

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

(incorporated in Bermuda with limited liability)

Stock Code: 8089

First Quarterly Report 2013

** 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.

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.

This report will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days and on the Company website at www.chinarailwaylogistics.com from the date of its publication.

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 ended 31 March 2013, together with the comparative figures for the corresponding period in year 2012, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended	
		31 March	
		2013	2012
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Continuing operations			
Turnover	3	40,406	60,455
Revenue	3	2,924	4,617
Cost of sales		(47)	(19)
Gross profit		2,877	4,598
Other income	3	66	13
Administrative expenses		(9,506)	(12,010)
(Loss) gain arising from fair value changes of investments held for trading		(12,660)	36,116
Gain on disposals of investments held for trading		4,278	8,511
Gain arising from fair value changes of convertible instruments designated at financial assets at fair value through profit or loss		332	12,273
Gain arising from fair value changes of derivative financial liabilities		2,334	–
Impairment loss on interest in an associate		(16,972)	–
Share of profit of a jointly controlled entity		854	287
Finance costs	4	(327)	(263)
(Loss) profit before tax	5	(28,724)	49,525
Income tax expense	6	–	–
(Loss) profit for the period from continuing operations		(28,724)	49,525
Discontinued operations			
Loss for the period from discontinued operations		–	(52)
(Loss) profit for the period		(28,724)	49,473

		Three months ended	
		31 March	
		2013	2012
		(Unaudited)	(Unaudited)
Note		HK\$'000	HK\$'000
Other comprehensive income			
	Fair value gain on available-for-sale financial assets	2,345	3,137
	Exchange differences on translating foreign operations	118	285
	Other comprehensive income for the period	2,463	3,422
	Total comprehensive (expense) income for the period	(26,261)	52,895
	(Loss) profit for the period attributable to owners of the Company		
	– from continuing operations	(28,882)	49,472
	– from discontinued operations	–	(52)
	(Loss) profit for the period attributable to owners of the Company	(28,882)	49,420
	Profit for the period attributable to non-controlling interests from continuing operations	158	53
		(28,724)	49,473
	Total comprehensive (expense) income attributable to:		
	Owners of the Company	(26,419)	52,842
	Non-controlling interests	158	53
		(26,261)	52,895
	Basic and diluted (loss) earnings per share		
	From continuing and discontinued operations	(4.27 cents)	7.31 cents
	From continuing operations	(4.27 cents)	7.32 cents

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2013

	Share capital HK\$'000	Share premium HK\$'000	Share Contributed surplus HK\$'000	Share options revaluation reserve HK\$'000	Share investment options reserve HK\$'000	Warrant reserve HK\$'000	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 2012 (audited and restated)	676	2,901,300	7,914	3,590	1,312	3,300	13,363	(2,107,537)	823,918	20,319	844,237
Profit for the period	-	-	-	-	-	-	-	49,420	49,420	53	49,473
Other comprehensive income for the period:											
Fair value gain on available-for-sale financial assets	-	-	-	-	3,137	-	-	-	3,137	-	3,137
Exchange difference on translation of foreign operations	-	-	-	-	-	-	285	-	285	-	285
Total comprehensive income for the period	-	-	-	-	3,137	-	285	49,420	52,842	53	52,895
At 31 March 2012 (unaudited and restated)	676	2,901,300	7,914	3,590	4,449	3,300	13,648	(2,058,117)	876,760	20,372	897,132
At 1 January 2013 (audited)	676	2,901,300	7,914	3,590	5,325	-	13,662	(2,160,749)	771,718	22,681	794,399
Loss for the period	-	-	-	-	-	-	-	(28,882)	(28,882)	158	(28,724)
Other comprehensive income for the period:											
Fair value gain on available-for-sale financial assets	-	-	-	-	2,345	-	-	-	2,345	-	2,345
Exchange difference on translation of foreign operations	-	-	-	-	-	-	118	-	118	-	118
Total comprehensive (expense) income for the period	-	-	-	-	2,345	-	118	(28,882)	(26,419)	158	(26,261)
At 31 March 2013 (unaudited)	676	2,901,300	7,914	3,590	7,670	-	13,780	(2,189,631)	745,299	22,839	768,138

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 Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its principal place of business is located at 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 results for the three months ended 31 March 2013 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 results 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 2012 (the "2012 Financial Statements"), except for the new and revised HKFRSs ("New HKFRSs") issued by HKICPA which have become effective in this period as detailed in notes of the 2012 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 results for the three months ended 31 March 2013.

