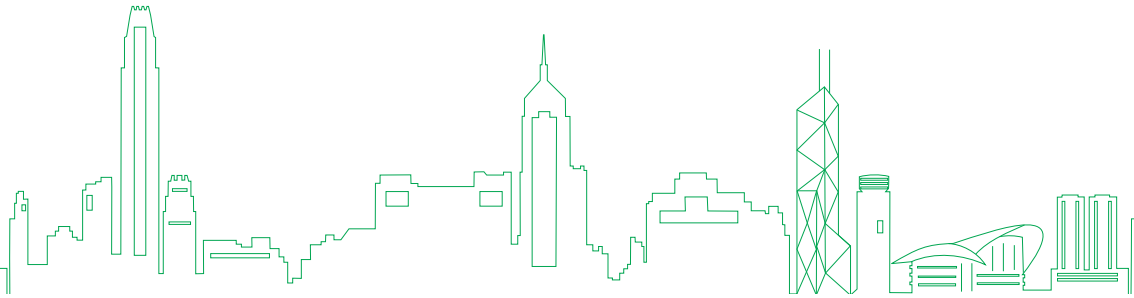




China Railway Logistics Limited

(incorporated in Bermuda with limited liability)

Stock Code: 8089



2008
Interim 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 Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

RESULTS

The board of Directors (the “Board”) of China Railway Logistics Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 June 2008, together with the comparative unaudited figures for the corresponding periods in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	3	2,370	2,664	6,777	5,322
Cost of sales		(1,537)	(1,319)	(3,203)	(2,516)
Gross profit		833	1,345	3,574	2,806
Other operating income		4,865	5,189	11,628	5,784
Distribution and selling expenses General and administrative expenses		(7)	(7)	(13)	(13)
		(15,458)	(30,702)	(27,263)	(51,835)
Loss from operations		(9,767)	(24,175)	(12,074)	(43,258)
Finance costs		(22)	(318)	(22)	(318)
Loss before tax	5	(9,789)	(24,493)	(12,096)	(43,576)
Loss for the period		(9,789)	(24,493)	(12,096)	(43,576)
Attributable to:					
— Equity holders of the Company		(9,789)	(24,493)	(12,096)	(43,576)
Loss for the period		(9,789)	(24,493)	(12,096)	(43,576)
Dividends	7	—	—	—	—
Loss per share - Basic	8	HK(2.01 cents)	HK(6.97 cents)	HK(2.48 cents)	HK(13.83 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited)	(Audited)
		As at	As at
	Notes	30 June 2008	31 Dec 2007
		HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	1,744	3,010
Deposit for acquisition of investment	10	172,260	151,980
Loan receivable	11	2,023	3,823
		176,027	158,813
CURRENT ASSETS			
Inventories	12	354	348
Trade receivables	13	990	976
Prepayments, deposits and other receivables		7,236	14,098
Loan receivable	11	3,600	3,900
Financial assets at fair value through profit or loss	14	6,385	25,758
Cash and bank balances		922,018	923,380
		940,583	968,460
CURRENT LIABILITIES			
Trade payables	15	1,012	973
Accruals and other payables		8,121	3,064
Receipts in advance		1,095	556
Obligations under finance lease	16	—	159
		10,228	4,752
NET CURRENT ASSETS			
		930,355	963,708
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,106,382	1,122,521
NON-CURRENT LIABILITIES			
Obligations under finance lease	16	—	654
		1,106,382	1,121,867
EQUITY			
Equity attributable to equity holders of the company			
Issued capital	17	487	489
Reserves		1,105,895	1,121,378
		1,106,382	1,121,867

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2008:

	Share capital	Share premium	Contributed surplus	Share option reserve	Exchange fluctuation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	278	10,719	7,914	—	146	(3,073)	15,984
Issue of share capital	211	1,149,856	—	—	—	—	1,150,067
Equity-settled share based payment expenses	—	—	—	21,851	—	—	21,851
Loss for the period	—	—	—	—	—	(43,576)	(43,576)
Exchange differences arising on translation of foreign operations	—	—	—	—	27	—	27
At 30 June 2007	489	1,160,575	7,914	21,851	173	(46,649)	1,144,353
At 1 January 2008	489	2,772,497	7,914	34,357	320	(1,693,710)	1,121,867
Share repurchased	(2)	(3,419)	—	—	—	—	(3,421)
Loss for the period	—	—	—	—	—	(12,096)	(12,096)
Exchange differences arising on translation of foreign operations	—	—	—	—	32	—	32
At 30 June 2008	487	2,769,078	7,914	34,357	352	(1,705,806)	1,106,382

