

China Railway Logistics Limited

中國鐵路貨運有限公司*

(incorporated in Bermuda with limited liability)

Stock Code: 8089

Interim Report 2012

** For identification purpose only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF 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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of China Railway Logistics Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“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 that 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”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 June 2012, together with the comparative figures for the corresponding periods in year 2011, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended 30 June		Six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Continuing operations					
Turnover	3	23,353	30,913	83,808	41,267
Revenue	3	4,069	11,852	8,686	22,206
Other income	4	153	71	166	94
Administrative expenses		(11,887)	(9,919)	(23,916)	(18,357)
Fair value changes in investment properties		3,665	28,324	3,665	28,324
Loss arising from fair value changes of investments held for trading		(53,574)	(48,471)	(17,458)	(49,352)
Gain on disposals of investments held for trading		3,917	3,010	12,428	3,010
Loss arising from fair value changes of convertible instruments designated at financial assets at fair value through profit or loss		(14,834)	(12,913)	(2,561)	(13,441)
Gain on disposals of subsidiaries		33	-	33	-
Share of result of a jointly controlled entity		459	226	746	16
Finance costs	5	(1,173)	(88)	(1,436)	(116)
Loss before tax	7	(69,172)	(27,908)	(19,647)	(27,616)
Income tax expense	8	-	(2,653)	-	(2,653)
Loss for the period from continuing operations		(69,172)	(30,561)	(19,647)	(30,269)
Discontinued operation					
Gain for the period from discontinued operation	6	516	(63)	464	(43)
Loss for the period		(68,656)	(30,624)	(19,183)	(30,312)

	Note	Three months ended 30 June		Six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Other comprehensive (expenses) income					
Fair value (loss) gain on available-for-sale financial assets		(1,306)	(1,179)	1,831	(1,508)
Exchange differences on translating foreign operations		(496)	553	(211)	1,380
Other comprehensive (expenses) income for the period		(1,802)	(626)	1,620	(128)
Total comprehensive expenses for the period		(70,458)	(31,250)	(17,563)	(30,440)
Loss for the period attributable to:					
– Owners of the Company		(68,741)	(30,665)	(19,321)	(30,314)
– Non-controlling interests		85	41	138	2
		(68,656)	(30,624)	(19,183)	(30,312)
Total comprehensive (expenses) income attributable to:					
– Owners of the Company		(70,543)	(31,291)	(17,701)	(30,442)
– Non-controlling interests		85	41	138	2
		(70,458)	(31,250)	(17,563)	(30,440)
Loss per share from continuing and discontinued operations	10				
– Basic		HK(10.17) cents	HK(4.78) cents	HK(2.86) cents	HK(5.06) cents
– Diluted		HK(10.17) cents	HK(4.78) cents	HK(2.86) cents	HK(5.06) cents
Loss per share from continuing operations	10				
– Basic		HK(10.25) cents	HK(4.77) cents	HK(2.93) cents	HK(5.05) cents
– Diluted		HK(10.25) cents	HK(4.77) cents	HK(2.93) cents	HK(5.05) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Plant and equipment		12,417	13,795
Investment properties		152,380	148,716
Interest in a joint controlled entity		123,959	123,213
Deposits paid for acquisition of plant and equipment		5,479	5,150
Available-for-sale financial assets		23,579	19,058
		317,814	309,932
Current assets			
Loan receivables	13	138,990	233,802
Convertible instruments designated at financial assets at fair value through profit or loss		97,038	107,599
Promissory note receivable		26,000	–
Inventories		–	646
Trade receivables	11	–	474
Prepayments, deposits and other receivables		113,832	108,829
Tax recoverable		1,830	1,830
Investments held for trading		138,260	91,739
Bank balances and cash		72,790	42,273
		588,740	587,192
Current liabilities			
Trade payables	12	–	1,205
Accruals and other payables		5,441	6,760
Receipts in advance		–	481
Taxation		13,135	12,938
Bank borrowing		332	332
		18,908	21,716
Net current assets		569,832	565,476
Total assets less current liabilities		887,646	875,408

		30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Non-current liabilities			
Bank borrowing		7,228	7,393
Bond		10,000	–
Promissory note		18,751	–
Deferred taxation		8,831	8,831
		44,810	16,224
Net assets		842,836	859,184
Capital and reserves			
Share capital	15	676	676
Reserves		821,703	838,189
		822,379	838,865
Non-controlling interests		20,457	20,319
Total equity		842,836	859,184

