



# **China Railway Logistics Limited**

(incorporated in Bermuda with limited liability)

Stock Code: 8089

Third Quarterly Report 2009

## **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 condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and nine months ended 30 September 2009, together with the comparative figures for the corresponding periods in 2008 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2009	2008	2009	2008
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	3	<b>3,404</b>	3,287	<b>40,437</b>	10,064
Cost of sales		<b>(2,547)</b>	(2,250)	<b>(36,194)</b>	(5,453)
Gross profit		<b>857</b>	1,037	<b>4,243</b>	4,611
Other income	3	<b>2,514</b>	4,770	<b>4,942</b>	16,398
Change in fair value of financial assets at fair value through profit or loss		<b>14,013</b>	(1,119)	<b>14,515</b>	(1,723)
Impairment loss on deposits paid for acquisition of investments		–	(16,980)	–	(16,980)
Loss on disposal of subsidiaries		<b>(373)</b>	–	<b>(402)</b>	–
Loss on disposal of available-for-sale investments		<b>(2,850)</b>	–	<b>(2,850)</b>	–
Results of the disposal group held for sale	4	<b>(1,114)</b>	–	<b>(1,114)</b>	–
Distribution and selling expenses		<b>(5)</b>	(4)	<b>(15)</b>	(17)
Administrative expenses		<b>(9,696)</b>	(17,327)	<b>(32,304)</b>	(43,986)
Finance costs		–	–	<b>(28)</b>	(22)
Profit (loss) before tax	5	<b>3,346</b>	(29,623)	<b>(13,013)</b>	(41,719)
Income tax expense	6	–	–	<b>(42)</b>	–
Profit (loss) for the period		<b>3,346</b>	(29,623)	<b>(13,055)</b>	(41,719)

	Notes	Three months ended 30 September 2009		Nine months ended 30 September 2009	
		(Unaudited)	2008 (Unaudited)	(Unaudited)	2008 (Unaudited)
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Other comprehensive income</i>					
Exchange differences arising on translation to presentation currency		10	46	31	78
Total comprehensive income (expense)		3,356	(29,577)	(13,024)	(41,641)
Profit (loss) for the period attributable to:					
– Owners of the Company		3,346	(29,236)	(13,055)	(41,332)
– Non-controlling interests		–	(387)	–	(387)
		3,346	(29,623)	(13,055)	(41,719)
Total comprehensive income (expenses) attributable to:					
– Owners of the Company		3,356	(29,190)	(13,024)	(41,254)
– Non-controlling interests		–	(387)	–	(387)
		3,356	(29,577)	(13,024)	(41,641)
Earning (loss) per share – Basic	8	HK0.59 cent	HK(5.78) cents	HK(2.36) cents	HK(8.37) cents

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2009

	Attributable to owners of the Company						Non-controlling		Total
	Share capital	Share premium	Contributed surplus	Share options reserve	Exchange translation reserve	Accumulated losses	Total interests	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2008 (audited)	489	2,772,497	7,914	34,357	320	(1,693,710)	1,121,867	-	1,121,867
Change in equity during the period:									
- Exchange differences arising on translation to presentation currency	-	-	-	-	78	-	78	-	78
- Loss for the period	-	-	-	-	-	(41,332)	(41,332)	(387)	(41,719)
Total comprehensive income (expense) for the period	-	-	-	-	78	(41,332)	(41,254)	(387)	(41,641)
Share repurchased and cancelled, net of share repurchase expenses	(2)	(3,419)	-	-	-	-	(3,421)	-	(3,421)
Acquisition of subsidiary	-	-	-	-	-	-	-	4,846	4,846
Issue of new shares, net of share issued expenses	50	68,175	-	-	-	-	68,225	-	68,225
	48	64,756	-	-	-	-	64,804	4,846	69,650
At 30 September 2008 (unaudited)	537	2,837,253	7,914	34,357	398	(1,735,042)	1,145,417	4,459	1,149,876

Attributable to owners of the Company

	Share capital	Share premium	Contributed surplus	Share options reserve	Exchange translation reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2009</b> (audited)	537	2,837,253	7,914	3,590	(53)	(1,944,521)	904,720	-	904,720
<b>Change in equity during the period:</b>									
- Exchange differences arising on translation to presentation currency	-	-	-	-	31	-	31	-	31
- Loss for the period	-	-	-	-	-	(13,055)	(13,055)	-	(13,055)
<b>Total comprehensive income (expense) for the period</b>	-	-	-	-	31	(13,055)	(13,024)	-	(13,024)
<b>Issue of new shares, net of share issued expenses</b>	27	17,728	-	-	-	-	17,755	-	17,755
<b>At 30 September 2009</b> (unaudited)	564	2,854,981	7,914	3,590	(22)	(1,957,576)	909,451	-	909,451

# NOTES TO THE CONDENSED 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. With effect from 3 November 2009, the Company has changed its principal place of business in Hong Kong to Units A-B, 16th Floor, China Overseas Building, No. 139 Hennessy Road, Wanchai, Hong Kong.