With reference to note 2 to the 2012 Financial Statements set out in the Company's 2012 Annual Report, the Group has applied retrospectively the amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets resulted in the deferred tax liabilities of the Group being increased by HK\$14,947,000 as at 31 December 2011, with the corresponding adjustment being recognized in accumulated losses of HK\$14,470,000 and translation reserve of HK\$477,000. Accordingly, the unaudited condensed consolidated statement of changes in equity for the three months ended 31 March 2012 had been restated.

3. TURNOVER, REVENUE AND OTHER INCOME

Turnover represents the aggregate of rental income; net proceeds from the disposal of investments held for trading; and interest income from the provision of loan financing during the period. The following is an analysis of the Group's turnover, revenue and other income for the periods:

	Three months ended 31 March	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Operating divisions		
Turnover:		
Properties investments	604	434
Securities trading	37,482	55,838
Loan financing	2,320	4,183
	40,406	60,455
Revenue:		
Properties investments	604	434
Securities trading	–	–
Loan financing	2,320	4,183
	2,924	4,617
Other income:		
Bank interest income	16	10
Interest on promissory note receivable	50	3
	66	13

4. FINANCE COSTS

	Three months ended 31 March	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Continuing operations		
Interest on:		
Bank borrowings not wholly repayable within five years	177	40
Promissory note payables	–	223
Bond payables	150	–
	327	263

5. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived at after charging:

	Three months ended 31 March	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Continuing operations		
Staff costs including directors' emoluments:		
Salaries and allowances	4,452	5,036
Contributions to retirement benefits scheme	130	130
	4,582	5,166
Depreciation of plant and equipment	582	724
Minimum lease payments under operating leases	1,127	1,259
Impairment on interest in an associate	16,972	–
Gross rental income	604	434
Less: outgoings (included in cost of sales)	(47)	(19)
Net rental income	557	415

6. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the three months ended 31 March 2013 and 31 March 2012.

Under the Law of the People's Republic of China (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.

7. DIVIDEND

No dividend was paid or proposed during the three months ended 31 March 2013 and 31 March 2012, nor has any dividend been proposed since 31 March 2013 and up to the date of this report.

8. (LOSS) EARNINGS PER SHARE

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

	Three months ended 31 March	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss) profit for the period attributable to owners of the Company		
– from continuing and discontinued operations	(28,882)	49,420
– from continuing operations	(28,882)	49,472
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	675,814	675,814

The computation of diluted (loss) earnings per share does not assume the exercise of the Company's share options, non-listed warrants and the option to subscribe convertible bond because the respective exercise price of the Company's option to subscribe convertible bond was higher than the average market price of the Company's shares during the three months ended 31 March 2013, the respective exercise price of the Company's share options was higher than the average market price of the Company's shares for both periods in 2013 and 2012, and the respective exercise price of the Company's non-listed warrants was higher than the average market price of the Company's shares during the three month ended 31 March 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the three months ended 31 March 2013, the Group recorded a turnover of approximately HK\$40,406,000 (three months ended 31 March 2012: approximately HK\$60,455,000), representing a decrease of approximately 33.2% as compared with the last corresponding period. The decrease in turnover was mainly from the decrease in volume in securities trading.

Administrative expenses for the three months ended 31 March 2013 was approximately HK\$9,506,000 (three months ended 31 March 2012: approximately HK\$12,010,000), representing a decrease of 20.8% as compared to the last corresponding period.

The loss attributable to the owners of the Company for the three months ended 31 March 2013 aggregated at approximately HK\$28,882,000 (three months ended 31 March 2012: profit approximately HK\$49,420,000). The basic loss per share for the three months ended 31 March 2013 was approximately HK4.27 cents (three months ended 31 March 2012: earnings per share HK7.31 cents).

Business Review and Outlook

Through renting out of the properties, the Group recorded a rental income of approximately HK\$604,000 for the three months ended 31 March 2013 (three months ended 31 March 2012: approximately HK\$434,000). The Group held properties in Hong Kong and in Mainland China for investment purposes with total value amounted to approximately HK\$209,157,000 (31 December 2012: approximately HK\$209,157,000). Despite that in both Hong Kong and Mainland China, various measures have been introduced to control property prices and are still in effect, the Group remains confident of the longer term prospects for the property markets in Hong Kong and Mainland China. The Board will look for suitable investment opportunities in a prudent manner for the benefit of the Group and all its shareholders.

Segmental turnover of the securities trading business for the three months ended 31 March 2013 was HK\$37,482,000 (31 March 2012: approximately HK\$55,838,000). As a result of the volatility in securities market in the first quarter of 2013, the Group recorded a loss arising from the fair value changes of investments held for trading of approximately HK\$12,660,000 (three months ended 31 March 2012: gain approximately HK\$36,116,000) and a gain on disposals of investments held for trading of approximately HK\$4,278,000 (three months ended 31 March 2012: approximately HK\$8,511,000). As at 31 March 2013, the Group held investments held for trading amount to approximately HK\$77,307,000 (31 December 2012: approximately HK\$117,399,000). Given the continuous uncertainty over the European debt crisis affecting the global financial market, the management will remain cautious in its investment strategy.

The loan financing business generated an interest income of approximately HK\$2,320,000 to the Group during the period under review (three months ended 31 March 2012: approximately HK\$4,183,000) representing a decrease of approximately 44.5%. In view of the impairment loss recognised in the past two financial years resulted from the decline in repayment ability of certain borrowers, the management has adopted a conservative approach in loan financing business, thus the business has dropped as compared with the corresponding period in 2012.

The Group will continue to adopt a positive but prudent approach in managing its financial resources and towards its investment strategy in exploring the feasibility of expansion into other business segments.

Liquidity and Financial Resources

The Group principally finances its operations through a combination of shareholders equity, internally generated cash flows and interest-bearing bank borrowings.

As at 31 March 2013, the Group had cash and cash equivalent of approximately HK\$107,065,000 (31 December 2012: approximately HK\$43,363,000) and had interest-bearing bank borrowings of approximately HK\$29,897,000 (31 December 2012: HK\$30,210,000).

As at 31 March 2013, the gearing ratio (measured as total liabilities to total assets) was 11% (31 December 2012: 10%).

Capital Structure

As at 31 March 2013 and 31 December 2012, the Company's issued share capital was HK\$675,814, divided into 675,814,000 shares of HK\$0.001 each.

Capital Commitments

As at 31 March 2013, the Group did not have any capital commitment (31 December 2012: nil) in respect of acquisition of plant and equipment.

Contingent Liabilities

As at 31 March 2013 the Group did not have any material contingent liability (31 December 2012: nil).

Charges on Assets

As at 31 March 2013, investment properties of the Group with an aggregate carrying value of HK\$76,300,000 have been pledged to banks to secure the credit facilities granted to the Group and third parties (31 December 2012: HK\$76,300,000).

Material Acquisitions and Disposals

On 11 January 2013, First Champion Worldwide Limited, a wholly-owned subsidiary of the Company, disposed the convertible bonds issued by Long Success International (Holdings) Limited in the principal amount of HK\$20,000,000 at a cash consideration of HK\$21,000,000. Further details of the disposal were set out in the announcement of the Company dated 11 January 2013.