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Share capital HK\$'000	Share premium HK\$'000	Share contributed surplus HK\$'000	Share options reserve HK\$'000	Investment revaluation reserve HK\$'000	Warrant reserve HK\$'000	Convertible bond options reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Equity attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2011 (audited)	564	2,854,452	7,914	3,590	6,430	3,300	-	5,993	(1,764,883)	1,117,360	17,202	1,134,562
Other comprehensive (expenses) income for the period	-	-	-	-	(1,508)	-	-	1,380	-	(128)	-	(128)
Loss for the period	-	-	-	-	-	-	-	-	(30,314)	(30,314)	2	(30,312)
Total comprehensive (expenses) income for the period	-	-	-	-	(1,508)	-	-	1,380	(30,314)	(30,442)	2	(30,440)
Issue of shares by placing	112	48,048	-	-	-	-	-	-	-	48,160	-	48,160
Placement cost	-	(1,200)	-	-	-	-	-	-	-	(1,200)	-	(1,200)
At 30 June 2011 (unaudited)	676	2,901,300	7,914	3,590	4,922	3,300	-	7,373	(1,795,197)	1,133,878	17,204	1,151,082

	Share capital HK\$'000	Share premium HK\$'000	Share contributed surplus HK\$'000	Share options reserve HK\$'000	Investment revaluation reserve HK\$'000	Warrant reserve HK\$'000	Convertible bond options reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Equity attributable to owners of the Company		Non-controlling interests HK\$'000	Total HK\$'000
										Company HK\$'000	Non-controlling interests HK\$'000		
At 1 January 2012 (audited)	676	2,901,300	7,914	3,590	1,312	3,300	-	13,840	(2,093,067)	838,865	20,319	859,184	
Other comprehensive (expenses) income for the period	-	-	-	-	1,831	-	-	(211)	-	1,620	-	1,620	
Loss for the period	-	-	-	-	-	-	-	-	(19,321)	(19,321)	138	(19,183)	
Total comprehensive (expenses) income for the period	-	-	-	-	1,831	-	-	(211)	(19,321)	(17,701)	138	(17,563)	
Issue of convertible bond options, (net of expense)	-	-	-	-	-	-	1,215	-	-	1,215	-	1,215	
At 30 June 2012 (unaudited)	676	2,901,300	7,914	3,590	3,143	3,300	1,215	13,629	(2,112,388)	822,379	20,457	842,836	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	26,780	(55,952)
Net cash generated from/(used in) investing activities	6,310	(43,706)
Net cash (used in)/generated from financing activities	(2,854)	64,713
Net increase (decrease) in cash and cash equivalents	30,236	(34,945)
Cash and cash equivalents at the beginning of period	42,273	113,577
Effect of foreign exchange rate changes	281	5
Cash and cash equivalents at the end of period	72,790	78,637
Analysis of balances of cash and cash equivalents		
Bank balances and cash	72,790	78,637

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 HM 11, Bermuda. With effect from 7 July 2012, the Company has re-located its principal place of business in Hong Kong to 2/F, SBI Centre, Nos. 54-58 Des Voeux Road Central, 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 unaudited condensed consolidated financial statements for the six months ended 30 June 2012 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 applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated financial statements have been prepared on 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 2011 (the "2011 Financial Statements"), except for the amendments and interpretations of HKFRSs issued by HKICPA which have become effective in this period as detailed in notes of the 2011 Financial Statements. The directors of the Company believe that the application of the other new and revised standards, amendments or interpretations has no material impact on the unaudited condensed consolidated financial statements for the six months ended 30 June 2012.

3. TURNOVER AND SEGMENT INFORMATION

The Group's operating segments, based on the information reported to the chief operating decision maker, being executive directors, for making strategic decisions. The segments are managed separately as each business offers different products which vary in materials used, design and technology and services which require different production/service information to formulate different marketing strategies. The following summary describes the operations in each of the Group's reportable and operating segments:

Computer telephony	–	leasing of telecommunication equipments and computer telecommunications and computer telephony system and provision of consulting and maintenance services
Properties investments	–	investment in properties for rental income purpose
Securities trading	–	trading of securities
Loan financing	–	provision of financing services

During the period, the operation of computer telephony was discontinued subsequent to the disposal of subsidiaries or the date of classification of discontinued operation. Details of the discontinued operation are set out in note 6.