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended	
	30 June	
	2008	2007
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(9,073)	(37,355)
Net cash inflow/outflow from investing activities	9,842	(198,007)
Net cash inflow/outflow from financing activities	(2,156)	1,150,067
Increase/(decrease) in cash and cash equivalents	(1,387)	914,705
Cash and cash equivalents at beginning of period	923,380	4,773
Effect of foreign exchange rate change, net	25	—
Cash and cash equivalents at end of period	922,018	919,478

NOTES TO THE UNAUDITED 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 unaudited interim financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited interim financial statements have been prepared under the historical cost basis. The accounting policies adopted in preparing the unaudited interim consolidated financial statements for the six months ended 30 June 2008 (the "Six-Month Period") are consistent with those followed in the preparation of annual audited financial statements for the year ended 31 December 2007.

3. 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.

4. SEGMENT INFORMATION:

Turnover and revenue by business segments are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Telecommunications	1,083	871	2,078	1,730
Computer telephony	1,287	1,793	4,699	3,592
Total turnover	2,370	2,664	6,777	5,322
Telecommunications	350	468	1,632	985
Computer telephony	483	877	1,942	1,821
Segment Profit	833	1,345	3,574	2,806
Other operating income	4,865	5,189	11,628	5,784
Unallocated expenses	(15,465)	(30,709)	(27,276)	(51,848)
Loss from operations	(9,767)	(24,175)	(12,074)	(43,258)
Finance costs	(22)	(318)	(22)	(318)
Loss before tax	(9,789)	(24,493)	(12,096)	(43,576)
Income tax expenses	—	—	—	—
Loss for the period	(9,789)	(24,493)	(12,096)	(43,576)

5. LOSS BEFORE TAX

Loss before taxation is arrived at after charging and crediting the following items:

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
After charging:—				
Staff costs (including directors' emoluments)				
— Salaries and allowances	5,317	2,914	10,051	6,796
— Equity-settled share based payment expenses	—	21,851	—	21,851
— Retirement benefits scheme costs	85	74	175	136
	5,402	24,839	10,226	28,783
Cost of sales	1,537	1,319	3,203	2,516
Minimum lease payment under operating lease in respect of land & building	1,083	452	2,276	923
Interest expenses on bank borrowings	—	318	—	318
Provision/(write-off) of bad and doubtful receivables	(580)	1,726	(580)	1,726
Provision for obsolete and slow-moving inventories	3	110	3	110
Depreciation	196	175	453	267
Net exchange (gain)/loss	(473)	295	(472)	(296)
After crediting:—				
Rental income from leasing of telecommunications and computer telephony equipment	906	607	1,689	1,116
Interest income from bank deposit	4,346	4,145	10,825	4,274

6. INCOME TAX EXPENSES

The Company is not subject to tax in Bermuda on its assessable profits or capital gains until March 2016. Profits tax has not been provided for as the Group did not generate any assessable profits during the Six-Month Period (2007: Nil). No provision for overseas income tax has been provided for the Six-Month Period and the corresponding period in 2007 as the Group did not generate any assessable profits in other jurisdictions during these periods.

As at 30 June 2008, there were no significant deferred tax liabilities for which a recognition or provision would have been required (2007: Nil).

7. DIVIDENDS

The Directors do not recommend the payment of interim dividends for the Six-Month Period. (2007: Nil)

8. LOSS PER SHARE

The calculation of the basic loss per share for the Six-Month Period are based on the attributable to equity holders of the Company of approximately HK\$12,096,000 (2007: HK\$43,576,000) and on the weighted average number of 487,610,703 shares (2007: 314,970,422 shares).

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

9. PROPERTY, PLANT AND EQUIPMENT

	As at 30 Jun 2008 HK\$'000	As at 31 Dec 2007 HK\$'000
Cost		
At beginning of the period	7,101	7,078
Additions	11	3,939
Disposals	(2,203)	(3,922)
Exchange realignment	11	6
At 30 June 2008 / 31 December 2007	4,920	7,101
Accumulated depreciation		
At beginning of the period	4,091	5,842
Charge for the year	453	850
Disposals	(1,372)	(2,602)
Exchange realignment	4	1
At 30 June 2008 / 31 December 2007	3,176	4,091
Net book value at 30 June 2008 / 31 December 2007	1,744	3,010

10. DEPOSIT FOR ACQUISITION OF INVESTMENT

The asset represents the deposit of the capital contribution for China Railway Onway Logistics Transport Ltd. and Peaktop International Holdings Ltd.

