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First Quarterly Report 2010

**China Railway Logistics Limited**

**中國鐵路貨運有限公司\***

*(incorporated in Bermuda with limited liability)*

Stock Code: 8089

\* 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 (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 (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. 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") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2010, together with the comparative figures for the corresponding period in 2009, as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		<b>Three months ended</b>	
		<b>31 March</b>	
		<b>2010</b>	2009
	Notes	<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
			(Restated)
<b>Continuing operations</b>			
Turnover	3	<b>6,538</b>	2,269
Cost of sales		<b>(1,069)</b>	(950)
Gross profit		<b>5,469</b>	1,319
Other income	3	<b>194</b>	1,563
Distribution and selling expenses		<b>(8)</b>	(5)
Administrative expenses		<b>(7,405)</b>	(7,398)
(Loss) gain on fair value changes of investments held for trading		<b>(23,727)</b>	29
Loss on fair value changes of convertible bonds designated at financial assets at fair value through profit or loss		<b>(692)</b>	–
Gain on fair value changes of convertible preference shares designated at financial assets at fair value through profit or loss	5	<b>88,601</b>	–
Gain on disposals of convertible bonds		<b>563</b>	–
Gain on disposals of convertible preference shares	5	<b>64,345</b>	–
Gain on deemed partial disposal of subsidiaries		<b>7,204</b>	–
Loss on disposal of a subsidiary		<b>–</b>	(29)
Share of result of an associate		<b>(907)</b>	–
Share of result of a jointly controlled entity		<b>261</b>	–
Finance costs		<b>–</b>	(28)
Profit (loss) before tax	6	<b>133,898</b>	(4,549)
Income tax expense	7	<b>(14,335)</b>	–
Profit (loss) for the period from continuing operations		<b>119,563</b>	(4,549)
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	4	<b>(675)</b>	(3,352)
Profit (loss) for the period		<b>118,888</b>	(7,901)

	Notes	<b>Three months ended</b>	
		<b>2010</b>	2009
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
			(Restated)
<b>Other comprehensive income</b>			
Fair value gain on available-for-sale financial assets		<b>1,071</b>	–
Reversal of deemed partial disposal of subsidiaries		<b>2,657</b>	–
Exchange differences on translating foreign operations		<b>519</b>	11
Other comprehensive income for the period		<b>4,247</b>	11
Total comprehensive income (expenses) for the period		<b>123,135</b>	(7,890)
Profit (loss) for the period attributable to:			
– Owners of the Company		<b>118,840</b>	(7,901)
– Minority interests		<b>48</b>	–
		<b>118,888</b>	(7,901)
Total comprehensive income (expenses) attributable to:			
– Owners of the Company		<b>123,087</b>	(7,890)
– Minority interests		<b>48</b>	–
		<b>123,135</b>	(7,890)
Earnings (loss) per share from continuing and discontinued operations			
– Basic and diluted	9	<b>21.08 cents</b>	(1.47) cents
Earnings (loss) per share from continuing operations			
– Basic and diluted	9	<b>21.20 cents</b>	(0.85) cent

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2010

	Share capital	Share premium	Contributed surplus	Share options reserve	Investment revaluation reserve	Capital reserve	Warrant reserve	Exchange translation reserve	Accumulated losses	Equity attributable to owners of the Company	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009 (audited)	537	2,837,253	7,914	3,590	-	-	-	(53)	(1,944,521)	904,720	-	904,720
Other comprehensive income (expenses) for the period	-	-	-	-	-	-	-	11	-	11	-	11
Loss for the period	-	-	-	-	-	-	-	-	(7,901)	(7,901)	-	(7,901)
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	-	11	(7,901)	(7,890)	-	(7,890)
At 31 March 2009 (unaudited)	537	2,837,253	7,914	3,590	-	-	-	(42)	(1,952,422)	896,830	-	896,830
At 1 January 2010 (audited)	564	2,854,452	7,914	3,590	951	6,898	3,300	(98)	(1,950,033)	927,538	17,335	944,873
Other comprehensive income (expenses) for the period	-	-	-	-	1,071	-	-	519	2,657	4,247	(2,657)	1,590
Profit for the period	-	-	-	-	-	-	-	-	118,840	118,840	48	118,888
Total comprehensive income for the period	-	-	-	-	1,071	-	-	519	121,497	123,087	48	123,135
At 31 March 2010 (unaudited)	564	2,854,452	7,914	3,590	2,022	6,898	3,300	421	(1,828,536)	1,050,625	14,726	1,065,351

## 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 GEM of the Stock Exchange since 18 May 2000. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is located at 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 Company.

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

The condensed consolidated financial results for the three months ended 31 March 2010 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 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 2009 (the "2009 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 2009 Financial Statements. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the condensed consolidated financial results for the period.