3. TURNOVER AND SEGMENT INFORMATION (Continued)

Turnover represents rental income; net proceeds from the disposal of investments held for trading; and interest income from the provision of loan financing. The following is an analysis of the Group's turnover, revenue and results by reportable segment:

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Operating divisions				
Turnover				
Properties investments	434	467	868	795
Securities trading	19,284	19,061	75,122	19,061
Loan financing	3,635	11,385	7,818	21,411
	23,353	30,913	83,808	41,267
Revenue				
Properties investments	434	467	868	795
Securities trading	-	-	-	-
Loan financing	3,635	11,385	7,818	21,411
	4,069	11,852	8,686	22,206
Segment results				
Properties investments	3,668	28,087	2,761	27,583
Securities trading	(49,439)	(45,054)	(5,137)	(46,066)
Loan financing	(2,113)	7,029	1,163	16,080
	(47,884)	(9,938)	(1,213)	(2,403)
Unallocated corporate expenses	(5,467)	(5,040)	(14,636)	(11,750)
Unallocated corporate income	153	71	166	94
Loss arising from fair value change of convertible instruments designated at financial assets at fair value through profit or loss	(14,834)	(12,913)	(2,561)	(13,441)
Gain on disposal of subsidiaries	33	-	33	-
Finance costs	(1,173)	(88)	(1,436)	(116)
	(69,172)	(27,908)	(19,647)	(27,616)
Income tax expenses	-	(2,653)	-	(2,653)
Loss for the period from continuing operations	(69,172)	(30,561)	(19,647)	(30,269)

4. OTHER INCOME

The analysis of the Group's other income for the periods is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Other income:				
Bank interest income	3	38	13	55
Sundry income	150	33	153	39
	153	71	166	94

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank borrowing	42	88	82	116
Interest expenses on bond	43	-	43	-
Effective interest expenses on promissory notes wholly repayable within five years	1,088	-	1,311	-
	1,173	88	1,436	116

6. DISCONTINUED OPERATION

The operation of computer telephony segment was presented as discontinued operation as follows:

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover and revenue	387	1,077	2,413	2,709
Loss of the discontinued operation	(50)	(63)	(102)	(43)
Gain on disposal of discontinued operation	566	-	566	-
	516	(63)	464	(43)

7. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Staff costs including directors' emoluments:				
Salaries and allowances	4,573	4,012	9,609	7,404
Contributions to retirement benefit schemes	145	105	275	191
	4,718	4,117	9,884	7,595
Depreciation of plant and equipment	629	435	1,353	1,425
Minimum lease payments under operating leases	1,145	883	2,404	1,859
Net foreign exchange loss	-	-	20	386

8. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the three months and six months ended 30 June 2012 and 2011.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

9. DIVIDEND

No dividend was paid or proposed during the six months ended 30 June 2012 and 30 June 2011, nor has any dividend been proposed since 30 June 2012 and up to the date of this report.

10. LOSS PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Loss for the period attributable to owners of the Company				
– From continuing and discontinued operations	(68,741)	(30,665)	(19,321)	(30,314)
– From continuing operations	(69,257)	(30,602)	(19,785)	(30,271)
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic loss per share	675,814	641,012	675,814	599,085

The computation of diluted loss per share for the three months and six months ended 30 June 2012 and 2011 does not assume the exercise of the share options or non-listed warrants of the Company as both of their respective exercise prices were higher than the average market price of the shares of the Company during the aforesaid periods.

11. TRADE RECEIVABLES

The Group normally grants to its customer credit period ranging from 30 days to 180 days. The Group does not hold any collateral over these balances. The following is an aged analysis of trade receivables, net of accumulated impairment loss, presented based on the invoice date at the reporting date.

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within 90 days	–	474

12. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting date:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within 60 days	–	383
61 – 120 days	–	775
Over 1 year	–	47
	–	1,205

13. LOAN RECEIVABLES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
<i>Loan receivables arising from loan financing business:</i>		
Secured loan receivables	204,432	204,484
Unsecured loan receivables	117,099	207,398
Less: impairment loss recognised	(199,180)	(199,180)
	122,351	212,702
<i>Other loan receivables:</i>		
Amount due from a former subsidiary	151,980	151,980
Advance to a former subsidiary	16,639	21,100
Other unsecured loan receivables	3,823	3,823
	172,442	176,903
Less: impairment loss recognised	(155,803)	(155,803)
	16,639	21,100
	138,990	233,802

The secured loan receivables arising from loan financing business are secured by listed equity shares, convertible bonds issued by listed companies, unlisted shares and properties located in Hong Kong and bear interest at fixed interest rate ranging from 8% to 14% (2011: 8% to 14%) per annum.

The unsecured loan receivables arising from loan financing business bear interest at a rate ranging from 7% to 14% (2011: 5% to 14%) per annum and are guaranteed by independent third parties.

13. LOAN RECEIVABLES (Continued)

The following table illustrates the ageing analysis, based on the loan drawn down date, of the loan receivables (net of accumulated impairment losses) outstanding at the end of the reporting period:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
More than 3 months but less than 6 months	–	13,453
More than 6 months but less than 12 months	13,972	64,325
More than 12 months	125,018	156,024
	138,990	233,802

14. COMMITMENTS

Operating leases

The Group as lessor

The Group had contracted with tenants for the following future minimum lease payments:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within one year	610	1,085
In the second to fifth year inclusive	893	634
	1,503	1,719

Operating lease receipts represent rentals receivable by the Group for investment properties. Leases are negotiated and rentals are fixed for one to five years.

14. COMMITMENTS (Continued)

Operating leases (Continued)

The Group as lessee

The Group had commitments for future minimum lease payments in respect of premises under various non-cancellable operating leases which fall due as follows:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within one year	3,503	2,580
In the second to fifth year inclusive	1,692	1,093
	5,195	3,673

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases are negotiated and rentals are fixed for an average of three years.

Capital commitments

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Capital expenditure contracted but not provided for	42,206	288

15. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.001 each at 31 December 2011 and 30 June 2012	100,000,000	100,000
Issued and fully paid ordinary shares of HK\$0.001 each at 1 January 2012 and 30 June 2012	675,814	676
Issued and fully paid ordinary shares of HK\$0.001 each at 1 January 2011	563,814	564
Issue of shares on placing	112,000	112
Ordinary shares of HK\$0.001 each at 31 December 2011	675,814	676

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2012, the Group recorded a turnover from continuing operations of approximately HK\$83,808,000 (six months ended 30 June 2011: approximately HK\$41,267,000), representing an increase of approximately 103% as compared to the last corresponding period mainly due to the high volume in securities trading.

Administrative expenses for the six months ended 30 June 2012 was approximately HK\$23,916,000 (six months ended 30 June 2011: approximately HK\$18,357,000), representing an increase of 30.3% as compared to the last corresponding period. The increase in expenses was mainly due to increase in legal and professional fee expenses, as well as staff costs.

The loss attributable to the owners of the Company for the six months ended 30 June 2012 aggregated at approximately HK\$19,321,000 (six months ended 30 June 2011: HK\$30,314,000). The basic loss per share for six months ended 30 June 2012 was approximately HK2.86 cents (six months ended 30 June 2011: HK5.06 cents).

Business Review and Outlook

Through renting out of the properties, the Group recorded a rental income of approximately HK\$868,000 (six months ended 30 June 2011: approximately HK\$795,000). As at 30 June 2012, the Group held properties in Hong Kong and in the PRC for investment purposes amounted to approximately HK\$152,380,000 (31 December 2011: approximately HK\$148,716,000).

During the period under review, the management considered that through the subscription of a private company in respect of the acquisition of a residential property in Hong Kong as an opportunity to expand its investment portfolio in the local property market. In the view of the recent residential property market in Hong Kong, the management believes that the value of the residential properties will have a steady and strong appreciation in future. Further details of this subscription are reported under the "Material Acquisitions and Disposals" section below.

In line with our strategy to diversifying the business portfolio of the Group, during the period under review, the Group acquired 30% equity interest in Fortune Lead Holdings Limited ("Fortune Lead"). The post-completion arrangements of this acquisition are still ongoing. If the internal restructuring is completed, Fortune Lead would indirectly hold 40% equity interest in 蚌埠海吉星農產品物流有限公司 (Beng Bu Hai Ji Xing Agricultural Product Logistics Company Limited, "Beng Bu"). Beng Bu will be engaged in trading of agricultural products, storage, logistics, rental of and sales of properties and operation facilities, property management, provision of market information of agricultural products, import or export services as well as market development services. The management expects that the rental income that may be generated from Beng Bu would expand the Group's properties investments in the PRC.