The Company is an investment holding company. The unaudited condensed consolidated financial statements 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 condensed consolidated financial results for the nine months ended 30 September 2009 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 consolidated financial results have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in preparing the condensed consolidated financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2008 (the "2008 Financial Statements"), except for the amendments and interpretations of HKFRSs ("New HKFRSs") issued by HKICPA which have become effective in this period as detailed in notes of the 2008 Financial Statements. The adoption of such New HKFRSs has no material impact on the accounting policies in the Group's condensed consolidated financial results for the period.

### 3. TURNOVER AND OTHER INCOME

The analysis of the Group's turnover and other income for the period is as follows:

	Three months ended 30 September 2009		Nine months ended 30 September 2009	
	(Unaudited) HK\$'000	(Unaudited) 2008 HK\$'000	(Unaudited) HK\$'000	(Unaudited) 2008 HK\$'000
Turnover:				
Sales of goods	2,579	1,499	35,190	3,307
Rental income from leasing of telecommunication and computer telephony equipment	134	1,068	2,501	2,757
Service fees income	691	720	2,746	4,000
	3,404	3,287	40,437	10,064
Other income:				
Bank interest income	344	4,484	2,673	15,309
Sundry income	2,170	286	2,269	1,089
	2,514	4,770	4,942	16,398

### 4. RESULTS OF THE DISPOSAL GROUP HELD FOR SALE

On 29 September 2009, Linefan Technology Holdings Limited ("Linefan"), a non wholly-owned subsidiary of the Company and the issued shares of which are listed on GEM, entered into a conditional sale and purchase agreement to dispose its 100% equity interest in Chineseroad Incorporated ("Chineseroad"). Chineseroad and its subsidiaries ("Chineseroad Group") are principally engaged in the knowledge management related network application systems and technology as well as provision of voice search engine portal services. As at the date of this report, this transaction is still subject to the fulfillment of several conditions including, but not limited to, the approval by the shareholders of the Company.

The results of Chineseroad Group for the nine months ended 30 September 2009 are as follows:

	(Unaudited) HK\$'000
Revenue	-
Cost of sales	-
Gross profit	-
Other revenue	-
Distribution costs	-
Administrative expenses	(1,114)
Finance costs	-
Loss before income tax	(1,114)
Income tax expense	-
Loss for the period	(1,114)



## 5. PROFIT (LOSS) BEFORE TAX

Profit (loss) before tax is arrived at after charging/(crediting):

	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Staff costs including directors' emoluments:				
Salaries and allowances	4,774	5,083	14,249	15,134
Contributions to retirement benefits scheme	129	81	347	256
	4,903	5,164	14,596	15,390
Cost of inventories recognised as an expense	2,547	2,250	36,194	5,453
Minimum lease payments under operating leases	802	1,053	2,195	3,329
Depreciation of property, plant and equipment	172	194	1,699	647
Bank interest income	(344)	(4,484)	(2,673)	(15,309)
Change in fair values of financial assets at fair value through profit or loss	(14,013)	1,119	(14,515)	1,723

## 6. 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 30 September 2009 and 2008 respectively is 25%. However, certain subsidiaries in the Group are "Encourage Hi-Tech Enterprise" and entitled 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 nine months ended 30 September 2009 and 30 September 2008, no provision for PRC income tax was made.

Hong Kong Profit Tax is calculated at 16.5% of the estimated profit for both period.

## 7. DIVIDEND

No dividend was paid or proposed during the nine months ended 30 September 2009 and 30 September 2008, nor has any dividend been proposed since 30 September 2009.