### 3. TURNOVER AND OTHER INCOME

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns and services rendered by the Group and rental income received and receivable during the period. The analysis of the Group's turnover and other income for the period is as follows:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Turnover:		
Computer telephony	<b>2,500</b>	2,269
Loan financing	<b>4,038</b>	–
	<b>6,538</b>	2,269
Other income:		
Bank interest income	<b>67</b>	1,512
Sundry income	<b>127</b>	51
	<b>194</b>	1,563

### 4. DISCONTINUED OPERATIONS

The operation of telecommunications and one-stop value chain services segments were presented as discontinued operation as follows:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Turnover:		
Telecommunications	–	1,312
One-stop value chain services	–	10,262
	–	11,574
Loss of the discontinued operations:		
Telecommunications	–	(202)
One-stop value chain services	<b>(675)</b>	(3,150)
	<b>(675)</b>	(3,352)

## 5. INVESTMENT IN AND PARTIAL DISPOSAL OF CONVERTIBLE PREFERENCE SHARES

In August 2008, the Group acquired 173,913,043 convertible preference shares of China Eco-Farming Limited (“CEF”). For the details, please refer to the circular of the Company dated on 30 September 2008. Upon completion of the Placing on 29 January 2010 as defined in the section headed “Fund Raising Activities”, the gain on disposal of 150,000,000 convertible preference shares was calculated by the proceed from the placing and reversal of impairment loss recorded in the year 2008. As at 31 March 2010, the Group holds 23,913,043 convertible preference shares at an accrued dividend rate of 3% of par receivable annually. Each convertible preference share will, at any time, be convertible, at the option of the holder, into 10 ordinary shares of CEF. The contractual exercise period for conversion option is from 6 November 2007 to 5 November 2012.

The fair value of the convertible preference shares at 31 March 2010 have been arrived at on the basis of a valuation carried out on that date by an independent valuer not connected with the Group.

## 6. PROFIT (LOSS) BEFORE TAX

Profit (loss) before tax has been arrived at after charging (crediting):

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>(Unaudited)</b>	(Unaudited)
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
<b>Continuing operations</b>		
Staff costs including directors' emoluments:		
Salaries and allowances	<b>3,270</b>	3,513
Contributions to retirement benefits scheme	<b>95</b>	87
	<b>3,365</b>	3,600
Depreciation of plant and equipment	<b>579</b>	539
Minimum lease payments under operating leases	<b>1,055</b>	741
Net foreign exchange (gain) loss	<b>(111)</b>	13
Cost of inventories recognized as an expense	<b>1,069</b>	950



## **7. 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 2010 and 2009 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 three months ended 31 March 2010 and 2009, no provision for PRC income tax was made.

Hong Kong Profits Tax is calculated at 16.5% of the estimated profit for the three months ended 31 March 2010. No Hong Kong Profits Tax was provided as the Group had no assessable profits for the three months ended 31 March 2009.

## **8. DIVIDEND**

No dividend was paid or proposed during the three months ended 31 March 2010 and 31 March 2009, nor has any dividend been proposed since 31 March 2010.

## **9. EARNINGS (LOSS) PER SHARE**

The calculation of the basic earnings (loss) per share is based on profit (loss) for continuing and discontinued operations and for continuing operations attributable to owners of the Company for the three months ended 31 March 2010 amounting to profit of HK\$118,840,000 and HK\$119,515,000 (three months ended 31 March 2009: loss of HK\$7,901,000 and HK\$4,549,000) respectively and weighted average of 563,814,000 (three months ended 31 March 2009: 537,314,000) ordinary shares in issue during the period.

The computation of diluted earning per share for the three months ended 31 March 2010 does not assume the exercise of the Company's share options and non-listed warrants because the exercise price of the Company's share options and non-listed warrants were higher than the average market price of the shares of the Company during the period under review.

Diluted loss per share for the three months ended 31 March 2009 is the same as basic loss per share as the conversion of the Company's outstanding share options would result in a decrease in loss per share.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

For the three months ended 31 March 2010, the Group recorded a turnover from continuing operations of approximately HK\$6,538,000 (three months ended 31 March 2009: approximately HK\$2,269,000), representing an increase of approximately 188.1% as compared to the last corresponding period. Turnover from computer telephony and loan financing were HK\$2,500,000 and HK\$4,038,000 respectively.

Administrative expenses for the three months ended 31 March 2010 was approximately HK\$7,405,000 (three months ended 31 March 2009: approximately HK\$7,398,000), representing an increase of 0.1% as compared to that of the last corresponding period.

The profit attributable to the owners of the Company was approximately HK\$118,840,000 (three months ended 31 March 2009: loss approximately HK\$7,901,000), which was mainly contributed from disposals and fair value changes of convertible preference shares of CEF. The basic earnings per share was approximately HK21.08 cents (three months ended 31 March 2009: basic loss per share HK1.47 cents).

### Business Review

The IT and telecommunications business in computer telephony of the Group recorded a stable income in the first quarter of 2010.

With the money lenders license granted in late 2009, the Group also commenced its loan financing business. During the first quarter of 2010, the income generated from the loan financing business has been increasing steadily which is in line with the estimation and expectation of the Directors.