As at 30 June 2012, the Group held investments held for trading amounted to approximately HK\$138,260,000 (31 December 2011: approximately HK\$91,739,000) and convertible instruments designated at financial assets at fair value through profit or loss amounted to approximately HK\$97,038,000 (31 December 2011: approximately HK\$107,599,000). As a result of the downturn in the securities market sentiment in the second quarter of 2012, the Group recorded a loss arising from the fair value changes of investments held for trading of approximately HK\$17,458,000 (30 June 2011: approximately HK\$49,352,000) and a loss arising from fair value changes of convertible instruments designated at financial assets at fair value through profit or loss of approximately HK\$2,561,000 (30 June 2011: approximately HK\$13,441,000). The financial market in Hong Kong is expected to continue to be volatile during the year of 2012. The management will remain cautious in its investment strategy.

The loan financing business generated an interest income of approximately HK\$7,818,000 to the Group during the period under review (30 June 2011: approximately HK\$21,411,000). It is noted that the repayment ability of certain borrowers had declined due to the uncertain global market condition. As such, the management has evaluated the development of the loan financing business and concluded that a conservative approach should be adopted, thus the loan financing business has dropped as compared to the last corresponding period.

In view of the rapid increase in material and labour costs, the business environment of computer telephony has been getting keen and unfavourable. To face the fact that the computer telephony business made no contributions to the Group in the last few quarters, the Directors decided to dispose the computer telephony business segment and it was completed on 30 April 2012. Details of the disposal are reported under section "Material Acquisitions and Disposals".

The Group will continue to adopt a positive but prudent approach in managing its financial resources and towards its investment strategy in seeking other investment opportunities and exploring the feasibility of expansion into other business segments. The Group will continue to seek new opportunities aiming to enhance the profitability and the shareholders' value of the Company.

Fund Raising Activities

On 21 November 2011, the Company entered into a conditional placing agreement with FT Securities Limited ("FT Securities") (as amended by a supplemental placing agreement dated 14 March 2012 and a second supplemental placing agreement dated 19 April 2012, respectively) in respect of the placing of a maximum of 135,000,000 new shares at a revised placing price HK\$0.21 per new placing share with a new long stop date 18 May 2012. Owing to the volatile market sentiment in first half year of 2012, the placing has not been successfully taken place by the long stop date and therefore the placing was lapsed on 18 May 2012. For details, please refer to the announcements of the Company dated 21 November 2011, 14 March 2012, 19 April 2012 and 30 May 2012, respectively.

On 30 May 2012, the Company and FT Securities (as the placing agent) entered into the option placing agreement pursuant to which the Company has conditionally agreed to place and FT Securities has conditionally agreed to procure, on a best effort basis, not less than six independent placees to subscribe for up to 27 options at a premium of HK\$50,000 per option. Upon exercise of each of the option, the optionholder is entitled to subscribe for the zero coupon convertible bonds of the Company in the principal amount of HK\$1,000,000 at the subscription price of HK\$1,000,000. Assuming exercise of all the 27 options, the optionholders are entitled to subscribe for, in aggregate, the convertible bonds of the Company in the principal amount of HK\$27,000,000 at the subscription price of HK\$27,000,000. The convertible bonds are convertible into not more than 135,000,000 new shares at the conversion price of HK\$0.20 per conversion shares. An aggregate 27 options were fully placed on 21 June 2012 with the total gross and net proceeds amounted to HK\$1,350,000 and approximately HK\$1,215,000 respectively which has been applied as the general working capital of the Group. For details, please refer to the announcements of the Company dated 30 May 2012 and 23 July 2012.

Liquidity and Financial Resources

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

As at 30 June 2012, the Group had cash and cash equivalent of approximately HK\$72,790,000 (31 December 2011: approximately HK\$42,273,000) and had interest-bearing bank borrowings of approximately HK\$7,560,000 (31 December 2011: HK\$7,725,000). As at 30 June 2012, the gearing ratio (measured as total liabilities to total assets) was 7% (31 December 2011: 4.2%).

Capital Structure

As at 30 June 2012, the Company's issued share capital was HK\$675,814, divided into 675,814,000 shares of HK\$0.001 each (31 December 2011: HK\$675,814 divided into 675,814,000 shares of HK\$0.001 each).