## 8. EARNING (LOSS) PER SHARE

The calculation of the basic earning (loss) per share is based on the earning (loss) attributable to owners of the Company for the three months and the nine months ended 30 September 2009 of approximately profit of HK\$3,346,000 and loss of HK\$13,055,000 respectively (three months and nine months ended 30 September 2008: loss of HK\$29,236,000 and HK\$41,332,000 respectively) and the weighted average of 563,814,000 and 553,233,414 respectively (three months and nine months ended 30 September 2008: 505,792,261 and 493,532,978 respectively) ordinary shares in issue during the three months and nine months ended 30 September 2009.

No diluted loss per share has been presented for the nine months ended 30 September 2009 and 2008 and for the three months ended 30 September 2008 as the outstanding share options had an anti-dilutive effect on the basic loss per share.

No diluted earning per share has been presented for the three months ended 30 September 2009 as the exercise price of the Company's outstanding share options was higher than the average market price of the shares of the Company during the period under review.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Financial Performance

For the nine months ended 30 September 2009, the Group recorded a turnover of approximately HK\$40,437,000 (nine months ended 30 September 2008: approximately HK\$10,064,000), representing an increase of approximately 301.8% as compared to the last corresponding period. The substantial increase in turnover was mainly contributed by implementing the new business model of being a one-stop value chain service including supply chain management, logistics management, distribution services and customer focused design solutions.

Turnover from telecommunications business was HK\$2,563,000 (nine months ended 30 September 2008: approximately HK\$3,315,000), representing a decrease of approximately 22.7% as compared to the last corresponding period. Turnover from computer telephony business was approximately HK\$5,120,000, representing a decrease of approximately 20.4% as compared to approximately HK\$6,435,000 of last corresponding period. Turnover from one-stop value chain service, that was acquired by the Group in August 2008, was approximately HK\$32,754,000.

Administrative expenses for the nine months ended 30 September 2009 was approximately HK\$32,304,000 (nine months ended 30 September 2008: approximately HK\$43,986,000). The reduction in expenses was primarily due to decrease in consultancy and legal and professional fees during the 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 in respect of railway logistics transportation business.

The loss attributable to the owners of the Company was approximately HK\$13,055,000 (nine months ended 30 September 2008: approximately HK\$41,332,000). The basic loss per share was approximately HK2.36 cents (nine months ended 30 September 2008: HK8.37 cents).

In line with our expectation, the IT and telecommunications markets during the period under review remained stable and have generated steady income to the Group. Following implementation of a new business development model, the one-stop value chain segment that was acquired by the Group in August 2008, has achieved a significant increase in the segmental revenue during the period under review.

## Outlook

On 10 March 2009, Asiaciti Management Limited (“Asiaciti”), a wholly-owned subsidiary of the Company, entered into a formal agreement with Gold Wide Holdings Limited. On completion of that formal agreement, the Company would be effectively interested in 44% of the share capital of Changsha Xinxing Development Limited (“Changsha Xinxing”). The possible acquisition was approved by the shareholders of the Company at the special general meeting held on 19 June 2009 and all conditions precedent to the Completion were fulfilled on 20 October 2009.

The Company has been working 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, to renovate a property owned by Changsha Xinxing from a hotel to an electronic products shopping mall. The Company is confident that the project will make a good opportunity for the Group to expand into the electronic retail market in the PRC.

On 22 January 2009, Sino Smart Asia Limited, a wholly-owned subsidiary of the Company, entered into a legally-binding memorandum (the “Memorandum”) with independent third parties (the “Vendor”) to acquire a property (the “Property”) in Shanghai at a consideration of HK\$18,000,000 (the “Acquisition”). As the Vendor subsequently decided not to proceed with the sale of the Property, the Memorandum was terminated accordingly. The Vendor then refunded the earnest money of HK\$9 million and reimbursed a further sum of approximately HK\$1.81 million for costs incurred by the Company in respect of the Acquisition. The Board remains prudently optimistic about the property market in the PRC in the long run and hence will continue to seek investment opportunity in the PRC’s property market to make the most use of the Group’s strong cash position and to enhance the Group’s profitability.

With the recovery of China’s economy during the first nine months of 2009, the global and local economic situations continue to improve and found their pathways out of the global financial crisis. The Board believes that a long term strategy with active risk control will help to generate positive returns for the shareholders of the Company while minimizing the adverse impact from external. The Board continues to be cautiously optimistic about the prospect of the Group and will continue to be prudent in its approach to future business development.

