Housing allowance**	**Contributions to retirement benefits scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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 *HK$'000*	2004 *HK$'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 *HK$'000*	2004 *HK$'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	Computer equipment	Equipment on lease to customers	Equipment for development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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	2004
	HK$'000	*HK$'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

				Number of share options				
	Date of grant	Exercisable period	Subscription price per share *(HK$)*	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

				Number of share options				
	Date of grant	Exercisable period	Subscription price per share *(HK$)*	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.

5. THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2004

The following financial information has been extracted from the annual report of Proactive for the year ended 31st December 2004:

Consolidated Income Statement
For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 *$'000*	2003 *$'000*
Turnover	*4*	17,515	30,459
Cost of sales		(9,386)	(12,297)
Gross profit		8,129	18,162
Distribution and selling expenses		(20)	(63)
General and administrative expenses		(15,479)	(21,692)
Loss from operations		(7,370)	(3,593)
Interest income	*4*	14	64
Interest expense		(39)	(105)
Provision for impairment in value of investment in an associate		–	(770)
Share of profit (loss) of an associate		198	(377)
Loss before taxation	*5*	(7,197)	(4,781)
Taxation	*7*	(51)	(81)
Loss attributable to shareholders	*8*	(7,248)	(4,862)
Loss per share – Basic	*9*	3.1 cents	2.1 cents

Balance Sheets
As at 31 December 2004
(Expressed in Hong Kong dollars)

		Consolidated		Company	
		2004	**2003**	**2004**	**2003**
	Note	*$'000*	*$'000*	*$'000*	*$'000*
NON-CURRENT ASSETS					
Machinery and equipment	*10*	1,328	2,527	–	–
Development expenditures	*11*	–	292	–	–
Investment in subsidiaries	*12*	–	–	16,992	16,206
Investment in an associate	*13*	861	234	–	–
Other investment	*14*	286	286	–	–
Total non-current assets		2,475	3,339	16,992	16,206
CURRENT ASSETS					
Inventories	*15*	1,831	2,541	–	–
Trade receivables	*16*	2,461	3,149	–	–
Prepayments, deposits and other current assets	*17*	1,219	1,250	100	100
Pledged bank deposits		5,002	5,002	–	–
Cash and other bank deposits		4,761	8,306	300	1,763
Total current assets		15,274	20,248	400	1,863
CURRENT LIABILITIES					
Short-term bank borrowings	*18*	(874)	(496)	–	–
Trade payables	*19*	(1,104)	(1,157)	–	–
Accruals and other payables		(3,127)	(3,064)	(362)	(432)
Receipts in advance		(2,242)	(1,233)	–	–
Total current liabilities		(7,347)	(5,950)	(362)	(432)
Net current assets		7,927	14,298	38	1,431
Net assets		10,402	17,637	17,030	17,637
Represented by:					
SHARE CAPITAL	*20*	23,200	23,200	23,200	23,200
RESERVES	*22*	(12,798)	(5,563)	(6,170)	(5,563)
Shareholders' equity		10,402	17,637	17,030	17,637

Consolidated Cashflow Statement
For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $'000	2003 $'000
CASH (USED IN) GENERATED FROM OPERATIONS	23.a	(3,841)	1,004
Interest paid		(39)	(105)
Overseas taxation paid		(51)	(72)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		(3,931)	827
INVESTING ACTIVITIES			
Increase in pledged deposits		–	(2)
Purchase of machinery and equipment		(19)	(156)
Proceeds from disposal of machinery and equipment		–	18
Purchase of other investment		–	(286)
Acquisition of interest in an associate		–	(377)
Translation adjustments		13	68
Interest received		14	64
Net cash generated from (used in) investing activities		8	(671)
(Decrease) increase in cash and cash equivalents		(3,923)	156
CASH AND CASH EQUIVALENTS, beginning of year		7,810	7,654
CASH AND CASH EQUIVALENTS, end of year	23.b	3,887	7,810

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

(Expressed in Hong Kong dollars)

	Share capital	Share premium	Capital reserve	Cumulative translation adjustments	Accumulated deficit	Total
	$'000	*$'000*	*$'000* *(Note 22)*	*$'000*	*$'000*	*$'000*
Consolidated						
As at 1 January 2003	23,200	29,135	3,530	(105)	(33,329)	22,431
Loss attributable to shareholders	–	–	–	–	(4,862)	(4,862)
Translation adjustments	–	–	–	68	–	68
As at 1 January 2004	23,200	29,135	3,530	(37)	(38,191)	17,637
Loss attributable to shareholders	–	–	–	–	(7,248)	(7,248)
Translation adjustments	–	–	–	13	–	13
As at 31 December 2004	23,200	29,135	3,530	(24)	(45,439)	10,402

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. COMPANY INFORMATION

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

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. Inherent in the Group's business are various risks and uncertainties, including changes in technology, the ability to raise additional capital and financing when necessary, and the fact that the Group has reported losses for the past three years.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRS, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRS in the financial statements for the year ended 31 December 2004. The new HKFRS may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis.

b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together "the Group"). The results of subsidiaries acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

c. Subsidiaries

A subsidiary is a company in which the Company controls, which is normally evidenced when the Group has the power to govern the financial and operating policies of that company so as to benefit from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

d. Goodwill

Goodwill represents the difference between the fair value of the consideration given and the Group's share of the aggregate fair values of the identifiable net assets of subsidiaries acquired. Goodwill is capitalised in the balance sheet and is amortised to the income statement on a straight-line basis over its estimated useful economic life. This represents a change from prior years where goodwill was eliminated immediately against reserves. The Group has adopted the transitional provision allowed in SSAP 30, and goodwill arising from acquisitions before 1 January 2001 will continue to be held in reserves and no reinstatement has been made.

e. Associates

An associate is a company, not being a subsidiary, in which the Group holds 20% or more of its issued voting share capital as a long-term investment and can exercise significant influence over its management. In the consolidated financial statements, investment in associate is stated at the Group's share of the fair value of the separate net assets of the associates at the time of acquisition, adjusted for the Group's share of undistributed post-acquisition profits/losses and reserves of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement. In the Company's financial statements, investment in associates is stated at cost less provision for an impairment in value, while income from associates is recorded to the extent of dividends received and receivable.

f. Turnover and revenue recognition

Turnover represents (i) the net invoiced value for the supply, development and integration of telecommunication, computer telephony systems and other computer products, after allowances for returns and discounts; (ii) rental income from leasing of telecommunication and computer telephony equipment; and (iii) fees for consulting and maintenance services.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. 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. Rental income from leasing of telecommunication and computer telephony equipment is recognised on a straight-line basis over the respective period of the leases. Consulting and maintenance service fees are recognised when the services are rendered. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rate applicable.

Advance payments received from customers prior to delivery of merchandise and completion of the related development and integration services or rendering of other services are recorded as receipts in advance.

g. Taxation

Individual companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation is provided for on temporary differences arising on investments in subsidiaries and associated companies except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

h. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the cost of that asset based on the cost of the specific borrowings. All other borrowing costs are recognised as an expense as incurred.

i. Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

j. Machinery and equipment and depreciation

Machinery and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Major expenditures on modifications and betterments of machinery and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset after considering its residual value over its estimated useful life. The annual rates of depreciation are as follows:

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

Gains and losses on disposal of machinery and equipment are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets.

k. Research and development expenditures

Research expenditures are written off as incurred. Development expenditures are charged against income in the period incurred except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and comply with the following criteria: (i) the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) it is intended to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness can be demonstrated; and (vi) adequate resources exists, or their availability can be demonstrated, to complete the project and market or use the product or process. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related product or process is expected to be sold or utilised, starting from the time when the product or process is available for use.

l. Long-term investment

Long-term investment is stated at cost less provision for any impairment in value. Income from long-term investment is accounted for to the extent of dividends received or receivable.

m. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

n. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exist or has decreased. The reversal is recorded in the income statement.

o. Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

p. Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

q. Leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

r. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, income and expense items of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average applicable exchange rates during the year; assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

s. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

t. Employee benefits

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

u. Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

4. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	2004 *$'000*	2003 *$'000*
Telecommunications	6,961	18,379
Computer telephony	10,554	11,174
Others	–	906
Total turnover	17,515	30,459
Interest income from bank deposits	14	64
Total revenue	17,529	30,523

5. LOSS BEFORE TAXATION

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

	2004 *$'000*	2003 *$'000*
After charging:		
Staff costs (including directors' emoluments)		
– Salaries and allowances	7,950	11,338
– Retirement benefits scheme costs	293	429
– Less: Amount included in research and development expenditures	(557)	(1,486)
	7,686	10,281
Research and development expenditures	849	1,744
Write-off of development expenditures	292	259
Cost of inventories	8,246	10,464
Operating lease rentals of premises	1,205	2,358
Interest expense		
– bank borrowings wholly repayable within five years	39	105
Provision for and write-off of bad and doubtful receivables	161	834
Provision for and write-off of obsolete and slow-moving inventories	1,894	1,194
Depreciation of machinery and equipment	1,469	3,406
Net loss on disposal of machinery and equipment	75	401
Net exchange loss	18	5
Auditors' remuneration	190	217
After crediting:		
Rental income		
– leasing of telecommunication and computer telephony equipment	2,692	5,896
Interest income		
– bank deposits	14	64

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of emoluments paid/payable to directors of the Company are:

	2004	**2003**
	$'000	*$'000*
Fees for executive directors	–	–
Fees for non-executive directors	70	60
Other emoluments for executive directors		
– Salaries and allowances	2,428	3,260
– Pension scheme contributions	60	60
	2,558	3,380

During the year, no (2003: five) executive director waived emoluments (2003: $701,000). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

The number of directors whose emolument falls within the following bands is as follows:

	2004	**2003**
Executive directors		
– Nil to $1,000,000	5	4
– $1,000,001 to $1,500,000	–	1
Non-executive directors		
– Nil to $1,000,000	5	4
	10	9

During the year ended 31 December 2004, the five executive directors received individual emoluments of approximately $792,000 (2003: $1,043,000), $312,000 (2003: $511,000), $561,000 (2003: $612,000), $491,000 (2003: $626,000) and $332,000 (2003: $528,000). The five non- executive directors received individual fees of approximately $20,000 (2003: $20,000), $20,000 (2003: $20,000), $10,000 (2003: $20,000), $10,000 (2003: Nil), and $10,000 (2003: Nil).

b. Details of emoluments paid/payable to the five highest paid individuals (including directors and other employees) are:

	2004	**2003**
	$'000	*$'000*
Salaries and allowances	2,525	3,361
Pension scheme contributions	60	60
	2,585	3,421

Four (2003: Four) of the highest paid individuals were executive directors of the Company, whose emoluments have been included in Note 6.a above.

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.

The number of the five highest paid individuals (including directors and other employees) falls within the following bands:

	2004	2003
– Nil to $1,000,000	5	4
– $1,000,001 to $1,500,000	–	1
	5	5

7. TAXATION

a. Taxation consisted of:

	2004	2003
	$'000	*$'000*
Overseas income tax	51	81

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

b. The taxation charge for the year can be reconciled to the loss as stated in the financial statements as follows:

	2004	2003
	$'000	*$'000*
Loss before taxation	(7,197)	(4,781)
Taxation calculated at Hong Kong profits tax of 17.5% (2003: 17.5%)	(1,259)	(837)
Utilisation of previously unrecognised tax losses	–	84
Deferred tax assets not recognised	1,259	753
Effect of different tax rates of operation in other jurisdictions	51	81
Taxation for the year	51	81

c. The principal components of the Group's and Company's deferred tax assets not provided for, calculated at 17.5% (2003: 17.5%) on the cumulative timing differences at the balance sheet date are as follows:

	Consolidated		Company	
	2004	2003	2004	2003
	$'000	*$'000*	*$'000*	*$'000*
Tax losses	6,183	5,254	–	–
Other timing differences	317	457	–	–
	6,500	5,711	–	–

The potential tax benefits attributable to tax losses of the Group and the Company have not been recognised due to unpredictability of future profit streams (2003: Nil).

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31 December 2004, the consolidated loss attributable to shareholders included a loss of approximately $607,000 (2003: $11,520,000) dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately $7,248,000 (2003: $4,862,000) and on the weighted average number of 232,000,000 shares (2003: 232,000,000 shares) in issue during the year.

