



**China Railway Logistics Limited**  
**中國鐵路貨運有限公司\***

*(incorporated in Bermuda with limited liability)*

Stock Code: 8089

***First Quarterly Report 2009***

*\*For identification purpose only*

## **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.**

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This report, for which the directors (the “Directors”) of China Railway Logistics Limited 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 (“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" or "China Railway") for the three months ended 31 March 2009 (the "Three-month Period") together with the comparative unaudited figures for the corresponding period in 2008 as follows:

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 31 March	
		2009 HK\$'000	2008 HK\$'000
Turnover	3	<b>13,843</b>	4,407
Cost of sales		<b>(11,882)</b>	(1,666)
Gross profit		<b>1,961</b>	2,741
Other income		<b>1,563</b>	6,763
Changes in fair value of financial assets			
at fair value through profit or loss		<b>29</b>	–
Loss on disposal of subsidiary		<b>(29)</b>	–
Distribution and selling expenses		<b>(5)</b>	(6)
Administrative expenses		<b>(11,360)</b>	(11,805)
Finance costs		<b>(28)</b>	–
Loss before tax	4	<b>(7,869)</b>	(2,307)
Income tax expense	5	<b>(32)</b>	–
Loss for the period		<b>(7,901)</b>	(2,307)
Attributable to:			
– Equity holders of the Company		<b>(7,901)</b>	(2,307)
– Minority interests		<b>–</b>	–
		<b>(7,901)</b>	(2,307)
Dividend	6	<b>–</b>	–
Loss per share – Basic	7	<b>HK(1.47) cents</b>	HK(0.47) cent

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2009

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Equity attributable to equity holders of the Company HK\$'000	Minority interest HK\$'000	Total HK\$'000
At 1 January 2008	489	2,772,497	7,914	34,357	320	(1,693,710)	1,121,867	-	1,121,867
Exchange differences arising on translation of foreign operations	-	-	-	-	23	-	23	-	23
Net income recognised directly in equity	-	-	-	-	23	-	23	-	23
Loss for the period	-	-	-	-	-	(2,307)	(2,307)	-	(2,307)
Total recognised expense for the period	-	-	-	-	-	(2,307)	(2,307)	-	(2,307)
Share repurchased and cancelled, net of share repurchase expenses	(2)	(3,419)	-	-	-	-	(3,421)	-	(3,421)
At 31 March 2008	487	2,769,078	7,914	34,357	343	(1,696,017)	1,116,162	-	1,116,162
<b>At 1 January 2009</b>	<b>537</b>	<b>2,837,253</b>	<b>7,914</b>	<b>3,590</b>	<b>(53)</b>	<b>(1,944,521)</b>	<b>904,720</b>	<b>-</b>	<b>904,720</b>
Exchange differences arising on translation of foreign operations	-	-	-	-	11	-	11	-	11
Net income recognised directly in equity	-	-	-	-	11	-	11	-	11
Loss for the period	-	-	-	-	-	(7,901)	(7,901)	-	(7,901)
Total recognised expense for the period	-	-	-	-	-	(7,901)	(7,901)	-	(7,901)
At 31 March 2009	537	2,837,253	7,914	3,590	(42)	(1,952,422)	896,830	-	896,830

# 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. Its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 18 May 2000. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and address of its principal place of business is Units 01-03, 5/F, Skyline Commercial Centre, 71-77 Wing Lok Street, Sheung Wan, Hong Kong.

The Company is an investment holding company. The unaudited condensed consolidated financial results are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Group.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated results for the Three-month Period have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). 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 three months ended 31 March 2009 are consistent with those followed in the preparation of the audited financial statements of the Company for the year ended 31 December 2008.

## 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 equipments and computer telephony systems; and (iii) fees for consulting and maintenance services.