Contingent Liabilities

As at 30 June 2012, the Group did not have any material contingent liability (31 December 2011: nil).

Charges on Assets

As at 30 June 2012, investment properties of the Group with an aggregate carrying value of HK\$19,700,000 have been pledged to a bank to secure the general banking facilities granted to the Group.

Exposure to Fluctuation in Exchange Rates and Related Hedges

The reporting currency adopted by the Group is Hong Kong dollars (“HK\$”). The majority of the Group’s sales, receivables and expenditures are dominated in HK\$, United States dollars (“USD”) or Renminbi (“RMB”). HK\$ is closely linked with USD. Although the exchange rate of HK\$ against RMB had steadily depreciated during the period under review, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk. No hedging or other similar device has been implemented. However, the Directors will constantly monitor the Group’s foreign exchange exposure and implement foreign currency hedging measures should the need arises.

Material Acquisitions and Disposals

On 20 January 2012, Sina Winner Investment Limited (“Sina Winner”), a wholly-owned subsidiary of the Company (as the purchaser), Ng Wai Huen (“Mr. Ng”) (as the vendor) and Fortune Lead entered into the sale and purchase agreement (the “Fortune Agreement”) in relation to the acquisition of 30% equity interest in Fortune Lead at a consideration of HK\$40,000,000 to be satisfied at completion by the promissory note in the principal amount of HK\$40,000,000 to be issued by Sina Winner to Mr. Ng (collectively, the “Fortune Acquisition”). The promissory note shall not bear any interest and its repayment shall take place on the fifth business day following the satisfaction or fulfillment of the conditions precedent thereto and in any event no later than 10 January 2013. The Fortune Acquisition was completed on 31 January 2012. The post-completion arrangements under the Fortune Agreement are still ongoing and, the completion is subject to, among others, the fulfillment or waiver (as the case may be) of the conditions precedent. Details of this transaction were set out in the announcements of the Company dated 26 January 2012 and 31 January 2012, respectively.

On 12 March 2012, Top Status International Limited (“Top Status”), a wholly-owned subsidiary of the Company (as the vendor), China Eco-Farming Limited (“CEF”, a company listed on GEM board of the Stock Exchange) and FT Securities (as the placing agent) entered into a conditional placing agreement in relation to the placing of a maximum of 280,000,000 CEF shares held by Top Status at HK\$0.068 per CEF share on a best-effort basis (the “Share Placing”). On 12 March 2012, Top Status (as the subscriber) and CEF (as the issuer) entered into a conditional subscription agreement in relation to the subscription by Top Status at a subscription price of HK\$0.068 per CEF share of such number of new CEF shares which shall be the same as that of the CEF shares actually placed under the Share Placing (the “Share Subscription”). Top Status is a substantial shareholder and a connected person (as defined in the GEM Listing Rules) of CEF. The Share Placing was completed on 14 March 2012 with all the 280,000,000 CEF shares fully placed. The Share Subscription was completed on 19 March 2012, pursuant to which 280,000,000 new CEF shares were issued to Top Status on 19 March 2012. Details of the Share Placing and Share Subscription were set out in the announcement of the Company dated 13 March 2012.

On 30 April 2012, Rich Best Asia Limited (“Rich Best”), a wholly-owned subsidiary of the Company (as the vendor), entered into a sale and purchase agreement with Best Access Investment Holdings Limited (as the purchaser), with respect to the disposal of the entire 100% equity interest in CentreWorld Holding Ltd. (“CentreWorld”) (a wholly-owned subsidiary of Rich Best) together with the loan in the amount of HK\$43,383,486 due from CentreWorld to Rich Best as at 30 April 2012, for the aggregate consideration of HK\$300,001. CentreWorld, together with its four wholly-owned subsidiaries and its 40% owned associate, were principally engaged in the business of computer telephony, the trading of telecommunication products and provision of tele-commerce services. Following the disposal on 30 April 2012, this segment was classified as discontinued operation. The net proceeds of HK\$300,001 were applied towards the Group’s general working capital. For details, please refer to the announcement of the Company dated 2 May 2012.