## Liquidity and Financial Resources

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

As at 30 September 2009, the Group had cash and cash equivalent of approximately HK\$410,510,000 (31 December 2008: approximately HK\$802,629,000) and had no bank borrowings (31 December 2008: Nil). The gearing ratio, measured on the basis of total non-current liabilities to total assets less current liabilities, was zero times (2008: zero times).

## Capital Structure

As at 30 September 2009, the Company's issued share capital was HK\$563,814 and the number of its issued ordinary shares was 563,814,000 shares. On 20 April 2009, the Company issued and allotted 26,500,000 new shares as part of the consideration in respect of the acquisition of 25% of the entire issued share capital of Great Hill Trading Limited.

## Fund Raising Activities

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 ("CP Share") of Linefan, at a price of HK\$0.53 per CP Share. The transaction has not yet been completed as at the date of this report.

On 29 May 2009, Linefan entered into a placing agreement with a placing agent in relation to a placement of 14,000,000 new ordinary shares to independent investors under general mandate of Linefan at a price of HK\$0.70 per share (the "Placing"). The transaction has not yet been completed as at the date of this report. Upon completion of the Placing, the Company's interest in Linefan will be diluted from approximately 69.54% to approximately 58.87%. Linefan will continue to be a subsidiary of the Company.

The Company entered into a non-listed warrant ("Warrants") placing agreement with a placing agent on 10 June 2009 to place up to 110,000,000 Warrants at the warrant issue price of HK\$0.05 per Warrant. The Warrants entitle the placees to subscribe for a maximum of 110,000,000 new ordinary shares of HK\$0.001 each in the capital of the Company ("New Share") at an initial warrant exercise price of HK\$1.40 per New Share for a period of 36 months commencing from the date of issue of the Warrants. On 8 September 2009, the Company and the placing agent agreed to amend warrant issue price from HK\$0.05 to HK\$0.03 per unit of Warrant and the warrant exercise price from HK\$1.40 to HK\$0.80 per New Share. The transaction has not yet been completed as at the date of this report.

## Capital Commitments

As at 30 September 2009, the Group had outstanding capital commitments in respect of the acquisition of 44% of equity interests in Changsha Xinxing and investment in investment properties of approximately HK\$5,555,000 and of approximately HK\$105,685,000 respectively.

## Significant Investment

On 20 August 2009, Richmax Corporation Limited ("Richmax"), a wholly-owned subsidiary of the Company, entered into a provisional sale and purchase agreement with Millennium (BVI) No.2 Limited in relation to the acquisition of a property at a cash consideration of HK\$117,427,600. The property is located at Office Unit on 8th Floor, Low Block, Grand Millennium Plaza, No. 181 Queen's Road Central, Hong Kong with an aggregate gross floor area of approximately 15,451 square feet (the "Office Property"). As at 30 September 2009, Richmax paid an initial deposit of HK\$11,742,760. The completion of acquisition is expected to take place on or before 30 November 2009. Details of the transaction were set out in the announcement of the Company dated 21 August 2009.

On 27 September 2009, 深圳市盛世富強科技有限公司, a wholly-owned subsidiary of the Company, entered into eight formal agreements with Mr. Xiao Jin Cong in relation to the acquisition of the PRC properties at an aggregate consideration of RMB40,002,273 (approximately HK\$45,442,582). The properties are located at unit 33A to 33H, Times Fortune Building, Futian District, Southeast Part, Shenzhen, the PRC, with an aggregate gross floor area of approximately 1,693.45 square meters. The real estate title certificates to the properties dated 29 September 2009 were duly received on 20 October 2009. Details of the properties acquired were set out in the announcements of the Company dated 30 September 2009 and 21 October 2009.

As at 30 September 2009, the Group held investment properties and investment in listed securities amounted to approximately HK\$65,259,000 (31 December 2008: Nil) and approximately HK\$77,434,000 (31 December 2008: HK\$3,281,000) respectively. The Directors expect that investment in investment properties and the listed securities will enhance the Group's earning potentials.

## Material Acquisitions and Disposals

On 23 January 2009, Ultra Million Limited (“Ultra Million”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Wisdom First Limited to acquire 25% equity interest in Great Hill Trading Limited (“Great Hill”) at an aggregate consideration of HK\$20,755,000. The acquisition was completed on 20 April 2009.

On 22 April 2009, Ultra Million entered into a conditional sale and purchase agreement with Richy Spring International Limited to further acquire 75% equity interest in Great Hill at an aggregate consideration of HK\$34,000,000. This acquisition was completed on 8 May 2009 and Great Hill became a wholly-owned subsidiary of the Company.

