



# China Railway Logistics Limited

(incorporated in Bermuda with limited liability)

Stock Code: 8089



2008

First Quarterly Report

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

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

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

**The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcement in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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*This report, for which the directors of China Railway Logistics Limited (the “Board” or “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to China Railway Logistics Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

The Directors of China Railway Logistics Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2008 (the "Three-Month Period"), together with the comparative unaudited figures for the corresponding period in last year (the "Last Corresponding Period") as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>(Unaudited)</b>	
		<b>Three months ended</b>	
		<b>31 March</b>	
	Notes	<b>2008</b>	2007
		<b>HK\$'000</b>	HK\$'000
Turnover	2	<b>4,407</b>	2,658
Cost of sales		<b>(1,666)</b>	(1,197)
Gross profit		<b>2,741</b>	1,461
Other operating income		<b>6,763</b>	595
Distribution and selling expenses		<b>(6)</b>	(6)
General and administrative expenses		<b>(11,805)</b>	(21,133)
Loss from operations		<b>(2,307)</b>	(19,083)
Finance costs		—	—
Loss before tax	3	<b>(2,307)</b>	(19,083)
Income tax expenses	4	—	—
Loss for the period		<b>(2,307)</b>	(19,083)
Attributable to:			
— Equity holders of the Company		<b>(2,307)</b>	(19,083)
— Minority interests		—	—
Dividends	5	<b>0</b>	0
Loss per share — Basic	6	<b>HK\$(0.47 cents)</b>	HK\$(6.78 cents)

## NOTES:

### 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Group's unaudited condensed consolidated results have been prepared in accordance with the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed consolidated results have been prepared on the historical cost basis. The accounting policies adopted in preparing the unaudited condensed consolidated results for the Three-Month Period and the Last Corresponding Period are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

### 2. TURNOVER

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

	<b>(Unaudited)</b> <b>Three months ended</b> <b>31 March</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Telecommunications	<b>3,412</b>	859
Computer telephony	<b>995</b>	1,799
Total turnover	<b>4,407</b>	2,658

### 3. LOSS BEFORE TAX

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

	<b>(Unaudited)</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
After charging:—		
Staff costs (including directors' emoluments)		
— Salaries and allowances	<b>4,734</b>	3,882
— Retirement benefits scheme costs	<b>90</b>	62
	<b>4,824</b>	3,944
Cost of inventories	<b>1,666</b>	1,135
Operating lease rentals of premises	<b>1,193</b>	471
Interest expenses		
— bank borrowings wholly repayable within five years	—	—
Provision for and write-off/(write-back) of obsolete and slow-moving inventories	—	—
Depreciation of machinery and equipment	<b>257</b>	92
Net exchange loss	<b>1</b>	1
After crediting:—		
Rental income		
— leasing of telecommunications and computer telephony equipment	<b>783</b>	509
Interest income		
— bank deposits	<b>6,479</b>	129
Written back of bad and doubtful receivable	<b>580</b>	—

#### **4. INCOME TAX EXPENSES**

The Company is not subject to tax in Bermuda on its assessable profits or capital gains until March 2016. Hong Kong profits tax has not been provided for the Three-Month Period 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 Three-Month Period and the Last Corresponding Period as the Group did not generate any assessable profits in other jurisdictions during these periods.

As at 31 March 2008, there were no significant deferred tax liabilities for which a recognition or provision would have been required (2007: Nil).

#### **5. DIVIDENDS**

The directors do not recommend the payment of dividends for the Three-Month Period (2007: Nil).

#### **6. LOSS PER SHARE**

The calculation of the basic loss per share for the Three-Month Period is based on the unaudited consolidated loss attributable to equity holders of the Company of approximately HK\$2,307,000 (2007: HK\$19,083,000) and on the weighted average number of 487,781,769 shares (2007: 281,455,556) .