On 30 April 2012, Top Mega Asia Limited (as assignee), a wholly-owned subsidiary of the Company, and PME Investments (BVI) Co., Ltd. (as assignor), entered into the deed with respect to the assignment and transfer of the promissory note in the principal amount of HK\$30,680,415 issued by Chinese Global Investors Group Limited (a company incorporated in Singapore with limited liability and the issued shares of which are listed on the Catalist of the Singapore Exchange, “CGI Group”), for a consideration of HK\$26,000,000. The promissory note does not bear any interest and its repayment was due on 6 June 2012. For details, please refer to the announcement of the Company dated 2 May 2012. The Group has issued payment notices to CGI Group for requesting the repayment of the full principal amount of HK\$30,680,415. As at the date of this report, the Group is in liaison with CGI Group on the repayment of the promissory note.

Pursuant to the conditional subscription agreement dated 26 March 2012 with respect to the subscription of 999 new shares in Sun Famous Investment Limited ("Sun Famous"), on 13 June 2012, Best Marvel Investment Limited ("Best Marvel"), a wholly-owned subsidiary of the Company successfully subscribed 999 new shares in Sun Famous, thereof, Best Marvel holding 99.9% of the entire issued share capital of Sun Famous, Sun Famous became a non-wholly owned subsidiary of the Company. Further pursuant to an agreement for sale and purchase dated 30 March 2012 entered into by Sun Famous (as the purchaser) in relation to the acquisition of a residential property in Hong Kong (the "Sun Property") for a consideration of HK\$46,380,000, the acquisition of Sun Property was completed on 16 July 2012, and eventually the Company holds 99.9% of the Sun Property and the Company intends to hold the Sun Property for long term investment purpose. For details, please refer to the announcements of the Company dated 26 March 2012, 30 April 2012, 15 May 2012 and 13 June 2012 respectively, and the circular of the Company dated 28 May 2012.

Litigations

Details of the litigations of the Group are set out in pages 11 to 13 of the Company's 2011 annual report.

On 20 July 2012, a court judgment in relation to the acquisition of the property from Worldsky Limited, being the vendor, by Charm State International Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, was awarded in favour of the Purchaser. On 1 August 2012, the deposits of HK\$25,647,000 together with the interest of HK\$888,159.12 were received.

Save as disclosed above, other litigations against the defendants are still ongoing.

Employee Information and Remuneration Policy

The Group (excluding its associates) had about 55 full time employees (31 December 2011: 68 employees) in Hong Kong and the PRC as at 30 June 2012. During the period under review, the Group incurred staff costs (including Directors' emoluments) of approximately HK\$9,884,000 (six months ended 30 June 2011: HK\$7,595,000).

The emoluments of the Directors are recommended by the remuneration committee, and approved by the Board, as authorized by the shareholders of the Company in the annual general meeting of the Company, having regard to the respective Directors' skills, knowledge and involvement in the Company's affairs. None of the Directors are involved in deciding their own remuneration. The employees are remunerated with basic salary and discretionary bonus with reference to corporate and individual's performance during the period. The Company also operates a share option scheme. Details are set out in the section "Share Option Scheme" below.

SHARE OPTION SCHEME

On 13 November 2002, the Company adopted a share option scheme ("2002 Option Scheme") under which the Board may, at its discretion, grant options to the eligible participants as defined in the 2002 Option Scheme included, among others, the employees and non-executive directors of the Company, its subsidiaries or any entity in which the Group holds any equity interest. The 2002 Option Scheme will remain in force for a period of 10 years starting from 13 November 2002.

During the period under review, no option was granted, exercised, cancelled or lapsed under the 2002 Option Scheme.

Details of the outstanding options under the 2002 Option Scheme as at 30 June 2012 were as follow:

Name	Date of grant	Exercisable period	Subscription price per share <i>HK\$</i>	Number of share options outstanding as at 1 January 2012 and 30 June 2012
Employees	3 April 2007	3 April 2007 to 2 April 2017	7.35	1,000,000
Consultants	3 April 2007	3 April 2007 to 2 April 2017	7.35	1,200,000
Total				2,200,000

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 30 June 2012, 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")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules 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	Approximate percentage of the issued share capital
Chan Shui Sheung Ivy ("Ms. Chan")	Beneficial owner	60,000	0.01%

Save as disclosed above, as at 30 June 2012, 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 section headed "Directors' and Chief Executive's Interests in Shares of the Company", at no time during the six months ended 30 June 2012 was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or the chief executive of the Company 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 the six months ended 30 June 2012.

