

# China Railway Logistics Limited

(incorporated in Bermuda with limited liability)

Stock Code: 8089



2008

Third Quarterly Report

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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 GEM of the Stock Exchange (the “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.

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 nine months ended 30 September 2008 together with the comparative unaudited figures for the corresponding periods in 2007 as follows:

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	3	3,287	2,833	10,064	8,155
Cost of sales		(2,250)	(1,495)	(5,453)	(4,011)
Gross profit		1,037	1,338	4,611	4,144
Other income		4,770	7,132	16,398	12,598
Fair value changes on investments held-for-trading		(1,119)	(2,291)	(1,723)	(2,291)
Impairment loss on deposits paid for acquisition of investments		(16,980)	-	(16,980)	-
Distribution and selling expenses		(4)	(6)	(17)	(19)
General and administrative expenses		(17,327)	(24,878)	(43,986)	(76,713)
Finance costs		-	-	(22)	-
Loss before tax	4	(29,623)	(18,705)	(41,719)	(62,281)
Taxation	5	-	-	-	-
Loss for the period		(29,623)	(18,705)	(41,719)	(62,281)
Attributable to:					
– Equity holders of the Company		(29,236)	(5,314)	(41,332)	(48,890)
– Minority interests		(387)	(13,391)	(387)	(13,391)
Loss for the period		(29,623)	(18,705)	(41,719)	(62,281)
Dividend	6	-	-	-	-
Loss per share – Basic	7	HK (5.78) cents	HK (1.09) cents	HK (8.37) cents	HK (13.05) cents

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2008

	Attributable to equity holders of the Company						Total	Minority Interest	Total
	Share Capital	Share Premium	Contributed Surplus	Share Option Reserve	Exchange Fluctuation Reserve	Accumulated Losses			
	HK\$'000	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	-	15,984
Issue of new shares, net of share issued expenses	211	1,824,072	-	-	-	-	1,824,283	-	1,824,283
Equity-settled share based payments	-	-	-	21,851	-	-	21,851	-	21,851
Shares issued pursuant to acquisition of subsidiaries	-	-	-	-	-	(13,391)	(13,391)	52,923	39,532
Loss for the period	-	-	-	-	-	(48,890)	(48,890)	(13,391)	(62,281)
Exchange differences arising on translation of foreign operations	-	-	-	-	917	-	917	-	917
At 30 September 2007	489	1,834,791	7,914	21,851	1,063	(65,354)	1,800,754	39,532	1,840,286
<b>At 1 January 2008</b>	<b>489</b>	<b>2,772,497</b>	<b>7,914</b>	<b>34,357</b>	<b>320</b>	<b>(1,693,710)</b>	<b>1,121,867</b>	<b>-</b>	<b>1,121,867</b>
Issue of new shares, net of share issued expenses	50	68,175	-	-	-	-	68,225	-	68,225
Share repurchased	(2)	(3,419)	-	-	-	-	(3,421)	-	(3,421)
Loss for the period	-	-	-	-	-	(41,332)	(41,332)	(387)	(41,719)
Acquisition of subsidiary	-	-	-	-	-	-	-	4,846	4,846
Exchange differences arising on translation of foreign operations	-	-	-	-	78	-	78	-	78
At 30 September 2008	537	2,837,253	7,914	34,357	398	(1,735,042)	1,145,417	4,459	1,149,876

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL RESULTS

### 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. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and address of its principal place of business is 13th Floor, Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong.

The Company is an investment holding company. The unaudited condensed consolidated results are presented in Hong Kong dollars, which is the same as the functional currency of the Group. 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 condensed consolidated results 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 condensed financial results have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values. The accounting policies adopted in preparing the unaudited condensed consolidated financial results for the nine months ended 30 September 2008 are consistent with those followed in the preparation of the audited financial statements of the Company 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; (iii) fees for consulting and maintenance services; and (iv) service for voice portal multimedia system, software and gateway facilities.

Turnover and revenue by business segments are as follows:

	(Unaudited) Three months ended 30 September 2008		(Unaudited) Nine months ended 30 September 2008	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Telecommunications	1,237	866	3,315	2,596
Computer telephony	1,736	1,967	6,435	5,559
Voice search engine portal	314	-	314	-
Total turnover	3,287	2,833	10,064	8,155

#### 4. LOSS BEFORE TAX

Loss before taxation has been arrived at after charging (crediting):

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
After charging:				
Staff costs including directors' emoluments				
Salaries and allowances	5,083	11,965	15,134	18,761
Equity-settled share based payment less expenses	–	–	–	21,851
Retirement benefits scheme costs	81	104	256	240
	5,164	12,069	15,390	40,852
Cost of inventories	2,250	1,416	5,453	3,803
Minimum lease payments under operating leases	1,053	744	3,329	1,667
Interest expenses on bank borrowings	–	1,208	–	1,526
Written off (write-back) of bad and doubtful receivables	–	(110)	(580)	(110)
Provision for obsolete and slow-moving inventories	–	(90)	3	20
Depreciation of machinery and equipment	194	323	647	590
Net exchange (gain) loss	3	1,359	(469)	1,063
After crediting:				
Rental income from leasing of telecommunications and computer telephony equipment	1,068	646	2,757	1,762
Interest income	4,484	9,395	15,309	13,669

## **5. TAXATION**

The Company is not subject to tax in Bermuda on its assessable profits or capital gains until March 2016.

No provision for tax was made for the nine months ended 30 September 2007 and 2008 as the Group did not generate any assessable profits.

## **6. DIVIDEND**

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2008 (nine months ended 30 September 2007: Nil).

## **7. LOSS PER SHARE**

The calculation of the basic loss per share is based on the loss attribute to equity holders of the Company for the three months and nine months ended 30 September 2008 of approximately HK\$29,236,000 and HK\$41,332,000 (three months and nine months ended 30 September 2007: HK\$5,314,000 and HK\$48,890,000) and the weighted average number of ordinary shares of 505,792,261 and 493,532,978 ordinary shares (three months and nine months ended 30 September 2007: 489,314,000 and 374,647,274 ordinary shares) in issue during the respective periods.

No diluted loss per share for the three months and nine months ended 30 September 2008 and 2007 has been presented as the outstanding share options had an anti-dilutive effect on the basic loss per share for the respective periods.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the nine months ended 30 September 2008, the Group recorded a turnover of approximately HK\$10,064,000 (nine months ended 30 September 2007: HK\$8,155,000), representing an increase of approximately 23.4% as compared to the last corresponding period.

Turnover from telecommunications business was HK\$3,315,000 (nine months ended 30 September 2007: HK\$2,596,000), representing approximately 27.7% as compared to the last corresponding period. Turnover derived from computer telephony business increased from approximately HK\$5,559,000 in the last corresponding period to approximately HK\$6,435,000, representing an increase of approximately 15.8% as compared to the last corresponding period. Turnover derived from voice search engine portal was approximately HK\$314,000 without the comparative figures for the corresponding periods in 2007 as the business was acquired in August 2008.

The gross profit and gross profit margin for the nine months ended 30 September 2008 were approximately HK\$4,611,000 and 45.8% respectively (nine months ended 30 September 2007: HK\$4,144,000 and 50.8% respectively).

General and administrative expenses for the nine months ended 30 September 2008 was approximately HK\$43,986,000 (nine months ended 30 September 2007: HK\$76,713,000). 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 loss attributable to equity holders was approximately HK\$41,332,000 (nine months ended 30 September 2007: HK\$48,890,000). The loss per share was approximately HK8.37 cents (nine months ended 30 September 2007: HK13.05 cents).

During August and September 2008, a wholly owned subsidiary of the Company, Top Status International Limited acquired an interest in total of 53,727,600 ordinary shares, representing 69.54% of the existing issued ordinary shares, and 173,913,043 convertible preference shares of the existing issued convertible preference shares of Linefan Technology Holdings Limited, a company continued into Bermuda, the shares of which are listed on the GEM of the Stock Exchange (stock code: 8166), at a consideration of HK\$26,837,000 and HK\$86,870,000 respectively. The Linefan group is principally engaged in the sale, development and implementation of structural information integration and analysis systems, non-structural knowledge integration systems, knowledge management related to network application system and technology and provision of voice search engine portal. The acquisition represents an attractive business opportunity for the Group to diversify its business scope.



## **Fund Raising Activities**

On 21 July 2008, the Company entered into a conditional placing agreement with Kingston Securities Limited, as the placing agent, in relation to a placement of 50,000,000 placing shares to independent investors under general mandate of the Company at a price of HK\$1.40 per placing share. The net proceeds from the placing are approximately HK\$68,225,000 and will be applied as general working capital of the Group. The placing has completed on 28 August 2008.

## **Liquidity and Financial Resources**

The Group generally finances its operation with internally generated cash flows and the bank balance.

As at 30 September 2008, the Group had bank balances and cash of approximately HK\$870,885,000 as compared to the bank balances and cash of approximately HK\$923,380,000 as at 31 December 2007.

## **Gearing Ratio**

The Group did not have any bank borrowings as at 30 September 2008 (31 December 2007: Nil). In this regard, the Group held a net cash position with nil gearing ratio (total bank borrowings to shareholders' funds) as at 30 September 2008 (31 December 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 shares of the Company was 537,314,000 shares as at 30 September 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. In addition, the Company had issued 50,000,000 ordinary shares by means of placement to raise approximately HK\$68,225,000 on 28 August 2008.

## Subsequent Events

On 13 October 2008, Dragon Billion Limited (“Dragon Billion”), a wholly owned subsidiary of the Company, entered into the Disposal Agreement to dispose of the entire shareholding interest (the “Sale Shares”) in Eternity Profit Investments Limited (“Eternity Profit”), a wholly owned subsidiary of the Company. The consideration for Sale Shares is HK\$6,095,000. In addition, Dragon Billion has agreed to sell the outstanding debts of the HK\$151,980,000 advanced by Dragon Billion to Eternity Profit (the “Sale Debts”) to independent third parties. The face value of Sale Debts was HK\$151,980,000 which is equal to the amount of the deposits of the capital contribution to the PRC company and not interest bearing. The consideration for Sale Debts is HK\$135,000,000, representing a discount of approximately 11% to the face value of the Sale Debts.

On 14 October 2008, the Company announced a possible establishment of a joint venture company (the “JVC”). On 10 October 2008, Easy Champ Corporation Limited (“Easy Champ”), a wholly owned subsidiary of the Company, entered into the legally binding Framework Agreement with Top Fast Holdings Limited (“Top Fast”) in relation to the possible establishment of the JVC in the PRC. The Company further announced that on 30 October 2008, a legally binding Supplemental Framework Agreement was entered into between Easy Champ and Top Fast and which supersedes the Framework Agreement dated 10 October 2008. The JVC will principally be engaged in the business of container chartering. Subject to the fulfillment of the conditions under the Supplemental Framework Agreement, the formal joint venture agreement will be entered into within six months and the preliminary terms stating that Easy Champ will contribute HK\$150,000,000 to the JVC.

On 23 October 2008, the Company announced a possible acquisition. On 21 October 2008, Asiaciti Management Limited (“Asiaciti”), a wholly owned subsidiary of the Company, entered into the non-legally binding memorandum of understanding (i) to acquire 14% of the registered share capital of Changsha Xinxing Development Limited (the “Target Company”), and (ii) to subscribe for subscription shares, being 30,000 new shares, representing 75% of the issued share capital of Gold Wide Holdings Limited as enlarged by the allotment and issue of subscription shares. Gold Wide Holdings Limited has held 54% of the Target Company. After completion of the possible acquisition, Asiaciti shall be effectively interested in 44% of the Target Company. The Target Company is principally engaged in the provision of catering, entertainment services, rental of hotel rooms and office premises and property management. The Target Company is holding the entire interest of the Changsha City Xinxing Hotel Property (the “Property”) which is situated in the central business district of Changsha City, the PRC. The Property is a 15-storey commercial and hotel composite development with a total gross floor area of approximately 25,734.74 square metres. The aggregate consideration of RMB72,600,000, of which RMB25,000,000 was paid by cash.

## Outlook

The recent financial crisis and credit crunch in global financial market will inevitably slow down the global economy.

However, the Directors believe that attractive investment opportunities are available as companies and businesses will be undervalued in a volatile financial market. The Group currently maintains a strong cash position and the Board will carefully explore suitable business opportunities with a view to enhancing the shareholders' value in the long run.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 September 2008, the interests and short positions of the Directors and chief executive's of the Company in the shares, underlying shares and debentures 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 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 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 positions in shares and underlying shares of the Company

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
Ms. Chan Shui Sheung Ivy	Beneficial owner	60,000	-	60,000	0.01%
Mr. Lim Kwok Choi	Beneficial owner	-	600,000	600,000	0.11%

Note: Mr. Lim Kwok Choi resigned as an executive Director with effect from 6 October 2008 and therefore, the 600,000 share options was lapsed upon his resignation.

Save as disclosed above, as at 30 September 2008, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures 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 above section headed "Directors' and Chief Executive's Interests in Shares", at no time during the nine months ended 30 September 2008 was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the 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 of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the nine months ended 30 September 2008.

## 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 Directors or members of its management had a material interest, whether directly or indirectly, subsisted at 30 September 2008 or at any time the nine months ended 30 September 2008.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, persons who had interests or short positions directly or indirectly in the Company's shares, underlying shares and debentures recorded in the register kept by the Company pursuant to section 336 of the SFO or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules were as follows:

Long positions in shares of the Company

Name	Notes	Number of ordinary shares held	Percentage of Interests
PME Group Limited	1	76,644,000	14.26%
Sunbright Asia Limited	1	71,000,000	13.21%
Well Support Limited	2	52,415,466	9.76%
Liu Yi Dong	2	52,415,466	9.76%
Century Dragon Development Limited	3	27,000,000	5.02%
Wu Wai Leung	3	27,000,000	5.02%

Notes:

1. PME Group Limited through its various controlled corporations is interested in an aggregate of 76,644,000 shares of the Company.
  - (i) 71,000,000 shares 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) 5,644,000 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, the Directors were not aware of any other shareholders or other persons who had an interest or a short position in the shares, underlying shares or debentures 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 the Company, or any other substantial shareholders whose interest or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO as at 30 September 2008.

## **DIRECTORS' INTERESTS IN A COMPETING BUSINESS**

During the nine months ended 30 September 2008, Mr. Tsang Chi Hin ("Mr. Tsang"), a former non-executive Director who resigned on 17 October 2008, is a director of Beijing Teletron Systems Integration Company Limited which is also engaged in the provision of telecommunications and computer telephony solutions. The Board believes that there is a risk that such business may compete with those of the Group. However, the Board is 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 Board believes that the competing risk to the business of the Group is minimal.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had an interest in business which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with the Group during the nine months ended 30 September 2008.

## **MANAGEMENT CONTRACTS**

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the nine months ended 30 September 2008.

## **DIRECTORS' SECURITIES TRANSACTION**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the nine months ended 30 September 2008. Having made specific enquiry of all Directors, all Directors had 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 with terms of reference in compliance with the GEM Listing Rules. The Audit Committee comprises all independent non-executive directors of the Company. 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 thereon to the Board.

The unaudited financial results of the Group and this report for the nine months ended 30 September 2008 have been reviewed by the Audit Committee.

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

During January 2008, the Board 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 listed securities during the nine months ended 30 September 2008.

On behalf of the Board  
**Chan Shui Sheung Ivy**  
*Executive Director*

Hong Kong, 10 November 2008

*As at the date hereof, the Company's executive directors are Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy, and the Company's independent non-executive directors are Ms. Yuen Wai Man and Mr. Law Wing Tak Jack.*