Analysis by business segments is as follows:

	<b>(Unaudited)</b> <b>Three months ended</b> <b>31 March</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
One-stop value chain service	<b>10,262</b>	–
Telecommunications	<b>1,312</b>	995
Computer telephony	<b>2,269</b>	3,412
	<b>13,843</b>	4,407

#### 4. LOSS BEFORE TAX

Loss before taxation has been arrived at after charging and crediting:

	<b>(Unaudited)</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
After charging:		
Staff costs including directors' emoluments:		
Salaries and allowances	<b>5,018</b>	4,734
Contributions to retirement benefits scheme	<b>134</b>	90
	<b>5,152</b>	4,824
Cost of inventories recognised as an expense	<b>11,882</b>	1,666
Minimum lease payments under operating leases	<b>863</b>	1,193
Depreciation of property, plant and equipment	<b>1,176</b>	257
Net exchange loss	<b>11</b>	1
After crediting:		
Interest income	<b>1,512</b>	6,479
Changes in fair values of financial assets at fair value through profit or loss	<b>29</b>	-

#### 5. INCOME TAX EXPENSE

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

The Group's operations are carried out in both Hong Kong and the People's Republic of China ("PRC"). The official applicable PRC tax rate for the period ended 31 March 2009 and 2008 respectively is 25%. However, certain subsidiaries in the Group are "Encourage Hi-Tech Enterprise" and entitle to a reduced corporate income tax rate of 15% from 1 January 2008. As the PRC subsidiaries of the Group were loss-making for the three months ended 31 March 2009 and 31 March 2008, no provision for PRC income tax was made.

Hong Kong Profit Tax is calculated at 16.5% (2008: 16.5%) of the estimated profit for the period.

## **6. DIVIDEND**

No dividend was paid or proposed during the three months ended 31 March 2009 and 31 March 2008, nor has any dividend been proposed since the Three-month Period end date.

## **7. LOSS PER SHARE**

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company for the three months ended 31 March 2009 of approximately HK\$7,901,000 (three months ended 31 March 2008: approximately HK\$2,307,000) and the weighted average of 537,314,000 (three months ended 31 March 2008: 487,781,769) ordinary shares in issue during the Three-month Period.

No diluted loss per share has been presented for the three months ended 31 March 2009 and 2008 as the outstanding share options had an anti-dilutive effect on the basic loss per share.

## DIVIDEND

The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2009 (three months ended 31 March 2008: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Financial Performance

For the Three-month Period, the Group recorded a turnover of approximately HK\$13,843,000 (three months ended 31 March 2008: approximately HK\$4,407,000), representing an increase of approximately 214.1% as compared to the last corresponding period. The substantial increase in turnover was mainly due to a newly acquired business in August 2008.

Turnover from telecommunications business was HK\$1,312,000 for the Three-month Period (three months ended 31 March 2008: approximately HK\$995,000), representing an increase of approximately 31.9% as compared to the last corresponding period. Turnover derived from computer telephony business decreased from approximately HK\$3,412,000 in the last corresponding period to approximately HK\$2,269,000 for the Three-month Period, representing a decrease of approximately 33.5% as compared to the last corresponding period. Turnover derived from one-stop value chain service was approximately HK\$10,262,000 and the segmental section was acquired in August 2008.

The gross profit and gross profit margin for the Three-month Period were approximately HK\$1,961,000 and 14.2% respectively (three months ended 31 March 2008: approximately HK\$2,741,000 and 62.2% respectively).

Administrative expenses for the three months ended 31 March 2009 was approximately HK\$11,360,000 while those expenses after deducting expenses for the newly acquired business was approximately HK\$8,204,000 (three months ended 31 March 2008: approximately HK\$11,805,000). The reduction in expenses was primarily due to decrease in consultancy and legal and professional fees during the Three-month Period as compared to the corresponding period in 2008, which were incurred in relation to the dealing and resolving of problems encountered during the investigation and negotiation process in its railway logistics transportation business.

The loss attributable to shareholders was approximately HK\$7,901,000 (three months ended 31 March 2008: approximately HK\$2,307,000). The basic loss per share was approximately HK1.47 cents (three months ended 31 March 2008: HK0.47 cent).

In line with our expectation, the IT and telecommunications markets during the Three-month Period remained stable from which generated steady income to the Group.



## Outlook

On 22 January 2009, Sino Smart Asia Limited, a wholly-owned subsidiary of the Company, entered into a legally-binding Memorandum with independent third parties ("Vendors") to acquire a property in Shanghai. The total consideration of the acquisition is HK\$18,000,000. A refundable earnest money of HK\$9,000,000 was paid to the Vendors. Details of the transaction are set out in the announcement of the Company on 29 January 2009.

On 10 March 2009, Asiaciti Management Limited, a wholly-owned subsidiary of the Company, entered into the formal agreement with Gold Wide Holdings Limited, as well as the guarantor, Mr. Hui Kam Wing, and paid \$11,325,000 (equivalent to RMB10,000,000) upon the signing of the formal agreement for the possible acquisition. Following completion of the formal agreement, the Company shall be effectively interested in 44% of the Changsha Xinxing Development Limited. The possible acquisition is subject to the satisfaction of the conditions as set out in the "Condition precedent" of the formal agreement and the shareholders' approval.

The Company shall work closely with its partner, Shenzhen Seg Co. Ltd., a company listed on the Shenzhen Stock Exchange, as well as the remaining shareholders of Changsha Xinxing Development Limited, to modify the business activities of the Property from a hotel to an electronic products shopping mall. The Company is confident that the project will transpire into a good opportunity for the Group to expand into the electronic retail market in the PRC.

For the year 2008, the financial crisis and credit crunch in the global financial markets have led to the slowing down of the global economy and greatly affected businesses across the globe and in all sectors. With the governments over the world taking unprecedented action to spur the recovery, the market outlook is that the economy will turn the corner and begin to rebound by late 2009. The Board continues to be cautiously optimistic about the future outlook of the business and has taken, and will continue to take a prudent approach to its future business development.

The Group currently maintains a strong cash position and the Board will carefully seek business opportunity for the Group to reduce the risk of its overall investment and to enhance the Group's earning potentials.

## **Liquidity and Financial Resources**

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

As at 31 March 2009, the Group had cash and cash equivalent of approximately HK\$764,999,000 (31 December 2008: approximately HK\$802,629,000) and had no bank borrowings (31 December 2008: Nil). The gearing ratio, measured on the basic of total non-current liabilities to total assets less current liabilities, was zero times (2008: zero times).

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

## **Capital Structure**

As at 31 March 2009, the Company's issued ordinary share capital is HK\$537,314 and the total number of issued shares of the Company was 537,314,000 shares.

## **Capital Commitments**

As at 31 March 2009, the Group had outstanding capital commitments in respect of the acquisition of 44% of equity interests in Changsha Xinxing Development Limited of approximately HK\$26,779,000 and the acquisition of 25% issued share capital of Great Hill Trading Limited ("Great Hill") of approximately HK\$10,600,000.

## **Disposal of a direct wholly-owned subsidiary**

On 19 January 2009, a share sale and purchase agreement ("Agreement") was entered into between General Win International Limited ("Purchaser"), Money Holder Limited ("Money Holder"), a direct wholly-owned subsidiary of the Company, and the Company. Pursuant to the Agreement, the Purchaser agreed to purchase and the Company agreed to sell the entire issued share capital of Money Holder at a total consideration of HK\$1,200,000 ("Transaction"). The Transaction was completed on 19 January 2009 resulting in a loss on disposal of Money Holder of approximately HK\$29,000.

## Subsequent Events

On 21 April 2009, the Company announced that pursuant to the sale and purchase agreement dated 23 January 2009 signed between Ultra Million Limited ("Ultra Million"), a wholly-owned subsidiary of the Company and Wisdom First Limited ("Wisdom"), an independent third party in relation to the acquisition of 25% issued share capital of Great Hill at an aggregate consideration of HK\$13,600,000, which was satisfied by HK\$3,000,000 in cash and the issue and allotment of an aggregate 26,500,000 shares of the Company ("Consideration Shares") at an issue price of HK\$0.40 per Consideration Share, all conditions precedent to completion had been fulfilled and the Acquisition was completed on 20 April 2009. In this regard, pursuant to the agreement, the Company issued 26,500,000 new shares of HK\$0.001 each in the capital of the Company to Widsom in respect of Consideration Shares on 20 April 2009.

On 22 April 2009, the Company further announced that, Ultra Million entered into the agreement with Richy Spring International Limited ("Richy"), an independent third party, in which Ultra Million agreed to acquire the remaining 75% of the entire issued share capital of Great Hill together with the current account with a face value of HK\$51,427,296 which represents the amount due from Great Hill to Richy as at 31 March 2009. The total consideration is HK\$34,000,000 which to be satisfied by cash upon completion. The details were set out in the announcements of the Company dated 22 April 2009. The acquisition was completed on 8 May 2009 and Great Hill has now become a wholly-owned subsidiary of the Company.

## Fund Raising Activities

On 12 December 2008, Linefan Technology Holdings Limited ("Linefan"), a subsidiary of the Company, entered into a placing agreement with a placing agent to place 15,450,000 ordinary shares at the issued price of HK\$0.53 each. Linefan had signed a supplemental agreement on 27 February 2009 to extend the long stop date of this transaction further from 27 February 2009 to 15 May 2009. The transaction was not yet completed as at the date of this report.

On 29 December 2008, the Company announced that it had entered into a placing agreement on 15 December 2008 and a supplemental placing agreement on 22 December 2008 with a placing agent to place a private sale of 150,000,000 convertible preference shares of Linefan ("CP Share") at a price of HK\$0.53 per CP Share. The transaction was not yet completed as at the date of this report.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 March 2009, the interests and short positions of the Directors and chief executives 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 (Chapter 571 of the Laws of Hong Kong) (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 position in shares and underlying shares of the Company:

Name of director	Type of interests	Number of issued ordinary shares held	Total interests	Total approximate percentage of the issued share capital
Ms. Chan Shui Sheung Ivy	Beneficial owner	60,000	60,000	0.011%

Save as disclosed above, as at 31 March 2009, 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

At no time during the three months ended 31 March 2009 was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the directors or Company's 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 three months ended 31 March 2009.

## 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 Company's members of its management had a material interest, whether directly or indirectly, subsisted at 31 March 2009 or at any time the three months ended 31 March 2009.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2009, 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 the ordinary shares of the Company:

Name of Shareholders	Capacity	Number of shares held	Percentage of Interests
PME Group Limited	Interest of corporation controlled	76,644,000 (Note 1)	14.26%
Sunbright Asia Limited	Beneficial owner	71,000,000 (Note 1)	13.21%
Well Support Limited	Beneficial owner	52,415,466 (Note 2)	9.76%
Liu Yi Dong	Trust of Liu Yi Dong Family Trust	52,415,466 (Note 2)	9.76%
Century Dragon Development Limited	Beneficial owner	27,000,000 (Note 3)	5.02%
Wu Wai Leung	Interest of corporation controlled	27,000,000 (Note 3)	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 31 March 2009.

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

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 persons has or may have with the Group during the three months ended 31 March 2009.

## **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 months ended 31 March 2009.

## **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 three months ended 31 March 2009. 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.

## **PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the three months ended 31 March 2009.

## AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with 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 three months ended 31 March 2009 have been reviewed by the Audit Committee.

By order of the Board

**China Railway Logistics Limited**

**Chan Shui Sheung Ivy**

*Executive Director*

Hong Kong, 8 May 2009

*As at the date hereof, the Company's executive directors are Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy; the Company's non-executive director is Mr. Xie Jintai, and the Company's independent non-executive directors are Ms. Yuen Wai Man, Mr. Law Wing Tak Jack, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai Graham.*