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 30 June 2012 or at any time during the six months ended 30 June 2012.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, persons (other than a director or chief executive of the Company) who had interests or short positions directly or indirectly in the Company's shares and/or underlying shares recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in shares and underlying shares of the Company

Name of Shareholders	Capacity	Number of shares	Number of underlying shares	Approximate percentage of interests
The Incorporation of Financial Technicians Limited	Interest of corporation controlled	–	110,000,000 (Note 1)	16.27%
FT Investment Management Limited	Beneficial owner	–	110,000,000 (Note 1)	16.27%
PME Group Limited	Interest of corporation controlled	67,294,000 (Note 2)	–	9.96%
Sunbright Asia Limited	Beneficial owner	61,500,000 (Note 2)	–	9.10%
Well Support Limited	Beneficial owner	67,081,466 (Note 3)	–	9.93%
Liu Yi Dong	Trustee of Liu Yi Dong Family Trust	67,081,466 (Note 3)	–	9.93%

Notes:

1. This is an interest in underlying shares held directly by FT Investment Management Limited (“FT Investment”) in respect of options to subscribe convertible bonds of the Company in the aggregate principal amount of HK\$22,000,000, which may be converted into a maximum of 110,000,000 shares upon full exercise of the conversion rights thereto at the conversion price of HK\$0.20. FT Investment in turn is wholly-owned by The Incorporation of Financial Technicians Limited (“IFTL”), as such, IFTL is deemed to be interested in this interest.
2. In accordance with the corporate substantial shareholder notices filed by PME Group Limited (“PME”) and Sunbright Asia Limited (“Sunbright”), these 67,294,000 shares comprised 61,500,000 shares held by Sunbright and 5,794,000 shares held by Betterment Enterprises Limited (“Betterment”). Sunbright is wholly-owned by CR Investment Group Limited (“CR Investment”). Betterment is owned as to 99.49% by Richcom Group Limited (“Richcom”). Richcom is in turn wholly-owned by CR Investment. CR Investment is in turn wholly-owned by PME. Accordingly, each of Richcom, CR Investment and PME is deemed to be interested in the shares held by Betterment; and each of CR Investment and PME is deemed to be interested in the shares held by Sunbright.
3. 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 persons, other than a director or chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company as at 30 June 2012 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

COMPETING INTERESTS

None of the Directors 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 six months ended 30 June 2012.

CODE ON CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Code of Corporate Practices (taking effect before 1 April 2012) and the Corporate Governance Code (taking effect from 1 April 2012) as contained in Appendix 15 to the GEM Listing Rules (the "CG Code") for the six months ended 30 June 2012 except for the following deviations:

The code provision A.2.1 of the CG Code prescribed, among others, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

During the six months ended 30 June 2012, the Company does not have a chairman or chief executive. The Board will keep reviewing the current structure 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.

Under code provision D.1.4 of the CG Code, the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment, while Ms. Chan, the executive director of the Company, has not entered into any service contract or appointment letter with the Company. Ms. Chan is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the bye-laws of the Company.

Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Two independent non-executive directors of the Company were each absent from the last annual general meeting of the Company held on 22 June 2012 and the special general meeting of the Company held on 13 June 2012 respectively, due to his/her other important engagement at the relevant time.

DIRECTORS' SECURITIES TRANSACTIONS

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 (the "Code of Conduct"). Following a specific enquiry, all Directors confirmed that they have complied with the Code of Conduct throughout the six months ended 30 June 2012.

NON-COMPLIANCE WITH RULES 5.05(1) AND 5.28

Following the resignation of Mr. Lam Ka Wai Graham as independent non-executive director of the Company and audit committee member of the Company on 27 April 2012, the Company had only two independent non-executive directors and two audit committee members, the number of which falls below the minimum number required under Rules 5.05(1) and 5.28 of the GEM Listing Rules. Mr. Chow Fu Kit Edward was appointed as an independent non-executive director and member of audit committee respectively with effect from 14 May 2012 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.

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 six months ended 30 June 2012.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules. 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 comments thereon to the Board.

The Audit Committee has reviewed and provided comments to the Group's unaudited financial results for the six months ended 30 June 2012 and this report.

On behalf of the Board
China Railway Logistics Limited
Chan Shui Sheung Ivy
Executive Director

Hong Kong, 10 August 2012

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. Wang Chin Mong and Mr. Chow Fu Kit Edward.