11. LOAN RECEIVABLE

The loan receivable is unsecured and bears interest at 4% per annum. The balances will be settled by 18 installments and settled in full in December 2009.

The exposure of the Group's fixed-rate loan receivables to interest rate risks.

	As at 30 Jun 2008 HK\$'000	As at 31 Dec 2007 HK\$'000
Analysed for reporting purpose as:		
Within one year	3,600	3,900
In the second to fifth years	2,023	3,823
	5,623	7,723

12. INVENTORIES

Inventories consisted of:

	As at 30 June 2008 HK\$'000	As at 31 Dec 2007 HK\$'000
Telecommunications and computer telephony hardware products	484	478
Less: Provision for obsolete and slow-moving inventories	(130)	(130)
	354	348

13. TRADE RECEIVABLES

Trade receivables consisted of:

	As at 30 June 2008 HK\$'000	As at 31 Dec 2007 HK\$'000
Account receivable	1,688	1,978
Retention receivable	348	624
	2,036	2,602
Less: Accumulated impairment	(1,046)	(1,626)
	990	976

The group normally grants to its customers credit periods ranging from 30 days to 60 days.

Aging analysis of trade receivables is as follows:

	As at 30 June 2008 HK\$'000	As at 31 Dec 2007 HK\$'000
Within 90 days	1,070	1,054
91 to 180 days	261	7
181 to 360 days	—	89
Over 12 months	705	1,452
	2,036	2,602

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The assets represent investments in Hong Kong securities and hedge funds.

15. TRADE PAYABLES

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

	As at 30 June 2008 HK\$'000	As at 31 Dec 2007 HK\$'000
Within 30 days	485	524
31 to 90 days	405	397
91 to 180 days	—	—
Over 180 days	122	52
	1,012	973

16. OBLIGATIONS UNDER FINANCE LEASE

	As at 30 June 2008 HK\$'000	As at 31 Dec 2007 HK\$'000
Within one year	—	159
In the second to fifth years	—	654
	—	813

17. SHARE CAPITAL

	As at 30 June 2008		As at 31 Dec 2007	
	No. of shares '000	Nominal Value HK\$'000	No. of shares '000	Nominal Value 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	487,314	487	489,314	489

18. OPERATING LEASE COMMITMENTS

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

	As at 30 June 2008 HK\$'000	As at 31 Dec 2007 HK\$'000
Within one year	7,182	8,750
In the second to fifth years	11,755	25,186
	18,937	33,936

FINANCIAL REVIEW

For the Six-Month Period, the Group recorded a turnover of approximately HK\$6,777,000 (2007: HK\$5,322,000), representing an increase of approximately 27% over the corresponding period in 2007.

The gross profit and gross profit margin for the Six-Month Period was approximately HK\$3,574,000 and 53% respectively (2007: HK\$2,806,000 and 53% respectively).

General and administrative expenses for the Six-Month Period was approximately HK\$27,263,000 (2007: HK\$51,835,000). The reduction in expenses was primarily due to less consultancy and legal and professional fees during the period under review as compared to the corresponding period in 2007 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 Six-Month Period 30 June 2008 was approximately HK\$12,096,000 (2007: HK\$43,576,000).

BUSINESS REVIEW AND FUTURE PROSPECTS

The local IT and telecom market during the Six-Month Period remained steady and stable. As disclosed in the first quarterly report of the Company for the three months ended 31 March 2008 (the "First Quarter"), the Group recorded sales for sub-contract order from the Third Generation Mobilising System launched by the HK Fire Service Department, which order has been completed in the First Quarter and accounted substantially for the increase in turnover of the Group for the First Quarter and the Six-Month Period as compared to the previous corresponding periods. 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 logistics 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. In the meantime, the Company is 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.

