



Third 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

The board of directors (the “Board”) of China Railway Logistics Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30 September 2010, together with the comparative figures for the corresponding periods in year 2009, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended 30 September 2010		Nine months ended 30 September 2010	
		(Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)	(Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)
Continuing operations					
Turnover	3	14,351	1,404	29,095	5,120
Revenue		9,757	1,404	24,501	5,120
Cost of sales		(984)	(567)	(3,279)	(2,058)
Gross profit		8,773	837	21,222	3,062
Other income	3	806	2,514	1,251	4,941
Distribution and selling expenses		(4)	(5)	(18)	(15)
Administrative expenses		(8,308)	(8,551)	(23,292)	(24,084)
(Loss) gain on fair value changes of investments held-for-trading		14,086	14,013	(30,133)	14,515
Loss on fair value changes of convertible bonds designated at financial assets at fair value through profit or loss		(4,612)	-	(35,196)	-
(Loss) gain on fair value changes of convertible preference shares designated at financial assets at fair value through profit or loss	5	(72,299)	-	54,585	-
Gain on disposals of convertible bonds		-	-	563	-
Gain on disposals of convertible preference shares	5	-	-	64,345	-
Loss on disposals of investments held-for-trading		(18,976)	-	(18,976)	-
Gain on deemed partial disposal of subsidiaries		-	-	7,204	-

	Notes	Three months ended 30 September 2010		Nine months ended 30 September 2010	
		(Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)	(Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)
Gain on partial disposal of an associate		18,213	–	18,213	–
Loss on disposal of a subsidiary		–	(373)	–	(402)
Loss on disposals of available-for- sale investments		–	(2,850)	–	(2,850)
Share of result of an associate		(1,015)	–	(2,680)	–
Share of result of a jointly controlled entity		599	–	414	–
Finance costs		–	–	–	(28)
Profit (loss) before tax	6	(62,737)	5,585	57,502	(4,861)
Income tax expense	7	(1,222)	–	(2,782)	–
Profit (loss) for the period from continuing operations		(63,959)	5,585	54,720	(4,861)
Discontinued operations					
Loss for the period from discontinued operations	4	–	(2,239)	(675)	(8,194)
Profit (loss) for the period		(63,959)	3,346	54,045	(13,055)
Other comprehensive income					
Change in fair value of available-for-sale financial assets		3,295	–	3,012	–
Recognition of deemed partial disposal of subsidiaries		–	–	2,657	–
Exchange differences on translating foreign operations		503	10	1,140	31
Other comprehensive income for the period		3,798	10	6,809	31
Total comprehensive (expenses) income for the period		(60,161)	3,356	60,854	(13,024)

	Notes	Three months ended 30 September 2010		Nine months ended 30 September 2010	
		(Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)	(Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)
Profit (loss) for the period attributable to:					
– Owners of the Company		(64,070)	3,346	53,968	(13,055)
– Minority interests		111	–	77	–
		(63,959)	3,346	54,045	(13,055)
Total comprehensive (expenses) income attributable to:					
– Owners of the Company		(60,272)	3,356	60,777	(13,024)
– Minority interests		111	–	77	–
		(60,161)	3,356	60,854	(13,024)
Earnings (loss) per share from continuing and discontinued operations	9				
– Basic and diluted		HK(11.36) cents	HK0.59 cent	HK9.57 cents	HK(2.36) cents
Earnings (loss) per share from continuing operations	9				
– Basic and diluted		HK(11.36) cents	HK0.99 cent	HK9.69 cents	HK(0.88) cent

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2010

	Share capital HK\$'000	Share premium HK\$'000	Share options reserve HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital reserve HK\$'000	Warrant reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Equity attributable to owners of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2009 (audited)	537	2,837,253	3,590	7,914	-	-	-	-	(53)	(1,944,521)	904,720	-	904,720
Other comprehensive income for the period	-	-	-	-	-	-	-	-	31	-	31	-	31
Loss for the period	-	-	-	-	-	-	-	-	-	(13,055)	(13,055)	-	(13,055)
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	-	-	31	(13,055)	(13,024)	-	(13,024)
Issue of shares on acquisition of a subsidiary	27	17,728	-	-	-	-	-	-	-	-	17,755	-	17,755
At 30 September 2009 (unaudited)	564	2,854,981	3,590	7,914	-	-	-	-	(22)	(1,957,576)	909,451	-	909,451