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

10. MACHINERY AND EQUIPMENT

Movements of machinery and equipment (consolidated) were:

	2004					2003
	Furniture, fixtures and office equipment	**Computer equipment**	**Equipment on lease to customers**	**Equipment for development**	**Total**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost						
Beginning of year	1,190	3,382	3,233	2,390	10,195	18,126
Additions	2	11	6	–	19	156
Disposals	(142)	(14)	(366)	(377)	(899)	(6,244)
Transferred from inventories	–	203	1,023	24	1,250	974
Transferred to inventories	–	(195)	(1,632)	(363)	(2,190)	(2,817)
End of year	1,050	3,387	2,264	1,674	8,375	10,195
Accumulated depreciation						
Beginning of year	840	2,825	2,193	1,810	7,668	11,538
Provision for the year	216	401	506	346	1,469	3,406
Disposals	(76)	(6)	(366)	(376)	(824)	(5,825)
Transferred to inventories	–	(9)	(945)	(312)	(1,266)	(1,451)
End of year	980	3,211	1,388	1,468	7,047	7,668
Net book value						
End of year	70	176	876	206	1,328	2,527
Beginning of year	350	557	1,040	580	2,527	6,588

11. DEVELOPMENT EXPENDITURES

Movements of development expenditures (consolidated) were:

	2004	2003
	$'000	*$'000*
Beginning of year	292	551
Written-off	(292)	(259)
End of year	–	292

12. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

	2004	2003
	$'000	*$'000*
Unlisted shares, at cost	8,791	8,791
Due from subsidiaries	52,654	51,868
	61,445	60,659
Less: Provision for impairment in value	(44,453)	(44,453)
	16,992	16,206

The amount due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

The underlying value of the investment in subsidiaries was, in the opinion of the Company's Directors, not less than its carrying value as at 31 December 2004.

Details of the subsidiaries as at 31 December 2004 were:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
CentreWorld Holding Limited	British Virgin Islands	US$1,029	100%	Investment holding
Interworth, Inc	British Virgin Islands	US$100	100%	Investment holding
Proactive Technology (Asia) Pte. Ltd.	Singapore	SG$100,000	100%	Dormant
Proactive Technology Limited	Hong Kong	HK$1,000,000	100%	Provision of telecommunications and computer telephony solutions
Proactive International Limited	Hong Kong	HK$100,000	100%	Trading of telecommunication products and provision of management consultancy

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Netwin Worldwide Limited	British Virgin Islands	US$100	100%	Investment holding
Proactive Technology Development (Beijing) Limited	PRC	RMB5,000,000	100%	Provision of telecommunication products and provision of tele-commerce services
Proactive Multimedia Marketing Agency Limited	Hong Kong	HK$2	100%	Provision of telecommunication and computer telephony solutions

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

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2004.

13. INVESTMENT IN AN ASSOCIATE

Investment in an associate (consolidated) consisted of:

	2004 *$'000*	2003 *$'000*
Share of net assets	198	–
Amount due from an associate	2,433	2,004
	2,631	2,004
Less: Provision for impairment in value	(1,770)	(1,770)
	861	234

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

Details of the associate were:

Name	Place and date of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group 2004	2003	Principal activities
Beijing Teletron System Integration Company Limited	PRC	RMB1,000,000	40%	40%	Provision of telecommunications and computer telephony solutions

There were no other associate held by the Group as at 31 December 2004.

14. OTHER INVESTMENT

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

15. INVENTORIES

Inventories (consolidated) consisted of:

	2004	2003
	$'000	*$'000*
Telecommunication and computer telephony hardware products	3,507	5,367
Less: Provision for obsolete and slow-moving inventories	(1,676)	(2,826)
	1,831	2,541

As at 31 December 2004, inventories of approximately $1,831,000 (2003: $1,001,000) were stated at net realisable value.

16. TRADE RECEIVABLES

Trade receivables (consolidated) consisted of:

	2004	2003
	$'000	*$'000*
Accounts receivable	3,130	3,443
Retentions receivable	1,203	1,528
	4,333	4,971
Less: Provision for doubtful receivables	(1,872)	(1,822)
	2,461	3,149

The Group normally grants to its customers credit periods ranging from 30 days to 60 days. Aging analysis of trade receivables (consolidated) is as follows:

	2004	2003
	$'000	*$'000*
0 to 1 month	876	838
1 to 2 months	303	1,060
2 to 3 months	322	207
3 to 6 months	567	620
6 to 9 months	80	3
9 to 12 months	51	154
Over 12 months	2,134	2,089
	4,333	4,971

17. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

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

	2004	2003
	$'000	*$'000*
Prepayments	406	185
Rental and utility deposits	503	439
Others	310	626
	1,219	1,250

18. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings (consolidated) consisted of:

	2004	2003
	$'000	*$'000*
Bank overdrafts	393	182
Trust receipts bank loans	481	314
	874	496

Refer to Note 27 for details of the Group's banking facilities.

19. TRADE PAYABLES

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

	2004	2003
	$'000	*$'000*
0 to 1 month	418	443
1 to 2 months	236	111
2 to 3 months	–	110
3 to 6 months	–	1
6 to 12 months	–	–
Over 12 months	450	492
	1,104	1,157

20. SHARE CAPITAL

	2004		2003	
	Number of shares	**Nominal value**	**Number of shares**	**Nominal value**
	'000	*$'000*	*'000*	*$'000*
AUTHORISED (ordinary shares of $0.10 each)				
Beginning of year and at end of year	1,000,000	100,000	1,000,000	100,000
ISSUED AND FULLY PAID (ordinary shares of $0.10 each)				
Beginning of year and at end of year	232,000	23,200	232,000	23,200

21. SHARE OPTIONS

The Company has adopted a Share Option Scheme on 3 May 2000 ("Share Option Scheme"), pursuant to which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. Pursuant to the Share Option Scheme, options were granted on 30 June 2000 to executive directors and other employees of the Group to subscribe for an aggregate of 19,420,000 shares in the Company at a price of $1.30 per share, during the exercise period from 1 July 2003 to 30 June 2010. No options were granted during the year ended 31 December 2004 under the Share Option Scheme.

Pursuant to resolutions passed at a special general meeting of the shareholders held on 13 November 2002, the Company terminated the Share Option Scheme and adopted a new share option scheme ("New Share Option Scheme") in order to comply with the new requirements of Chapter 23 of GEM Listing Rules effected on 1 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 $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 13 November 2002. A nominal consideration of $1 is payable on acceptance of the grant of an option.

During the year ended 31 December 2004, 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 year ended 31 December 2004 were:

			Number of shares				
Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	End of year
			'000	*'000*	*'000*	*'000*	*'000*
30th June 2000	1st July 2003 to 30th June, 2010	$1.30	12,760	–	(2,200)	–	10,560

22. RESERVES

(a) Group

Capital reserve (consolidated) 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 the transitional provisions allowed in SSAP 30, such that the negative goodwill arising from acquisition before 1 January 2001 will continue to be held in reserves and no reinstatement has been made.

(b) Company

	Share capital	Share premium	Contributed reserve	Accumulated deficits	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Company					
As at 1 January 2003	23,200	29,135	8,586	(31,764)	29,157
Loss attributable to shareholders	–	–	–	(11,520)	(11,520)
As at 1 January 2004	23,200	29,135	8,586	(43,284)	17,637
Loss attributable to shareholders	–	–	–	(607)	(607)
As at 31 December 2004	23,200	29,135	8,586	(43,891)	17,030

Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) 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.

The Company had no reserves available for distribution to shareholders as at 31 December 2004 (2003: Nil).

23. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of loss before taxation to cash (used in) generated from operations:

	2004	2003
	$'000	*$'000*
Loss before taxation	(7,197)	(4,781)
Interest income	(14)	(64)
Interest expense	39	105
Depreciation of machinery and equipment	1,469	3,406
Net loss on disposal of machinery and equipment	75	401
Write off of development expenditures	292	259
Share of (gain) loss of an associate	(198)	377
Provision for impairment in value of an associate	–	770
Operating (loss) profit before working capital changes	(5,534)	473
Decrease in inventories	384	2,396
Decrease (increase) in trade receivables	688	(275)
Decrease in prepayments, deposits and other current assets	31	1,365
Increase in amount due from an associate	(429)	(1,004)
(Decrease) increase in trade payables	(53)	191
Increase (decrease) in accruals and other payables	63	(1,715)
Increase (decrease) in receipts in advance	1,009	(427)
Cash (used in) generated from operations	(3,841)	1,004

b. Analysis of cash and cash equivalents is:

	2004	2003
	$'000	*$'000*
Cash and bank deposits	4,761	8,306
Bank overdrafts	(393)	(182)
Trust receipts bank loans	(481)	(314)
	3,887	7,810

24. 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 three products and operational units – telecommunications products, computer telephony and other 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. The other products unit derives sales revenue from sale of Wireless LAN products.

Analysis by business segment is as follows:

	2004	**2003**
	$'000	*$'000*
Turnover		
– Telecommunications	6,961	18,379
– Computer telephony	10,554	11,174
– Others	–	906
	17,515	30,459
Loss attributable to shareholders		
– Telecommunications	545	8,890
– Computer telephony	2,852	3,375
– Others	–	(249)
Segment profit	3,397	12,016
Unallocated expenses	(10,767)	(15,609)
Loss from operations	(7,370)	(3,593)
Interest income	14	64
Interest expense	(39)	(105)
Provision for impairment in value of investment in an associate	–	(770)
Share of gain (loss) of an associate	198	(377)
Loss before taxation	(7,197)	(4,781)
Taxation	(51)	(81)
	(7,248)	(4,862)
Depreciation		
– Telecommunications	754	1,363
– Computer telephony	184	558
– Unallocated	531	1,485
	1,469	3,406

	2004	2003
	$'000	*$'000*
Capital expenditures		
– Telecommunications	–	86
– Computer telephony	–	–
– Unallocated	19	70
	19	156
Assets		
– Telecommunications	3,863	5,018
– Computer telephony	2,633	3,101
– Others	–	51
– Unallocated	11,253	15,417
	17,749	23,587
Liabilities		
– Telecommunications	3,337	1,454
– Computer telephony	1,892	2,894
– Unallocated	2,118	1,602
	7,347	5,950

b. Secondary segment

Analysis by geographical location is as follows:

	2004	2003
	$'000	*$'000*
Turnover		
– Hong Kong	17,228	27,410
– China	171	2,468
– Taiwan	116	581
	17,515	30,459
Loss attributable to shareholders		
– Hong Kong	5,884	3,051
– China	1,254	1,828
– Taiwan	35	(81)
– Australia	47	33
– Singapore	28	31
	7,248	4,862

	2004	2003
	$'000	*$'000*
Assets		
– Hong Kong	14,803	18,536
– China	2,946	4,950
– Taiwan	–	38
– Australia	–	46
– Singapore	–	17
	17,749	23,587
Liabilities		
– Hong Kong	7,300	5,896
– China	47	29
– Taiwan	–	9
– Australia	–	12
– Singapore	–	4
	7,347	5,950

25. COMMITMENTS AND CONTINGENT LIABILITIES

a. Operating lease commitments

The Group had operating lease commitments in respect of premises under various non-cancellable operating lease agreements. The commitments payable under these agreements are analysed as follows:

	Consolidated		Company	
	2004	2003	2004	2003
	$'000	*$'000*	*$'000*	*$'000*
Amounts payable within a period of				
– within one year	407	908	–	–
– between one and two years	262	90	–	–
– between two and five years	22	–	–	–
	691	998	–	–

The commitments payable within the next twelve months are analysed as follows:

	Consolidated		Company	
	2004	2003	2004	2003
	$'000	*$'000*	*$'000*	*$'000*
Leases expiring within a period				
– not exceeding one year	167	338	–	–
– within one and five years	240	570	–	–
	407	908	–	–

b. Contingent liabilities

	Consolidated		Company	
	2004	**2003**	**2004**	**2003**
	$'000	*$'000*	*$'000*	*$'000*
Performance bond	177	177	–	–
Guarantee provided to banks for banking facilities granted to subsidiaries	–	–	6,200	6,200
	177	177	6,200	6,200

26. PENSIONS 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 organized 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 $1,000 per month.

During the year, the aggregate contributions made by the Group to the retirement schemes were approximately $293,000 (2003: $429,000). During the year, there were no material forfeitures available to offset the Group's future contributions (2003: Nil).

27. BANKING FACILITIES AND PLEDGE OF ASSETS

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

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2006

FINANCIAL REVIEW

Turnover of the Proactive 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 Proactive Group's total turnover. Turnover attributable to their computer telephony business decreased by 38% to HK$8,476,000 (2005: HK$13,754,000), accounting for 71% (2005: 66%) of the Proactive 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.

The management of Proactive have initiated the streamlining of their operations, especially in Mainland China, and created business dynamics to cope with the changes in business needs. The management of Proactive 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 Proactive'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, the management of Proactive 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 the management of Proactive 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 Proactive 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 Proactive stems its losses and exits the market. The Proactive 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 the management of Proactive that the speed of the recovery is expediting especially while the market expected the advent of 3G in PRC in 2007. With their establishment in Beijing, the management of Proactive are able to capture more businesses in PRC.

The Proactive, 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 Proactive 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/Proactive's requirement capital expenditures for development of the infrastructure needed in effect has been kept at a bare minimum; and (2) the JV/Proactive 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 Proactive 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 Proactive 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 Proactive Group had no capital commitment (2005: Nil).

CAPITAL STRUCTURE

The capital of the Proactive comprises only ordinary shares. Details of movements in the share capital of the Proactive 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 Proactive Group did not have any charges on its assets.

As at 31st December 2005, the Proactive 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 Proactive Group's bank deposits of approximately HK$2,000,000. The Proactive 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 Proactive Group was Hong Kong dollars. Majority of the Proactive 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 Proactive Group shall be minimal.

CONTINGENT LIABILITIES

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

EMPLOYEE INFORMATION

The Proactive 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 Proactive Group had incurred staff costs (including directors' emoluments) of approximately HK$4,163,000 (2005: HK$6,012,000).

The Proactive has adopted a Share Option Scheme pursuant to which options may be granted to full time employees (including executive directors) of the Proactive Group to subscribe for share in the Proactive. As at 31st December 2006, no share option has been granted under the existing Share Option Scheme of the Proactive.

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 Proactive Group. The Proactive 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 Proactive 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 Proactive Group's total turnover. Turnover attributable to their computer telephony business increased by 30% to HK$13,754,000 (2004: HK$10,554,000), accounting for 66% (2004: 60%) of the Proactive 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 Proactive Group keeps on controlling the cost and expenses of operation and implementing effective management on controlling the company. Their 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.

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

Their 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, the management of Proactive have built some more call center projects in Beijing such as for Police and Environment Protection Bureau, etc. The management of Proactive 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, the management of Proactive may deem that the recent development is a kind of "genuine" influence to their actual daily living which will in turn create a real and vast market place eventually.

Since their well establishment in Beijing, the management of Proactive are able to capture more businesses in PRC. Their 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 their well-equipped power for technological exploration, will fully match with the trend of future market development. The management of Proactive 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 Proactive 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 Proactive 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 Proactive Group had no capital commitment (2004: nil).

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

CHARGES ON ASSETS

As at 31st December 2005, the Proactive 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 Proactive 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 Proactive 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 Proactive Group was Hong Kong dollars. Majority of the Proactive 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 Proactive Group shall be minimal.

CONTINGENT LIABILITIES

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

EMPLOYEE INFORMATION

The Proactive 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 Proactive 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 Proactive, the Proactive has adopted a Share Option Scheme pursuant to which options may be granted to full time employees (including executive directors) of the Proactive Group to subscribe for share in the Proactive.

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 Proactive 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 Proactive Group. The Proactive 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 Proactive 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 Proactive Group's total. Turnover attributable to their computer telephony business slightly decreased by 6% to HK$10,544,000 (2003: HK$11,174,000), accounting for 60% (2003: 37%) of the Proactive 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 Proactive 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 Proactive Group keeps adopting strict cost control and further strategically scales down the dimension of the operation. On the other hand, the Proactive Group is diversifying their team to the areas of network storage and security. Such applications are deemed to be the essential integral portions for an impeccable network. The management of Proactive will reinforce their 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 their competitive edge, the Proactive Group will further implement a series of strategic actions to streamline their operations. The management of Proactive will move to a new office in March 2005, which also serves as a cost-saving action to lessen the operating cost. The management of Proactive 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 the management of Proactive to extend their call center business to other regions in PRC. Their participation in the development of AFC project, which is crucial for Olympics Games in Beijing, opens another critical path for their 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 their involvement in the project in 2004 is very crucial and important for their 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 Proactive 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 Proactive 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 Proactive Group had no capital commitment (2003: nil).

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

CHARGES ON ASSETS

As at 31 December 2004, the Proactive 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 Proactive 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 Proactive 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 Proactive Group was Hong Kong dollars. Majority of the Proactive 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 Proactive Group shall be minimal.

CONTINGENT LIABILITIES

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

STAFF

The Proactive Group (excluding its associate) had approximately 24 full-time employees in Hong Kong and PRC at 31 December 2004. During the year, the Proactive 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 Proactive, the Proactive has adopted a Share Option Scheme pursuant to which options may be granted to full time employees (including executive directors) of the Proactive Group to subscribe for share in the Proactive.

Termination to the Share Option Scheme and adoption of New Share Option Scheme were approved by the shareholders of the Proactive 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 Proactive Group. The Proactive 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).

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated balance sheet, unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Enlarged Group (collectively referred to as the "Unaudited Pro Forma Financial Information") have been prepared based on the notes set out below for the purpose of illustrating the effect of the proposed acquisition of 13.29% of the issued share capital of China Railway Logistics Limited (formerly known as Proactive Technology Holdings Limited) ("Acquisition") as if it had taken place on 31 December 2006 for the unaudited pro forma consolidated balance sheet and on 1 January 2006 for the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group as at 31 December 2006 or at any future date, and results and cash flows of the Group for the year ended 31 December 2006 or any future period had the Acquisition been completed.

(1) Unaudited pro forma consolidated balance sheet of the Enlarged Group

	Audited Consolidated Balance Sheet of the Group As at 31 December 2006 *HK$'000*	Pro forma adjustments *(Note B1)* *HK$'000*	Pro forma Consolidated Balance Sheet of the Enlarged Group *HK$'000*
Non-current assets			
Property, plant and equipment	122,499		122,499
Prepaid lease payments	10,214		10,214
Available-for-sale investments	–	636,932	636,932
Deposits placed with an insurer	3,559		3,559
Club debentures	350		350
	136,622		773,554
Current assets			
Inventories	27,672		27,672
Debtors, deposits and prepayments	76,732		76,732
Loan receivables	7,400		7,400
Prepaid lease payments	249		249
Taxation recoverable	940		940
Bank balances and cash	25,704		25,704
	138,697		138,697
Current liabilities			
Creditors and accruals	10,671		10,671
Taxation payable	682		682
Obligations under a finance lease	61		61
Bank loans	19,467		19,467
	30,881		30,881
Net current assets	107,816		107,816
Total assets less current liabilities	244,438		881,370
Non-current liabilities			
Convertible bonds	–	615,700	615,700
Deferred taxation	3,604		3,604
	3,604		619,304
	240,834		262,066
Capital and reserves			
Share capital	9,580	2,820	12,400
Share premium and reserves	230,999	18,412	249,411
Equity attributable to equity holders of the Company	240,579		261,811
Minority interests	255		255
	240,834		262,066

(2) Unaudited pro forma consolidated income statement of the Enlarged Group

	Audited Consolidated Income Statement of the Group for the year ended 31 December 2006 *HK$'000*	**Pro forma adjustments** *(Note B2)* *HK$'000*	**Pro Forma Consolidated Income Statement of the Enlarged Group** *HK$'000*
Turnover	235,226		235,226
Cost of sales	(191,859)		(191,859)
Gross profit	43,367		43,367
Other income	2,597		2,597
Selling and distribution expenses	(12,367)		(12,367)
Administrative expenses	(25,902)		(25,902)
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement	320		320
Finance costs	(1,348)	(49,788)	(51,136)
Profit (loss) before taxation	6,667		(43,121)
Taxation	(1,165)		(1,165)
Profit (loss) for the year	5,502		(44,286)
Attributable to:			
Equity holders of the Company	5,504	(49,788)	(44,284)
Minority interests	(2)		(2)
	5,502		(44,286)

(3) Unaudited pro forma consolidated cash flow statement of the Enlarged Group

	Audited Consolidated Cash Flow Statement of the Group for the year ended 31 December 2006 *HK$'000*	**Pro forma adjustments** *(Notes B2 and B3)* *HK$'000*	**Pro Forma Consolidated Cash Flow Statement of the Enlarged Group** *HK$'000*
Operating activities			
Profit (loss) before taxation	6,667	(49,788)	(43,121)
Adjustments for:			
Interest income	(579)		(579)
Imputed interest income on deposits placed with an insurer	(485)		(485)
Depreciation of property, plant and equipment	6,937		6,937
Release of prepaid lease payment	249		249
Finance costs	1,348	49,788	51,136
Loss on disposal of property, plant and equipment	248		248
Gain on derecognition of available-for-sale investments	(83)		(83)
Release of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement	(320)		(320)
Allowance for doubtful debts	1,003		1,003

	Audited Consolidated Cash Flow Statement of the Group for the year ended 31 December 2006	Pro forma adjustments *(Notes B2 and B3)*	Pro Forma Consolidated Cash Flow Statement of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*
Operating cash flows before movements in working capital	14,985		14,985
Decrease in inventories	4,199		4,199
Increase in debtors, deposits and prepayments	(12,005)		(12,005)
Increase in creditors and accruals	263		263
Effect of foreign exchange	(2,229)		(2,229)
Cash generated from operations	5,213		5,213
Income tax refunded	318		318
Income tax paid	(580)		(580)
Net cash generated from operating activities	4,951		4,951
Investing activities			
Interest received	579		579
Proceeds on derecognition of available-for-sale investments	5,014		5,014
Purchases of property, plant and equipment	(10,620)		(10,620)
Purchases of available-for-sale investments	(2,910)		(2,910)
Advances of loan receivables	(7,400)		(7,400)
Repayments of loan receivables	6,105		6,105
Proceeds from disposal of property, plant and equipment	652		652

	Audited Consolidated Cash Flow Statement of the Group for the year ended 31 December 2006	Pro forma adjustments *(Notes B2 and B3)*	Pro Forma Consolidated Cash Flow Statement of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*
Net cash used in investing activities	(8,580)		(8,580)
Financing activities			
New bank loans raised	21,502		21,502
Repayments of bank loans	(14,474)		(14,474)
Repayments of obligations under a finance lease	(174)		(174)
Interest paid	(1,340)	(49,488)	(50,828)
Finance lease charged paid	(8)		(8)
Dividends paid	(1,274)		(1,274)
Net cash generated from (used in) financing activities	4,232		(45,256)
Net increase (decrease) in cash and cash equivalents	603		(48,885)
Cash and cash equivalents at beginning of the year	24,901		24,901
Effect of foreign exchange rate changes	200		200
Cash and cash equivalents at end of the year	25,704		(23,784)
Represented by:			
Bank balances and cash (bank overdrafts)	25,704		(23,784)

(4) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

A. Basis of Preparation

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2006, which has been extracted from the annual report of the Group for the year ended 31 December 2006 as extracted set out in Appendix II to this circular.

The unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group are prepared based on the audited consolidated income statement and cash flow statement of the Group as extracted from the annual report of the Group for the year ended 31 December 2006, set out in Appendix II to this circular.

For the purpose of preparation of Unaudited Pro Forma Financial Information of the Enlarged Group, the fair value of the consideration was assumed to be the same as the fair value of available-for-sale investments acquired upon the Acquisition.

B. Pro forma adjustments

The adjustments reflect the followings:

1. Being the Acquisition at a consideration of HK$636,932,000 comprising the fair value of the shares of the Company amounting to HK$18,330,000 and the fair value of convertible bonds amounting to HK$618,602,000 issued for the Acquisition. Details of this pro forma adjustment are as followings:

   (a) settlement of consideration by issue of 282,000,000 shares of the Company with market price as at 31 December 2006 of HK$0.065 per share; and

   (b) settlement of consideration by issue of the convertible bonds. The convertible bonds of principal amount of HK$618,602,000 shall carry interest at the rate of 8% per annum and shall be redeemed on the date falling on the third anniversary of the date of issue of the convertible bonds. The convertible bonds, being a compound financial instrument (that contains both financial liability and equity components), is split between the equity component of HK$2,902,000 and the liability component of HK$615,700,000.

2. Being the interest expenses charged to consolidated income statement assuming that the convertible bonds had been issued as at 1 January 2006 and outstanding for a full year.

3. Being the cash outflow of interest expenses arising from issuing the convertible bonds.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte.
德勤

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香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF PME GROUP LIMITED

We report on the unaudited pro forma financial information of PME Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of 13.29% of the issued share capital of China Railway Logistics Limited (formerly known as Proactive Technology Holdings Limited) might have affected the financial information presented, for inclusion in Appendix IV to the circular dated 22 August 2007 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 193 and 194 to the 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 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "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.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the 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 Hong Kong Institute of Certified Public Accountants. 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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements 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 Group as at 31 December 2006 or any future date; or
- the results and cash flows of the Group for the year ended 31 December 2006 or any future period.

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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22 August 2007

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

Authorised		*HK$*
10,000,000,000	Shares	100,000,000
Issued and to be issued, fully paid or credited as fully paid		
1,598,600,000	Shares in issue as at the Latest Practicable Date	15,986,000
282,000,000	Consideration Shares to be allotted and issued upon Completion	2,820,000
562,365,507	Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds	5,623,655.07
2,442,965,507	Shares	24,429,655.07

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of Director	Number or attributable number of Shares held or short positions	Nature of interests: Interest of controlled corporation	Nature of interests: Beneficial owner	Approximate percentage or attributable percentage of shareholding (%)
Mr. Cheng Kwok Woo	372,838,000 (L)	318,438,000 *(Note 1)*	54,400,000	23.32
Mr. Cheng Kwong Cheong	372,838,000 (L)	318,438,000	54,400,000	23.32
Ms. Cheng Wai Ying	352,838,000 (L)	318,438,000	34,400,000	22.07
Ms. Chan Yim Fan	2,705,333 (L)	–	2,705,333	0.17
Mr. Anthony Francis Martin Conway	70,000 (L)	–	70,000 *(Note 2)*	0.004

L: Long Position

Note 1: These Shares are held by PME Investments (BVI) Co., Ltd. (“PME Investments”), a company incorporated in the British Virgin Islands. The entire issued share capital of PME Investment is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms Cheng Wai Ying.

Note 2: These 70,000 Shares are beneficially owned by the spouse of Mr. Anthony Francis Martin Conway. As such, Mr. Anthony Francis Martin Conway is deemed to be interested in these 70,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 Enlarged Group:

Name of Shareholder	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding *(%)*
PME Investments *(Note 1)*	318,438,000 (L)	Beneficial owner	19.92
Ms. Tsang Sui Tuen *(Note 2)*	372,838,000 (L)	Interest of spouse	23.32
Ms. Wan Kam Ping *(Note 3)*	372,838,000 (L)	Interest of spouse	23.32
Mr. Cheng Yau Kuen *(Note 4)*	352,838,000 (L)	Interest of spouse	22.07

L: Long Position

Notes:

1. PME Investments is an investment holding company incorporated in the British Virgin Islands and its entire issued share capital is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying, all being Directors.

2. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interests in these Shares that Mr. Cheng Kwok Woo has interests in.

3. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interests in these Shares that Mr. Cheng Kwong Cheong has interests in.

4. Mr. Cheng Yau Kuen is the spouse of Ms. Cheng Wai Ying and is accordingly deemed to have interests in these Shares that Ms. Cheng Wai Ying has interests in.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the 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 disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 Enlarged Group.

As at the Latest Practicable Date, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

(i) the sino-foreign equity joint venture agreement dated 29 September 2006 entered into between 上海新華化工廠 (Shanghai Xin Hua Chemical Factory#) and PME International Company Limited, a wholly-owned subsidiary of the Company with respect to the set up of a joint venture company, the registered capital of which was RMB10,000,000 and PME International Company Limited contributed 60% (equivalent to RMB6,000,000) of the registered capital in cash;

(ii) the sale and purchase agreement dated 5 January 2007 and entered into between PME International (BVI) Company Limited, a wholly-owned subsidiary of the Company and Standard Jackson Development Limited in relation to the disposal of a property for a consideration of HK$5,200,000 and the cancellation agreement dated 8 February 2007 entered into between PME International (BVI) Company Limited and Standard Jackson Development Limited in relation to the termination of the said sale and purchase agreement;

(iii) the placing agreement dated 2 April 2007 and made between the Company and Get Nice Investment Limited as placing agent for the placing of 191,600,000 Shares at a price of HK$0.172 per Share;

(iv) the placing agreement dated 12 April 2007 entered into between the Company and Kingston Securities Limited as placing agent for the placing of a total number of 220,000,000 unlisted warrants at the initial subscription price of HK$0.25 per subscription Share;

\# The English translation of Chinese name is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words

(v) the Sale and Purchase Agreement;

(vi) the placing agreement dated 5 July 2007 and entered into between the Company and CCB International Capital Limited as placing agent for the placing of 229,000,000 Shares at the placing price of HK$2.49 per Share; and

(vii) the sale and purchase agreement dated 5 July 2007 entered into between Peaknice Investment Limited, a wholly owned subsidiary of the Company, and Mr. Tang Ho Wen for the acquisition of the entire share capital of Best Time Far East Limited at a consideration of HK$100.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. EXPERTS

The following are the qualification of the experts who have given opinions or advice which are contained in this circular:

Name	Qualifications
Castores Magi (Hong Kong) Limited	Professional valuer
Deloitte Touche Tohmatsu	Certified Public Accountants
Veda Capital	a licensed corporation to carry on regulated activities under the SFO

Each of Castores Magi (Hong Kong) Limited, Deloitte Touche Tohmatsu and Veda Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of Castores Magi (Hong Kong) Limited, Deloitte Touche Tohmatsu and Veda Capital does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

7. LITIGATION

No member of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

8. MATERIAL ADVERSE CHANGE

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 financial statements of the Group was made up.

9. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

10. MISCELLANEOUS

(a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Enlarged Group.

(b) As at the Latest Practicable Date, neither Castores Magi (Hong Kong) Limited, Deloitte Touche Tohmatsu, Veda Capital nor any Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

(c) The principal share registrar and transfer office of the Company is The Bank of Bermuda (Cayman) Limited at P.O. Box 513 GT, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

(d) Tricor Secretaries Limited, the Hong Kong branch registrar and the transfer office of the Company is located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The company secretary of the Company is Mr. Li Chak Hung, *CPA, FCCA*. The qualified accountant of the Company is Ms. Yip Chui Ling, *CPA, FCCA*.

11. DETAILS OF THE DIRECTOR TO BE RE-ELECTED

As shown below is the details of Mr. Chow, who is to be re-elected as an independent non-executive Director:

Mr. Chow, aged 40, has 14-year experience in power industry and is specialised in business strategy development and change management for power company. Mr. Chow holds a Master degree of Engineering in Mechanical Engineering from The University of Hong Kong and a Master degree of Business Administration from The Chinese University of Hong Kong. Mr. Chow is a Chartered Engineer, member of Institution of Mechanical Engineers and The Hong Kong Institution of Engineers. Mr. Chow did not hold any directorship in public listed companies during the past three years.

Mr. Chow does not have any relationship with other directors, senior management or substantial shareholders or controlling shareholders of the Company. Mr. Chow does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Chow shall enter into a service contract with the Company for a term of two years subject to retirement by rotation and re-election at the general meetings of the Company in accordance with the articles of association of the Company. Mr. Chow will be entitled to a director's fee of HK$120,000 per annum as determined by the Board with reference to his position, his level of responsibilities, remuneration policy of the Company and prevailing market conditions.

Save as disclosed above, there is no further information to be disclosed pursuant to the requirements of Rule 13.51(2) of the Listing Rules, nor there are other matters relating to the appointment of Mr. Chow that need to be brought to the attention of the Shareholders.

12. INFORMATION ABOUT DIRECTORS

As set out below is the information in relation to the background and experience of the Directors.

Executive Directors

Mr. Cheng Kwok Woo is the Chairman of the Group. He joined the Group in 1990 and is responsible for strategic planning, business development and Board issues of the Group. He has over 20 years of experience in the trading and manufacturing of abrasive products. Mr. K.W. Cheng is the brother of Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Mr. Cheng Kwong Cheong is the Vice-Chairman and Chief Executive Officer of the Group. He joined the Group in 1990 and is responsible for overall operations and development of the Group. He has over 20 years of experience in the trading and manufacturing of abrasive products. Mr. K.C. Cheng is the brother of Mr. Cheng Kwok Woo and Ms. Cheng Wai Ying.

Mr. Chow Yin Kwang joined the Group in 1995. He is responsible for the project development and quality management of the Group. He has over 10 years of experience in the Group's project development, operation and quality management. Before joining the Group, Mr. Chow had more than 30 years of experience in operation management.