On 10 March 2009, Asiaciti entered into a conditional sale and purchase agreement (the “SP Agreement”) to acquire 44% effective interest in Changsha Xinxing at an aggregate consideration of RMB72,600,000. At the special general meeting of the Company held on 19 June 2009, the resolution for approving the acquisition was passed by the shareholders of the Company. The acquisition was completed on 20 October 2009.

On 29 June 2009, Centre World Holding Limited (“Centre World”), a wholly-owned subsidiary of the Company entered into an agreement with Best Access Investment Holdings Limited (“Best Access”) pursuant to which Centre World agreed to sell and Best Access agreed to acquire 100,000 ordinary shares of HK\$1.00 each in the entire issued share capital of Proactive International Limited (“Proactive”), a wholly-owned subsidiary of the Company, and a loan of HK\$3,616,117 owing by Proactive to Centre World as at the date of the Agreement at an aggregate consideration of HK\$1,000,000. The transaction was completed on 2 July 2009 resulting in a loss on disposal of subsidiary of approximately HK\$373,000.

On 29 September 2009, an agreement was entered into between Linefan and Skycomm International Limited (“Skycomm”). Pursuant to the Agreement, Skycomm agreed to purchase and Linefan agreed to sell the entire issued share capital of Chineseroad, a wholly-owned subsidiary of Linefan, and the sale loan of approximately HK\$65,216,000 owed by Chineseroad to Linefan at a consideration of HK\$300,000 (the “Disposal”). Details of the Disposal were set out in the announcement of the Company dated 20 October 2009.

## Subsequent Event

On 21 October 2009, a provisional agreement was entered into between Richmax and Miracle Merchandising & Sourcing Limited in relation to the disposal of the Office Property at a consideration of HK\$134,423,700. Details of the disposal were set out in the announcement of the Company dated 22 October 2009.

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

As at 30 September 2009, 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 (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 30 September 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 nine months ended 30 September 2009 was the Company or any of its subsidiaries 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 nine months ended 30 September 2009.



## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, persons who had interests or short positions directly or indirectly in the Company's shares, underlying shares and debentures were 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 GEM Listing Rules were as follows.

Long positions in the ordinary shares of the Company:

<b>Name of Shareholders</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Percentage of Interests</b>
PME Group Limited	Interest of corporation controlled	80,254,000 (Note 1)	14.23%
Sunbright Asia Limited	Beneficial owner	71,000,000 (Note 1)	12.59%
Well Support Limited	Beneficial owner	52,415,466 (Note 2)	9.30%
Liu Yi Dong	Trust of Liu Yi Dong Family Trust	52,415,466 (Note 2)	9.30%

Notes:

1. Pursuant to the corporate substantial shareholder notices filed by PME Group Limited dated 20 April 2009 and by Sunbright Asia Limited dated 20 April 2009, through its various controlled corporations is interested in an aggregate of 80,254,000 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) 9,254,000 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. Pursuant to the corporate substantial shareholder notice filed by Well Support Limited dated 28 June 2007 and the individual substantial shareholder notice filed by Liu Yi Dong dated 28 June 2007, 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, 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 Divisions 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 2009.

## **COMPETING INTERESTS**

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or substantial shareholder of the Company 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 nine months ended 30 September 2009.

## **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 nine months ended 30 September 2009 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 resignation of the former Chairman, Mr. Lim Kwok Choi on 6 October 2008 and the former Chief Executive Officer, Mr. Ha Shu Tong on 11 March 2008, the two posts have been vacant as at 30 September 2009. 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 posts as appropriate.

## **NON-COMPLIANCE WITH RULES 5.05(1) AND 5.28**

Following the resignation of Mr. Lam Raymond Shiu Cheung as independent non-executive director of the Company and audit committee member of the Company on 17 June 2009, the Company had only two independent non-executive directors and two audit committee members, the number of which fell below the minimum number required under rules 5.05(1) and 5.28 of the GEM Listing Rules. Mr. Wang Chin Mong was appointed as an independent non-executive director and member of audit committee respectively with effect from 10 August 2009 to fill the casual vacancy of the positions and to comply with the rule 5.05(1) and 5.28 of the GEM Listing Rules.

## **REPURCHASE, 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 nine months ended 30 September 2009.

## **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 2009 have been reviewed by the Audit Committee.

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

Hong Kong, 6 November 2009

*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, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong.*