	Share capital HK\$'000	Share premium HK\$'000	Share contributed surplus HK\$'000	Share options reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital reserve HK\$'000	Warrant reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Equity attributable to owners of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2010 (audited)	564	2,854,452	7,914	3,590	951	6,898	3,300	(96)	(1,950,033)	927,538	17,335	944,873
Other comprehensive income for the period	-	-	-	-	3,012	-	-	1,140	2,657	6,809	-	6,809
Profit for the period	-	-	-	-	-	-	-	-	53,968	53,968	77	54,045
Total comprehensive income for the period	-	-	-	-	3,012	-	-	1,140	56,625	60,777	77	60,854
Reversal deemed partial disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(2,657)	(2,657)
At 30 September 2010 (unaudited)	564	2,854,452	7,914	3,590	3,963	6,898	3,300	1,042	(1,893,408)	988,315	14,755	1,003,070

Note: The capital reserve represents the difference between the capital contribution by minority interests and the relevant share of the carrying value of a subsidiary's net assets by the minority interests.

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 have been 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 HM 11, 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 nine months ended 30 September 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 and interest income received and receivable during the period. The analysis of the Group's turnover and other income for the periods is as follows:

	Three months ended 30 September 2010 (Unaudited) HK\$'000		Nine months ended 30 September 2010 (Unaudited) HK\$'000	
	2009 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover:				
Computer telephony	1,949	1,404	6,707	5,120
Loan financing	7,808	–	17,794	–
Properties investments	–	–	–	–
Securities trading	4,594	–	4,594	–
	14,351	1,404	29,095	5,120
Other income:				
Bank interest income	11	344	170	2,672
Sundry income	795	2,170	1,081	2,269
	806	2,514	1,251	4,941

4. DISCONTINUED OPERATIONS

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

	Three months ended 30 September 2010 (Unaudited) HK\$'000		Nine months ended 30 September 2010 (Unaudited) HK\$'000	
	2009 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover:				
Telecommunications	–	–	–	2,563
One-stop value chain services	–	2,000	–	32,754
	–	2,000	–	35,317
Loss of the discontinued operations:				
Telecommunications	–	–	–	(80)
One-stop value chain services	–	(2,239)	(675)	(8,114)
	–	(2,239)	(675)	(8,194)

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 9 September 2008. Upon completion of the placing on 29 January 2010 as reported under the section headed "Material Acquisitions and Disposals", the gain on disposals 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 30 September 2010, the Group holds 22,713,043 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 30 September 2010 have been arrived on the basis of a valuation carried out on that date by an independent valuer.

6. PROFIT (LOSS) BEFORE TAX

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

	Three months ended 30 September		Nine months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Staff costs including directors' emoluments:				
Salaries and allowances	3,657	3,032	10,280	9,835
Contributions to retirement benefits scheme	247	222	288	395
	3,904	3,254	10,568	10,230
Depreciation of plant and equipment	573	505	1,730	1,554
Minimum lease payments under operating leases	989	755	2,946	1,928
Cost of inventories recognized as an expense	2,029	567	3,192	2,058



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 periods ended 30 September 2010 and 2009 respectively is 25%. However, certain subsidiaries in the Group are "Encouraged Hi-Tech Enterprise" and are thus 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 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 nine months ended 30 September 2010. No Hong Kong Profits Tax was provided as the Group had no assessable profits for the nine months ended 30 September 2009.

8. DIVIDEND

No dividend was paid or proposed during the nine months ended 30 September 2010 and 30 September 2009, nor has any dividend been proposed since 30 September 2010.

9. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share attributable to owners of the Company is based on the following data:

	Three months ended 30 September 2010		Nine months ended 30 September 2010	
	(Unaudited) HK\$'000	(Unaudited) 2009 HK\$'000	(Unaudited) HK\$'000	(Unaudited) 2009 HK\$'000
Profit (loss) for the period				
– From continuing and discontinued operations	(64,070)	3,346	53,968	(13,055)
– From continuing operations	(64,070)	5,585	54,643	(4,861)
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	563,814	563,814	563,814	553,233

The computation of diluted (loss) earnings per share for the three months and nine months ended 30 September 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 earnings (loss) per share for the three months and nine months ended 30 September 2009 was 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 nine months ended 30 September 2010, the Group recorded a turnover from continuing operations of approximately HK\$29,095,000 (nine months ended 30 September 2009: approximately HK\$5,120,000), representing an increase of approximately 468.3% as compared with the last corresponding period. The remarkable increase in turnover was mainly contributed from the loan financing business.