On 30 January 2013, Miracle Stand Limited, a wholly-owned subsidiary of the Company, entered into a subscription agreement among Teamedics Enterprise (Holdings) Co., Limited ("Teamedics Enterprise"), Mr. Wong Chi To, Alex as a guarantor for subscription of the convertible bonds issued by Teamedics Enterprise in the principal amount of HK\$8,000,000 by way of procuring the bank to grant and provide to Teamedics Enterprise and/or its subsidiary, credit facilities of HK\$8,000,000 which will be secured by a deed of mortgage on a property held by Sun Famous Investment Limited, a non wholly-owned subsidiary of the Company. Further details of the subscription were set out in the announcement of the Company dated 30 January 2013.

On 22 February 2013, Top Status subscribed for the convertible bonds issued by China Eco-Farming Limited ("CEF") in the principal amount of HK\$34,500,000 at an initial conversion price of HK\$0.01, up to a maximum of 3,450,000,000 new shares, representing approximately 54.06% of the issued share capital of CEF. If the subscription shall not be or fails to be completed on or before 30 May 2013, Top Status proposed to grant a loan facility in the sum of HK\$31,000,000 to CEF with an interest of 8% per annum. The subscription of the convertible bonds in the principal amount of HK\$34,500,000 was completed on 30 April 2013. Further details of the subscription and proposed loan facility were set out in the announcements of the Company dated 22 February 2013, 19 March 2013 and 30 April 2013.

Litigations

Details of the litigations of the Group are set out in pages 12 to 14 of the Company's 2012 annual report. As at the date hereof, these litigations against the defendants are still ongoing.

On 6 May 2013, a writ of summons was served on the Company in relation to the court filing containing an action claiming against Eternity Profit Investments Limited (a former wholly-owned subsidiary of the Company) and the Company for the aggregate sum of RMB5,188,732,500. Further details were set out in the announcements of the Company dated 2 May 2013 and 6 May 2013.

OTHER INFORMATION

Proposed change of company name

On 2 May 2013, the Board announced the proposal of change of company name from "China Railway Logistics Limited" to "Chinese Strategic Holdings Limited" and that "華人策略控股有限公司" be adopted as the secondary name of the Company in place of "中國鐵路貨運有限公司" which has been used for identification purpose only. The proposal is subject to, among others, the approval of the shareholders of the Company. Further details are set out in the announcement of the Company dated 2 May 2013 and the circular of the Company dated 8 May 2013.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY

As at 31 March 2013, the interests and short positions of the Directors and the 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 Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provision of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as 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	Beneficial owner	60,000	0.01%

Save as disclosed above, as at 31 March 2013, 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 of the Company", at no time during the three months ended 31 March 2013 was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or the chief executives 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 three months ended 31 March 2013.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2013, 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, or as otherwise notified to the Company and the Stock Exchange 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
Chinese Capital Management Limited	Beneficial owner	–	120,000,000 <i>(note 1)</i>	17.76%
PME Group Limited	Interest of corporation controlled	67,294,000 <i>(note 2)</i>	–	9.96%
Sunbright Asia Limited	Beneficial owner	61,500,000 <i>(note 2)</i>	–	9.10%
Well Support Limited	Beneficial owner	67,081,466 <i>(note 3)</i>	–	9.93%
Liu Yi Dong	Trustee of Liu Yi Dong Family Trust	67,081,466 <i>(note 3)</i>	–	9.93%

notes:

1. This is an interest in underlying shares held directly by Chinese Capital Management Limited in respect of options to subscribe for convertible bonds of the Company in the aggregate principal amount of HK\$24,000,000, which may be converted into a maximum of 120,000,000 shares upon full exercise of the conversion rights thereto at the conversion price of HK\$0.20.
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 31 March 2013 as recorded in the register required to be kept by the Company under Section 336 of the SFO or as otherwise notified to the Company or the Stock Exchange.

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 three months ended 31 March 2013.

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 three months ended 31 March 2013.

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 the Group's unaudited financial results for the three months ended 31 March 2013 and has provided comments thereon.

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

Hong Kong, 10 May 2013

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.