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

## 7. STATEMENT OF CHANGE IN EQUITY

Change in equity during the Three-Month Period were:

	(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) Cumulated deficits HK\$'000	(Unaudited) Total HK\$'000
As at 1 January 2007	278	10,719	7,914	—	146	(3,073)	15,984
Issue of share capital	—	390,994	—	—	—	—	390,994
Loss attributable to equity holders of the Company	—	—	—	—	—	(19,083)	(19,083)
Exchange differences arising on translation of foreign operations	—	—	—	—	55	—	55
As at 31 March 2007	278	401,713	7,914	—	201	(22,156)	387,950
As at 1 January 2008	489	2,772,497	7,914	34,357	320	(1,693,710)	1,121,867
Share capital buy back	(2)	(3,419)	—	—	—	—	(3,421)
Loss attributable to equity holders of the Company	—	—	—	—	—	(2,307)	(2,307)
Exchange differences arising on translation of foreign operations	—	—	—	—	23	—	23
As at 31 March 2008	487	2,769,078	7,914	34,357	343	(1,696,017)	1,116,162

## FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$4,407,000 for the Three-Month Period (2007: HK\$2,658,000), representing an increase of 66% over the Last Corresponding Period.

The gross profit and gross profit margin for the Three-Month Period was HK\$2,741,000 (2007: HK\$1,461,000) and 62% (2007: 55%) respectively.

General and administrative expenses during the Three-Month Period amounted to HK\$11,806,000 (2007: HK\$21,133,000). The reduction in expenses was primarily due to less consultancy and legal and professional fees during the Three-Month Period as compared to the Last Corresponding Period which were incurred in relation to exploring and implementing the acquisition of the logistic transportation business in the People's Republic of China (the "PRC") and the fund raising exercises of the Company.

The unaudited consolidated loss attributable to equity holders of the Company for the Three-Month Period amounted to HK\$2,307,000 (2007: HK\$19,083,000).

## BUSINESS REVIEW AND FUTURE PROSPECTS

The local IT and telecom market during the Three-Month Period remained steady and stable. With the launch of the Third Generation Mobilising System by the HK Fire Service Department in April 2007 and our completion order signed off by end of 2007, the Group started to record sales for sub-contract order from this project during the Three-Month Period. This accounted largely for the increase in turnover during the Three-Month Period as compared to the Last Corresponding Period. The Group will continue to maintain its business relationship with its major customers and at the same time strive to evaluate various business opportunities and spend more research and development efforts on developing 3G focused services in the PRC.

As regards its investment in railway logistic transportation business in the PRC, the Company is continuing with its negotiations with the joint venture partner with a view to resolving the issues concerning the control over the board of directors of CR Onway Freight Logistics and Transport Company Limited (the "PRC Subsidiary") and protecting the Group's interest in the HK\$151,980,000 deposits paid as capital contribution to the PRC Subsidiary. The Directors believe that if the issues can be resolved satisfactorily within a short period of time, it would still be in the best interest of the Company to embark upon the railway logistics business through the PRC Subsidiary. In the meantime, the Company is also exploring other opportunities in the transportation and logistics industry in the PRC and considering other venues to make foray into the business if the issues with the PRC Subsidiary cannot be resolved.



## LIQUIDITY AND FINANCIAL RESOURCES

The Group was principally financed by cash flow generated internally together with the balance of proceeds from the capital fund raising activities completed in 2007.

As at 31 March 2008, the Group's working capital and net assets were approximately HK\$958,247,000 (2007: HK\$963,708,000) and HK\$1,116,162,000 (2007: HK\$1,121,867,000) respectively. Cash and bank balance as at 31 March 2008 stood at approximately HK\$932,174,000 (2007: HK\$923,380,000). The Group did not have any borrowings as at 31 March 2008 (2007: nil) and the gearing level, measured as total non-current liabilities to total assets, as at 31 March 2008 was nil (2007: nil).

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

## CAPITAL STRUCTURE

The total number of issued share capital was 487,314,000 shares as at 31 March 2008. During January 2008, the Directors exercised the general mandate granted by the shareholders at the annual general meeting held on 30 March 2007 and the Company repurchased a total of 2,000,000 shares in the share capital of the Company on the market at prices ranging from HK\$1.40 to HK\$1.87 per share. The total consideration paid for the repurchase amounted to approximately HK\$3,421,178. Apart from the above, there were no new issue or repurchase of shares during the Three-Month Period.