Following the completion of the acquisition of 44% effective interest in 長沙新興發展有限公司 (Changsha Xinxing Development Limited) ("Changsha Xinxing") and the renovation of the property owned by Changsha Xinxing namely, a newly renovated shopping mall retailing electronic products in Changsha, the PRC (the "Shopping Mall"), has opened and commenced operation in January 2010. Most of the shops have been leased and a stable rental income has been generated to the Group since the first quarter of 2010.

### Outlook

The Board will continually improve the management of the Shopping Mall in order to achieve higher rental income to the Group. The Board believes that a long term strategy with active risk and credit control on the loan financing business will help to generate positive returns for the shareholders of the Company. Meanwhile, the Board will continue to seek other investment opportunities and to explore the feasibility of expansion into other business segments with a view to diversifying the Group's business portfolio aiming to enhance the Group's profitability and the shareholders' value in the long run.

## **Fund Raising Activities**

On 15 December 2008, Top Status International Limited ("Top Status"), a wholly-owned subsidiary of the Company, entered into a placing agreement with a placing agent (as amended by supplemental placing agreements dated 22 December 2008, 15 March 2009, 15 June 2009, 15 September 2009 and 15 December 2009, respectively) for a private placing of 150,000,000 convertible preference shares (the "CP Share") of CEF, a non-wholly owned subsidiary of the Company and a company listed on the GEM Board of the Stock Exchange (Stock Code: 8166) at a price of HK\$0.53 per CP Share on a best effort basis to potential subscribers (the "CP Placing"). The CP Placing was completed on 29 January 2010. Net proceeds from the CP Placing is approximately HK\$78,705,000 which has been applied as general working capital of the Group.

## **Liquidity and Financial Resources**

The Group principally finances its operations through a combination of shareholders equity and internally generated cash flows.

As at 31 March 2010, the Group had cash and cash equivalent of approximately HK\$203,128,000 (31 December 2009: approximately HK\$299,866,000) and had no bank borrowings (31 December 2009: nil). The gearing ratio, measured on the basic of total non-current liabilities to total assets less current liabilities, was zero times (2009: zero times).

## **Capital Structure**

As at 31 March 2010, the Company's issued share capital was HK\$563,814 and the number of its issued ordinary shares was 563,814,000.

## **Capital Commitments**

The Group did not have any material capital commitments as at 31 March 2010.

## **Significant Investments**

During the period ended 31 March 2010, the Group acquired two properties located in Hong Kong amounted to approximately HK\$9,300,000 and HK\$8,200,000 respectively. As such, the Group held investment properties with aggregate amounted to approximately HK\$160,402,000 (31 December 2009: HK\$142,246,000). The Group also held convertible bonds and investments held for trading which amounted to approximately HK\$77,427,000 and HK\$89,032,000 (31 December 2009: HK\$46,176,000 and HK\$94,540,000) respectively. The Group also had available-for-sale financial assets which amounted to HK\$17,508,000 as at 31 March 2010 (31 December 2009: HK\$16,437,000).

## Material Disposals of Subsidiaries

On 29 January 2010, the Company announced that the CP Placing (as defined in the section headed "Fund Raising Activities") was completed on 29 January 2010. Upon conversion of the CP Shares by independent third parties, the Company's interest in CEF was diluted from 58.87% to 22.27% and CEF ceased to be a subsidiary of the Company.

On 3 March 2010, Top Status and the China Coalfields International Group Limited entered into a conditional sale and purchase agreement to dispose of 537,276,000 shares in CEF, representing approximately 22.27% of the then issued share capital of CEF, at a consideration of approximately HK\$175,000,000. The disposal is subject to the approval of the shareholders of the Company and has not yet been completed at the date of this report.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 March 2010, the interests and short positions of the Directors and chief executives 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 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
Chan Shui Sheung Ivy	Beneficial owner	60,000	60,000	0.011%

Save as disclosed above, as at 31 March 2010, 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 Executives' Interests in Shares" at no time during the three months ended 31 March 2010 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 18, had any right to subscribe for the securities of the Company, or had exercised any such right during three months ended 31 March 2010.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2010, 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 provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules were as follows:

<b>Name of Shareholders</b>	<b>Capacity</b>	<b>Number of shares</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	Trustee 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, PME Group Limited 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% interest 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 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 2010.

## **COMPETING INTERESTS**

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had an interest in business which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with the Group during the three months ended 31 March 2010.

## **CODE ON CORPORATE GOVERNANCE**

The Company has complied with the code provisions on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules (the "CG Code") for the three months ended 31 March 2010 except for 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.

During the three months ended 31 March 2010, the Company does not have a chairman and a chief executive officer. The Board will keep reviewing the current structure from time to time and should a candidate with suitable knowledge, skill and experience be identified, the Company will make appointments to fill the posts as appropriate.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the three months ended 31 March 2010.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. As at the date of this report, the Company's audit committee comprises all independent non-executive Directors. 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 audit committee has reviewed the Group's unaudited financial results and this report for the three months ended 31 March 2010 and has provided advice and comments thereon.

On behalf of the Board  
**Yeung Sau Han Agnes**  
*Executive Director*

Hong Kong, 12 May 2010

*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.*