Administrative expenses for the nine months ended 30 September 2010 was approximately HK\$23,292,000 (nine months ended 30 September 2009: approximately HK\$24,084,000), representing a decrease of 3.3% as compared with the last corresponding period.

The profit attributable to the owners of the Company for the nine months ended 30 September 2010 aggregated at approximately HK\$53,968,000 (nine months ended 30 September 2009: loss approximately HK\$13,055,000), which was mainly contributed from the gain on disposals of convertible preference shares ("CP Shares") of China Eco-Farming Limited ("CEF"); and on fair value changes of CP Shares held by the Group as at 30 September 2010. The basic earnings per share for the nine months ended 30 September 2010 was HK9.57 cents (nine months ended 30 September 2009: basic loss per shares HK2.36 cents).

Business Review and Outlook

The IT and telecommunications business in computer telephony of the Group has increased as compared with the nine months ended 30 September 2009 and generated a stable income for the first three quarters of year 2010.

The loan financing business which commenced in late 2009 has been increasing and generating solid income for the Group during the period under review.

The shopping mall retailing electronic products in Changsha, PRC (the "Changsha Shopping Mall") was opened and commenced operation in January 2010. Most of the shops in the Changsha Shopping Mall have been let. The Changsha Shopping Mall, situated at a prime location near Changsha Railway Station with a gross floor area of approximately 25,700 square metres, is a modern shopping mall for electronic products.

The Board remains prudently optimistic about the property market in the PRC and in Hong Kong in the long run and hence the Group will continue to identify and secure investment opportunities in the respective property markets to enhance the Group's profitability.

In addition to expanding its loan financing and computer telephony businesses, the Board will continue to seek other investment opportunities and to explore the feasibility of expanding into other business sectors to diversify the Group's business portfolio aiming to enhance the Group's profitability and the shareholders' value.

Fund Raising Activities

On 13 May 2010, the Company entered into a placing agreement with a placing agent in relation to the placement of 112,000,000 new ordinary shares at a price of HK\$0.70 per share (the "Placing Shares") to independent institutional or private investors not connected with the Company and its connected persons (as defined in the GEM Listing Rules) on a best-effort basis (collectively, the "Placing"). The Placing Shares will be issued under the general mandate and therefore the Placing is not subject to Shareholders' approval. Details of the Placing were set out in the announcement of the Company dated 13 May 2010. The Placing has not yet been completed as at the date of this report.

Liquidity and Financial Resources

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

As at 30 September 2010, the Group had cash and cash equivalents of approximately HK\$87,108,000 (31 December 2009: approximately HK\$299,866,000) and had no bank borrowings (31 December 2009: Nil). The gearing ratio, measured on the basis of total non-current liabilities to total assets less current liabilities, was zero times (2009: zero times).

Capital Structure

As at 30 September 2010, the Company's issued share capital was HK\$563,814 and the number of its issued ordinary shares was 563,814,000 of HK\$0.001 each ("Shares").

Capital Commitments

The Group did not have any material capital commitments as at 30 September 2010 (31 December 2009: Nil).

Significant Investments

During the period ended 30 September 2010, the Group acquired two properties in Hong Kong at the respective purchase prices of approximately HK\$9,300,000 and HK\$8,200,000 for investment purpose. As at 30 September 2010, the Group held investment properties with aggregate value amounted to approximately HK\$160,542,000 (31 December 2009: approximately HK\$142,246,000). Furthermore, as at 30 September 2010, the Group held convertible bonds and investments held-for-trading that amounted to approximately HK\$42,923,000 and HK\$63,975,000 (31 December 2009: approximately HK\$46,176,000 and HK\$94,540,000), respectively; and available-for-sale financial assets that amounted to approximately HK\$19,449,000 (31 December 2009: approximately HK\$16,437,000).