## DIRECTORS' INTEREST IN SHARES

As at 31 March 2008, 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 (Note)	Beneficial owner	—	3,330,000	3,330,000	0.68%
Mr. Ng Kam Wing	Beneficial owner	—	3,330,000	3,330,000	0.68%
Mr. Koh Tat Lee, Michael	Beneficial owner	298,000	3,330,000	3,628,000	0.74%
Mr. Lim Kwok Choi	Beneficial owner	—	600,000	600,000	0.12%

Note: Mr. Zeng Bangjian resigned as an executive director of the Company with effect from 28 April 2008.

Save as disclosed above, as at 31 March 2008, none of the directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interests, whether directly or indirectly, subsisted at 31 March 2008 or at any time during the Three-Month Period.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2008, persons who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or was, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

Name	Capacity	Type of interests	Number of shares	Percentage of interests
Wellington Management Company, LLP	Investment manager	Corporation	25,944,010	5.32%
PME Group Limited	Interest of corporation controlled	Corporation	73,424,000 (Note 1)	15.07%
Sunbright Asia Limited	Interest of corporation controlled	Corporation	71,000,000	14.57%
Well Support Limited	Beneficial owner	Corporation	52,415,466 (Note 2)	10.76%

Notes:

1. PME Group Limited through its various controlled corporations is interested in an aggregate of 73,424,000 shares of the Company.
  - (i) 71,000,000 share are directly held by Sunbright Asia Limited, by virtue of CR Investment Group Limited's 100% interest in Sunbright Asia Limited and PME Group Limited's 100% interests in CR Investment Group Limited; and
  - (ii) 2,424,000 shares are directly held by Betterment Enterprises Limited, by virtue of Richcom Group Limited's 99.49% interest in Betterment Enterprises Limited, CR Investment Group Limited's 100% interest in Richcom Group Limited and PME Group Limited's 100% interest in CR Investment Group Limited.
2. These shares are held by Well Support Limited, which is beneficially owned by Liu Yi Dong Family Trust and the beneficiaries of which are Liu Yi Dong and his family members.

Save as disclosed above, no other shareholders or other persons had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group as at 31 March 2008.

## **COMPETING INTERESTS**

During the Three-Month Period, Mr. Tsang Chi Hin is a non-executive Director 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. In addition, as Mr. Tsang is a non-executive Director, the Directors believe that the competing risk to the business of the Group is minimal.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had an interest in business which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with the Group during the Three-Month Period.

## **MANAGEMENT CONTRACTS**

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

## **SECURITIES TRANSACTION BY DIRECTORS**

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

## **AUDIT COMMITTEE**

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

The members of the audit committee, all being independent non-executive Directors, were Mr. Leung Lok Ming, Mr. Chan Ho Wah, Terence and Mr. Chong Cha Hwa as at 31 March 2008. During and subsequent to the Three-Month Period, Mr. Lok Shing Kwan, Sunny and Mr. Leung Lok Ming resigned as members of the audit committee on 10 March 2008 and 2 May 2008 respectively and Dr. James Wing Ho Wong was appointed as member and chairman of the audit committee with effect from 28 April 2008 and 8 May 2008 respectively. The audit committee has reviewed the Company's quarterly results for the Three-Month Period.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During January 2008, the Directors exercised the general mandate granted by the shareholders at the annual general meeting held on 30 March 2007 and the Company repurchased a total of 2,000,000 shares in the share capital of the Company on the market at prices ranging from HK\$1.40 to HK\$1.87 per share. The total consideration paid for the repurchase amounted to approximately HK\$3,421,178. Apart from the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Three-Month Period.

By order of the Board

**NG KAM WING**

*Executive Director*

Hong Kong, 9 May 2008

*As at the date hereof, the Company's executive directors are Mr. Lim Kwok Choi, Mr. Lok Shing Kwan, Sunny, Mr. Ng Kam Wing, Mr. Koh Tat Lee, Michael and Ms. Yeung Sau Han, Agnes; the Company's non-executive director is Mr. Tsang Chi Hin; and the Company's independent non-executive directors are Mr. Chan Ho Wah, Terence, Mr. Chong Cha Hwa and Dr. James Wing Ho Wong.*