Ms. Cheng Wai Ying joined the Group in 1990. She is responsible for the financial management of the Group. She has over 20 years of experience in financial management and business operation management. Ms. Cheng is the sister of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

Ms. Chan Yim Fan joined the Group in 1990. She is responsible for the logistics of the Group including product supply, delivery, storage, and raw materials as well as trading product procurement. She has over 20 years of experience in logistics management.

Ms. Yeung Sau Han Agnes joined the Group in May 2007. She is responsible for the business development of the Group. She graduated from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma in fashion design.

Ms. Chan Shui Sheung Ivy joined the Group in May 2007. She is responsible for the business development of the Group. She holds a Master of Business Administration degree from the University of South Australia. She has over 15 years experience in investment.

Independent Non-executive Directors

Mr. Anthony Francis Martin Conway was appointed as an independent non-executive Director in May 2003. He has over 40 years of experience in information technology and telecommunications, having held director and senior management positions in various renowned telecoms and information technology companies. He is currently the chairman of I.Tel (Holdings) Limited, and a fellow member of the Hong Kong Institute of Directors, the Hong Kong Management Association, the British Computer Society and The Hong Kong Institution of Engineers. Mr. Conway is also an independent non-executive director of Armitage Technologies Holding Limited, Polytec Asset Holdings Limited and Wing On Company International Limited, all are listed on the Stock Exchange.

Mr. Leung Yuen Wing was appointed as an independent non-executive Director in September 2004. He had held managerial positions in various renowned accounting firms and an investment bank. He is currently the Financial Controller and Company Secretary of iMerchants Limited, and a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr. Soong Kok Meng was appointed as an independent non-executive Director in July 2007. He graduated from Singapore Polytechnic with an advanced diploma in plastic technology and holds a Master degree of Science from University of Manchester Institute of Science and Technology. He has over 15 years sales and marketing experience and is now a Technical Marketing Manager of a European company.

Mr. Chow was appointed as an independent non-executive Director in August 2007. He has 14-year experience in power industry and is specialised in business strategy development and change management for power company. He holds a Master degree of Engineering in Mechanical Engineering from The University of Hong Kong and a Master degree of Business Administration from The Chinese University of Hong Kong. He is a Chartered Engineer, member of Institution of Mechanical Engineers and The Hong Kong Institution of Engineers.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on Business Days at the office of the Company at 5th Floor, Unison Industrial Centre, 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong from the date of this circular up to and including 18 September 2007 and at the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(c) the written consents of the experts referred to in the paragraph headed "Experts" in this Appendix;

(d) the valuation report on the property interests of the Enlarged Group, the text of which is set out in Appendix I to this circular;

(e) the accountants' report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular; and

(f) the annual reports of the Company for each of the two financial years ended 31 December 2005 and 31 December 2006.

PME GROUP LIMITED
必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of the shareholders of PME Group Limited (the "Company") will be held at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong on Tuesday, 18 September 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

   (a) the conditional sale and purchase agreement (the "Agreement") (a copy of which has been produced to the EGM marked "A" and signed by the chairman of the EGM for the purpose of identification) dated 25 June 2007 and entered into between Gainyear Worldwide Limited, a wholly owned subsidiary of the Company, as purchaser and Well Support Limited as vendor in relation to the sale and purchase of 52,415,466 shares (each a "Share") of HK$0.001 each in the share capital of China Railway Logistics Limited (formerly known as Proactive Technology Holdings Limited) for a total consideration of HK$928,802,057.70 and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

   (b) any one or more of the directors (the "Directors") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Agreement and the transactions contemplated thereunder; and

   (c) the allotment and issue of an aggregate of an aggregate of 282,000,000 shares (the "Consideration Shares" and each a "Consideration Share") of HK$0.01 each in the share capital of the Company credited as fully paid at an issue price of HK$1.10 per Consideration Share to the Vendor in accordance with the Agreement be and is hereby approved.

   (d) any one or more Directors be and is/are hereby authorised to allot and issue the Consideration Shares in accordance with the terms of the Agreement and to take all steps necessary or expedient in his/their opinion to implement and/or give effect to the allotment and issue of the Consideration Shares;

* *for identification purposes only*

(e) the issue of the convertible bonds (the "Convertible Bonds") in the principal amount of HK$$618,602,057.70 by the Company in accordance with the terms and conditions of the Agreement and the transactions contemplated thereunder be and are hereby approved; and

(f) any one or more Directors be and is/are hereby authorised to take all steps necessary, desirable or expedient in his/their opinion to implement and/or give effect to the issue of the Convertible Bonds including but not limited to the allotment and issue of ordinary shares of HK$0.01 each in the share capital of the Company of which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds."

2. "**THAT**, to the extent not already exercised, the mandate to allot and issue shares of the Company given to the Directors at the annual general meeting (the "AGM") of the Company held on 5 June 2007 be and is hereby revoked and replaced by the mandate **THAT:**

(a) subject to paragraph (c) below, pursuant to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares of HK$0.01 each (the "Shares") in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise), issued or dealt with by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and (bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of such resolution),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;

"Rights Issue" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong)."

3. "**THAT** conditional upon the passing of resolution no. 2 above, the mandate granted to the Directors at the AGM to extend the general mandate to allot and issue Shares to Shares repurchased by the Company be and is hereby revoked and replaced by the mandate **THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 2 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution."

4. "**THAT** Mr. Chow Fu Kit Edward be re-elected as an independent non-executive Director of the Company and that the board of directors of the Company be authorised to fix his remuneration."

SPECIAL RESOLUTION

5. "**THAT** subject to and conditional upon the approval of the Registrar of Companies in the Cayman Islands being obtained, the name of the Company be and is hereby changed from "PME Group Limited" to "CR Investment (Holdings) Company Limited" and upon the name change becoming effective, the new Chinese name "中鐵投資(控股)有限公司" will be adopted to replace "必美宜集團有限公司" for identification purpose only with effect from the date of entry of the new name of the register maintained by the Registrar of Companies in the Cayman Islands and that the Directors be and are hereby authorised to do all such acts and things and execute all such documents they consider necessary, desirable or expedient to give effect to the aforesaid change of name of the Company."

By order of the Board
PME Group Limited
Cheng Kwok Woo
Chairman

Hong Kong, 22 August 2007

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
5th Floor
Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan
Shatin
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the head office and principal place of business in Hong Kong of the Company at 5th Floor, Unison Industrial Centre, Nos. 27 – 31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

4. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM 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 alone be entitled to vote in respect thereof.