On 11 June 2008, Oasis Choice Holdings Limited ("Oasis Choice"), a wholly-owned subsidiary of the Company, entered into a conditional agreement to acquire a 49.46% stake in Peaktop International Holdings Limited ("Peaktop"), a company listed on the Main Board of the Stock Exchange (stock code : 925). Peaktop and its subsidiaries are engaged in the design, manufacture and sale of a wide range of giftware, home and garden decorative products, fountains and water pumps. The Directors believe Peaktop has a solid business and turnover and Peaktop can benefit from the strong financial position of the Group to enhance the performance of its existing business. In addition, the Directors consider that the property interests of Peaktop in Shanwei City, Guangdong Province, the PRC, which are currently used as workshops, warehouse and ancillary offices, may complement the future development of the Group in the transportation and logistics industry. The acquisition is subject to, among other things, approval of the acquisition by the shareholders of the Company at a special general meeting to be held on 21 August 2008. If the acquisition is completed, Oasis Choice will also make a mandatory general offer to acquire all the shares of Peaktop as required under the Hong Kong Code on Takeovers and Mergers.

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 30 June 2008, the Group's working capital and net assets were approximately HK\$950,355,000 (2007: HK\$940,663,000) and HK\$1,106,382,000 (2007: HK\$1,145,073,000) respectively. Cash and bank balances as at 30 June 2008 was approximately HK\$922,018,000 (2007: HK\$919,478,000). The Group did not have any borrowings as at 30 June 2008 (2007: nil) and the gearing level, measured as total non-current liabilities to total assets, as at 30 June 2008 was nil (2007: 0.06%).

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 30 June 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\$3,421,000. Apart from the above, there were no new issues or repurchases of shares during the period.

DIRECTORS' INTEREST IN SHARES

As at 30 June 2008, the interests and short positions of the Directors and their respective associates in the shares capital and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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. Ng Kam Wing (Note)	Beneficial owner	—	3,330,000	3,330,000	0.68%
Mr. Lim Kwok Choi	Beneficial owner	—	600,000	600,000	0.12%

Note: Mr. Ng Kam Wing resigned as an executive Director with effect from 28 July 2008.

Save as disclosed above, as at 30 June 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 period under review 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 period under review.

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 2008 or at any time during the period under review.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 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
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%
Century Dragon Development Limited	Interest of corporation controlled	Corporation	27,000,000 (Note 3)	5.54%

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.
3. These shares are held by Century Dragon Development Limited, a company wholly-owned by Wu Wai Leung.

Save as disclosed above, no other shareholders or other persons had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group as at 30 June 2008.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period under review, 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 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 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 Six-Month 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.

AUDIT COMMITTEE

The Company has established an audit committee (the "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, interim reports and quarterly reports and to provide advice and comments with respect to internal control of the Board.

The unaudited interim financial statements of the Group for the six month period have been reviewed by the Audit Committee.

The members of the Audit Committee, all being independent non-executive Directors, were Dr. James Wing Ho Wong, Mr. Chan Ho Wah, Terence and Mr. Chong Cha Hwa as at 30 June 2008.

Note: Mr. Chong Cha Hwa and Dr. James Wing Ho Wong, resigned as members of the Audit Committee on 4 July 2008 and Mr. Law Wing Tak Jack was appointed as member and chairman of the Audit Committee with effect from 4 July 2008. Ms. Yuen Wai Man was appointed as member of the Audit Committee with effect from 4 July 2008.

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\$3,421,000. 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 period under review.

CODE ON CORPORATE GOVERNANCE

The Group has complied with most of the code provisions on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules ("CG Code") for the Six-Month Period except the following deviation:

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Subsequent to the re-designation of Mr. Tsang Chi Hin from the posts as the chairman and chief executive officer of the Company on 16th October 2007, no replacement of the posts of the chairman and chief executive officer has since been fixed. The Board strives to find the suitable candidates within and outside the Group. On 10 March 2008, Mr. Lim Kwok Choi, the executive Director, has been appointed as the chairman of the Company. The Board will keep reviewing the current structure from time to time. If candidate with suitable knowledge, skills and experience is identified, the Company will make appointment to fill the post of chief executive officer as appropriate.

Under the code provision B.1.3 of the CG Code, the terms of reference of the remuneration committee should include, amongst other things, the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time. During the year, the salary increment of, and bonus payment to, certain Directors have not been reviewed by the remuneration committee.

The Board will ensure that relevant matters relating to remuneration of Directors and senior management will be considered in accordance with the terms of reference of the remuneration committee in future.

By order of the Board

LIM KWOK CHOI

Chairman & Executive Director

Hong Kong, 7 August 2008

As at the date hereof, the Company's executive Directors are Mr. Lim Kwok Choi, Mr. Lok Shing Kwan, Sunny 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, Ms. Yuen Wai Man and Mr. Law Wing Tak Jack.