Material Acquisitions and Disposals

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 Shares") of CEF, which at that juncture was a non-wholly owned subsidiary of the Company and listed on the GEM Board of the Stock Exchange (Stock Code: 8166), at a price of HK\$0.53 per CP Share to potential subscribers (collectively, the "CP Placing") on a best effort basis. The CP Placing was completed on 29 January 2010. The net proceeds earned from the CP Placing aggregated at approximately HK\$78,705,000 which was applied as general working capital of the Group. Immediately after full conversion of the CP Shares by the holders thereof on 29 January 2010, the Company's interest in CEF was diluted, as a result of the said diluted CEF ceased to be a subsidiary of the Company.

On 3 March 2010, Top Status and 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. At the date of this report, the disposal has not yet been completed.

On 11 June 2010, a placing agreement was entered into among Top Status, CEF and Fortune (HK) Securities Limited, and a subscription agreement was entered into between Top Status and CEF (collectively, the "Agreements"). The placing agreement was subsequently amended by supplemental agreements dated 18 June 2010, 5 July 2010 and 15 July 2010, and the subscription agreement was subsequently amended by supplemental agreements dated 5 July 2010 and 15 July 2010 respectively. Pursuant to the Agreements (as amended), a maximum of 135,000,000 CEF shares held by Top Status may be placed at the placing price of HK\$0.46 per share and a maximum of 135,000,000 CEF shares may be subscribed by Top Status at the subscription price of HK\$0.46 per share (collectively, the "Top-up Placing"), respectively. For details, please refer to the announcement of the Company dated 3 August 2010.

As at the date of this report, 38,500,000 CEF shares have been placed; and the Top-up Placing has not yet been completed.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 September 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, 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	Total number of issued ordinary shares held	Total interests	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 30 September 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 DEBENTURES

Save as disclosed in the above section headed "Directors' and Chief Executives' Interests in Shares" at no time during the nine months ended 30 September 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 the Shares or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors, their spouse or their children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the nine months ended 30 September 2010.

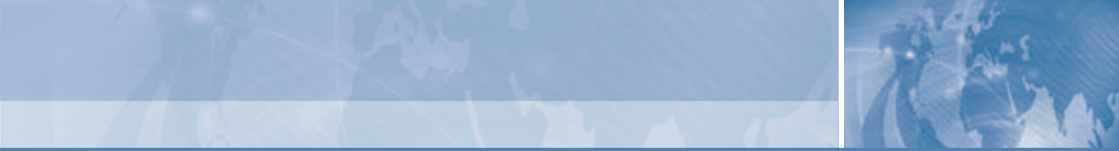
SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, persons who had interests or short positions directly or indirectly in the Company's shares and underlying shares 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:

Name of Shareholders	Capacity	Number of shares	Percentage of interests
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 and by Sunbright Asia Limited, PME Group Limited is interested in 80,254,000 Shares through its controlled corporation as follows:
 - (i) 71,000,000 Shares are directly held by Sunbright Asia Limited which in turn is 100% directly owned by CR Investment Group Limited which in turn is directly 100% owned by PME Group Limited; and
 - (ii) 9,254,000 Shares are directly held by Betterment Enterprises Limited which in turn is directly 99.49% owned by Richcom Group Limited which in turn is directly 100% owned by CR Investment Group Limited which in turn is directly 100% owned by PME Group Limited.
2. Pursuant to the corporate substantial shareholder notice filed by Well Support Limited and the individual substantial shareholder notice filed by Liu Yi Dong, 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 party who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of 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 2010.

COMPETING INTERESTS

None of the Directors or the controlling shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that competes or may compete with the business of the Group or had any other conflict of interest with the Group during the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2010, the Company did not have a chairman or a chief executive officer. The Board will keep reviewing the current structure of the Board from time to time and should candidates 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 during the nine months ended 30 September 2010.

AUDIT COMMITTEE

The Company has established an audit committee of the Company (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules. As at the date of this report, the 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 nine months ended 30 September 2010 and has provided advice and comments thereon.

On behalf of the Board
Chan Shui Sheung Ivy
Executive Director

Hong Kong, 5 November 2010

As at the date hereof, the executive Directors are Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy, and the independent non-executive Directors are Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong.