



MRC HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2003**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

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The principal means of information dissemination on GEM is publication on the internet website at www.hkgem.com operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of MRC Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively the “Group”). The directors (the “Directors”) of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- An unaudited combined turnover amounted to approximately HK\$3,991,000 for the six months ended 31 December 2003.
- An unaudited combined loss attributable to shareholders amounted to approximately HK\$1,339,000 for the six months ended 31 December 2003.
- Basic loss per share for the six months ended 31 December 2003 amounted to approximately HK0.208 cent.
- The Board does not recommend payment of any interim dividend for the six months ended 31 December 2003.
- On 9 October 2003, the Company raised net proceeds of approximately HK\$19.5 million from Rights Issue.
- On 19 December 2003, the Group completed the acquisition of 97% of the issued share capital of China Gas Construction and the aggregate amount owned by China Gas Construction in the form of shareholder's loan as at 31 October 2003.
- The financial year end date of the Group has been changed from 30 June to 31 December commencing from the year 2004.

FINANCIAL INFORMATION

The board of Directors (the “Board”), hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and the six months ended 31 December 2003, together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended		Six months ended	
		31 December		31 December	
		2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	2	2,429	2,096	3,991	4,263
Cost of sales		(433)	(485)	(878)	(1,106)
GROSS PROFIT		1,996	1,611	3,113	3,157
Other revenue		14	96	75	197
Selling and marketing expenses		(328)	(421)	(597)	(896)
Administrative expenses		(1,180)	(1,769)	(2,819)	(3,677)
Other operating expenses		(743)	(583)	(1,212)	(1,242)
OPERATING LOSS		(241)	(1,066)	(1,440)	(2,461)
Finance costs		(2)	(6)	(4)	(8)
LOSS BEFORE TAXATION		(243)	(1,072)	(1,444)	(2,469)
Taxation	4	0	0	0	0
LOSS AFTER TAXATION		(243)	(1,072)	(1,444)	(2,469)
Minority interests		34	199	105	305
LOSS ATTRIBUTABLE TO SHAREHOLDERS		(209)	(873)	(1,339)	(2,164)
Interim dividend	5	NIL	NIL	NIL	NIL
LOSS PER SHARE (HK cent)	6				
— Basic		(0.026)	(0.179)	(0.208)	(0.445)
— Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2003 (unaudited) <i>HK\$'000</i>	30 June 2003 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Intangible assets		328	656
Fixed assets		1,221	564
		1,549	1,220
CURRENT ASSETS			
Trade receivables	7	2,064	331
Deposits, prepayments and other receivables		1,738	1,598
Cash and bank balances		29,967	444
		33,769	2,373
CURRENT LIABILITIES			
Other payables and accruals		4,380	2,348
Due to a shareholder		2,572	—
		6,952	2,348
NET CURRENT ASSETS		26,817	25
TOTAL ASSETS LESS CURRENT LIABILITIES		28,366	1,245
NON-CURRENT LIABILITIES			
Provision for long service payment		(578)	(572)
MINORITY INTERESTS		969	864
		28,757	1,537
		28,757	1,537
FINANCED BY:			
Share capital	9	9,608	4,054
Reserves		19,149	(2,517)
		28,757	1,537
		28,757	1,537

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,679)	(4,205)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	7,797	(95)
NET CASH INFLOW FROM FINANCING ACTIVITIES	23,405	—
	<hr/>	<hr/>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	29,523	(4,300)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	444	5,027
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	29,967	727
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	29,967	764
Bank overdrafts	—	(37)
	<hr/>	<hr/>
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Merger reserve (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total equity (Unaudited) <i>HK\$'000</i>
At 1 July 2002	4,054	4,378	3,740	(4,502)	7,670
Prior years' adjustment arising from changes in accounting policy for employee benefits	—	—	—	(742)	(742)
Net loss for the period	—	—	—	(2,164)	(2,164)
At 31 December 2002	<u>4,054</u>	<u>4,378</u>	<u>3,740</u>	<u>(7,408)</u>	<u>(4,764)</u>
At 1 July 2003	4,054	4,378	3,740	(10,635)	1,537
New issue of shares on rights issue	4,054	15,464	—	—	19,518
Capitalisation issue of shares for acquisition	1,500	7,541	—	—	9,041
Net loss for the period	—	—	—	(1,339)	(1,339)
At 31 December 2003	<u>9,608</u>	<u>27,383</u>	<u>3,740</u>	<u>(11,974)</u>	<u>28,757</u>

Notes:

1. Basis of presentation and accounting policies

These unaudited interim consolidated financial statements have been prepared in accordance with Statements of Standard Accounting Practice 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, and Chapter 18 of the GEM Listing Rules.

The basis of presentation and accounting policies used in the preparation of these interim consolidated financial statements are the same as those used in the Group's audited financial statements for the year ended 30 June 2003.

2. Turnover

The Group is principally engaged in the development and sale of software and resale of hardware products and the provision of maintenance services in Hong Kong and the Peoples' Republic of China (the "PRC"). Turnover comprises as follows: -

	Three months		Six months	
	ended 31 December		ended 31 December	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Software project income	1,517	1,445	2,299	2,873
Render of maintenance services	892	650	1,661	1,304
Resale of hardware and software rental income	20	1	31	86
	<u>2,429</u>	<u>2,096</u>	<u>3,991</u>	<u>4,263</u>

3. Segmental information

An analysis of business segments is as follows:

	Software project income		Render of maintenance services		Resale of hardware and software rental income		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>2,299</u>	<u>2,873</u>	<u>1,661</u>	<u>1,304</u>	<u>31</u>	<u>86</u>	<u>3,991</u>	<u>4,263</u>
Segment result	595	(35)	1,355	1,082	16	46	1,966	1,093
Unallocated							(3,413)	(3,567)
Interest income							<u>7</u>	<u>13</u>
Operating loss							(1,440)	(2,461)
Finance costs							<u>(4)</u>	<u>(8)</u>
Loss before taxation							(1,444)	(2,469)
Taxation							<u>0</u>	<u>0</u>
Loss after taxation							(1,444)	(2,469)
Minority interests							<u>105</u>	<u>305</u>
Loss attributable to shareholders							<u>(1,339)</u>	<u>(2,164)</u>

An analysis of geographical segments is as follows:

	Hong Kong		PRC		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>3,887</u>	<u>3,407</u>	<u>104</u>	<u>856</u>	<u>3,991</u>	<u>4,263</u>
Segment result	(1,061)	(1,964)	(379)	(497)	(1,440)	(2,461)
Finance costs					(4)	(8)
Loss before taxation					(1,444)	(2,469)
Taxation					<u>0</u>	<u>0</u>
Loss after taxation					(1,444)	(2,469)
Minority interests					<u>105</u>	<u>305</u>
Loss attributable to shareholders					<u>(1,339)</u>	<u>(2,164)</u>

4. Taxation

No provision for the Hong Kong profits tax has been made as the Group had no assessable profits for the six months ended 31 December 2003 (2002: Nil).

5. Interim dividend

The Board does not recommend payment of any interim dividend for the six months ended 31 December 2003 (2002: Nil).

6. Loss per share

The calculation of the basic loss per share is based on the unaudited loss attributable to shareholders for the three months and six months ended 31 December 2003 of approximately HK\$209,000 and HK\$1,339,000 (2002: HK\$873,000 and HK\$2,164,000) respectively and the weighted average number of 803,793,913 and 645,136,957 (2002: 486,480,000 and 486,480,000) ordinary shares respectively in issue during the three months and six months ended 31 December 2003. The weighted average number of shares outstanding for 2002 has been adjusted for the effect of the Rights Issue (as defined herein).

No diluted loss per share is shown as there were no dilutive potential ordinary shares.

7. Trade receivables

The Group allows credit period ranging from 30 to 60 days to its trade customers.

The following is an aged analysis of trade receivables:

	31 December 2003	30 June 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	592	356
Over 1 month but within 3 months	1,061	357
Over 3 months but within 6 months	260	57
Over 6 months	880	290
	<u>2,793</u>	<u>1,060</u>
Less: Provision for bad and doubtful debts	(729)	(729)
	<u><u>2,064</u></u>	<u><u>331</u></u>

8. Trade payables

The Group does not have any trade payable as at 31 December 2003.

9. Share capital

	31 December 2003		30 June 2003	
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>
Authorized:				
Ordinary shares of HK\$0.01 each	<u>10,000,000,000</u>	<u>100,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid or credited as fully paid:				
At the beginning of the period/year	405,400,000	4,054	405,400,000	4,054
New issue of shares on rights issue (<i>Note a</i>)	405,000,000	4,054	—	—
Capitalisation issue of shares for acquisition (<i>Note b</i>)	<u>150,000,000</u>	<u>1,500</u>	<u>—</u>	<u>—</u>
At the end of the period/year	<u><u>960,800,000</u></u>	<u><u>9,608</u></u>	<u><u>405,400,000</u></u>	<u><u>4,054</u></u>

Notes:

- (a) On 13 October 2003, the Company issued 405,400,000 new ordinary shares of HK\$0.01 each by way of rights issue (“Rights Issue”) on the basis of one rights share for every one share held by the then shareholders at a price of HK\$0.05 per share.
- (b) On 17 December 2003, the Company issued 150,000,000 new ordinary shares of HK\$0.01 each at a price of approximately HK\$0.060 per share as the consideration for the purchase of 97% of the issued share capital of China Gas Construction Expansion Company Limited (“China Gas Construction”) and the aggregate amount owned by China Gas Construction in the form of shareholder’s loan as at 31 October 2003.

10. Acquisitions, disposals and significant investments

On 19 December 2003, the Company, through its wholly-owned subsidiary, Portwood International Limited completed the acquisition of 97% of the issued share capital of China Gas Construction and the aggregate amount owned by China Gas Construction in the form of shareholder’s loan as at 31 October 2003. In connection with this acquisition, the Company issued 150,000,000 new ordinary shares of HK\$0.01 each at a price of approximately HK\$0.060 per share as the consideration.

China Gas Construction was incorporated in the British Virgin Islands on 12 May 2003. It is an investment holding company interested in the entire registered capital of 臨沂中燃城市燃氣建設發展有限公司 (Linyi China Gas City Gas Construction Company Limited) (“Linyi China Gas”), a wholly-foreign owned enterprise established in the PRC on 18 July 2003. The registered capital of Linyi China Gas is HK\$10,000,000, which has been fully paid-up. Linyi China Gas is principally engaged in the business of natural gas supply in the PRC. The main business activities of Linyi China Gas include design and construction of natural gas pipelines network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances in Linyi City, Shandong Province, the PRC.

Save as disclosed above, the Group had no acquisitions, disposals nor significant investments for the six months ended 31 December 2003.

11. Capital commitments

On 30 October 2003, China Gas Construction entered into the cooperation agreement with Linyi Economic Development District, pursuant to which a total investment in Linyi China Gas of HK\$14 million (the “Total Investment”) should be made. Among the Total Investment, HK\$10 million should be contributed by China Gas Construction as the registered capital of Linyi China Gas which has been fully paid, and the remaining HK\$4 million should be born by Linyi China Gas. Such remaining balance will be funded by internal resources of Linyi China Gas, such as profits generated by Linyi China Gas or other financing obtained by Linyi China Gas.

Save as disclosed above, as at 31 December 2003, the Group did not have any significant capital commitments.

12. Contingent liabilities

As at 31 December 2003, the Group did not have any contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 December 2003, the Group had net current assets of approximately HK\$26.8 million, equivalent to approximately 1,070 times of that as at 30 June 2003. The substantial increase in net current assets was mainly attributable to the net proceeds raised from the Rights Issue completed in October 2003 and the inclusion of the net assets of China Gas Construction and its subsidiary (collectively, the "China Gas Construction Group"), both of which were acquired by the Group in December 2003.

The current assets of the Group as at 31 December 2003 amounted to approximately HK\$33.8 million, comprising trade receivable (net) of approximately HK\$2.1 million, deposits, prepayment and other receivables of approximately HK\$1.7 million and cash and bank balances of approximately HK\$30.0 million.

As at 31 December 2003, the current liabilities of the Group amounted to approximately HK\$7.0 million, comprising other payables and accruals of approximately HK\$4.4 million and due to a shareholder of approximately HK\$2.6 million.

Financial resources

During the period under review, the operations of the Group were financed principally by equity funding and cash generated from operations.

On 9 October 2003, the Company raised net proceeds of approximately HK\$19.5 million by issuing 405,400,000 Shares by way of Rights Issue. Of such net proceeds, the Company intends to apply approximately HK\$12.0 million for the Group's future investments and the remaining approximately HK\$7.5 million as the Group's general working capital.

Director's opinion on sufficiency of working capital

Taking into account the current financial resources available to the Group, including internally generated funds and the net proceeds of the Rights Issue, and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the period under review, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in Hong Kong Dollars and the Group conducted its business transactions principally in this type of currency. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 31 December 2003, the Group had 60 employees (2002: 43) in Hong Kong and the PRC, and the total remuneration for the period was approximately HK\$3.1 million (2002: HK\$3.8 million). The increase of number of staff in the Group was attributable to the inclusion of staff of the China Gas Construction Group, acquired by the Group in December 2003.

The Group's remuneration and bonus policies are basically determined by the performance of individual employees.

The Group has adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2003, the Group did not have any charges on the Group's assets.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31 December 2003, the Directors do not have any future plans for material investment or capital assets.

COMPETING INTEREST

During the period under review, none of the directors, the management shareholders or substantial shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had any interest in a business which competed with or might compete with the business of the Group.

BUSINESS AND FINANCIAL REVIEW

During the period under review, the Group continued to engage in the business of human resource management (“HRM”) solution provision in Hong Kong and the PRC. Its main business activities include development and sale of HRM software, as well as provision of related consultancy services including the project management, implementation and maintenance of the MRC HRM system.

For the six months ended 31 December 2003, the Group recorded a turnover of approximately HK\$4.0 million, representing a decrease of approximately 6.38% as compared with that in the corresponding period last year. The decrease in turnover was mainly attributable to the impact of the severe acute respiratory syndrome (the “SARS”) outbreak in Hong Kong and the PRC in the second quarter of 2003. The Directors believe that such SARS outbreak hindered the plan of enterprises in the PRC and Hong Kong from purchasing HRM software in the third quarter of 2003. Given SARS has been effectively under control since July 2003 in Hong Kong and the PRC, the business operation of the Group has been returned to normal in the third quarter of 2003. Since then, the Group has devoted more efforts in the marketing activities of the Group’s products. The Group recorded a turnover of approximately HK\$2.4 million for the three months ended 31 December 2003, representing an increase of approximately 15.9% as compared with that in the corresponding period last year. The increase was mainly attributable to the effectiveness of the enhancement of the Group’s marketing activities carried out in Hong Kong and the PRC in the second half of 2003.

The Group posted a net loss of approximately HK\$1.3 million for the six months ended 31 December 2003, representing an improvement of approximately 38.1% as compared with that in the corresponding period last year. The improvement was mainly attributable to the implementation of stringent financial control plan in the Group.

In order to preserve the Group’s financial resources for its future development, the Board does not recommend payment of any interim dividend for the six months ended 31 December 2003.

Basic loss per share for the six months ended 31 December 2003 amounted to approximately HK0.208 cent.

The financial position of the Group remains healthy with a non-gearing capital structure.

The Group completed the acquisition of 97% interest in China Gas Construction Group on 19 December 2003. The China Gas Construction Group is principally engaged in the business of natural gas supply in the PRC. Its main business activities include design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances in Linyi City, Shandong Province, the PRC. The Directors believe that such acquisition could provide an ideal opportunity for the Group to diversify into other business with growth potential which might increase the Group’s source of income and improve the earning base of the Group.

In order to facilitate the Group to prepare its consolidated financial statements since currently the Company and its subsidiaries established in the PRC have different financial year end dates, the financial year end date of the Group has been changed from 30 June to 31 December commencing from the year 2004.

PROSPECTS

Now, with the economies of the PRC and Hong Kong moving back to the pre-SARS level, the business environment in both the PRC and Hong Kong becomes more favourable. The Directors believe that enterprises would devote more resources to install HRM software system in the coming financial year but the prospects for the IT industry is still challenging due to keen competition from local and overseas competitors. As such, the Group would stay vigilant over the market environment and would maintain a prudent and conservative approach to its software business.

Looking ahead, due to the growing prosperity and GDP per capita in the PRC as well as the increasing awareness of environment protection in the PRC, we believe that the demand for the natural gas in the PRC would increase as natural gas is considered to be an environmentally clean source of energy. Under such favourable market environment, the Group will strive to obtain more exclusive gas projects from the local government in the PRC as it may increase the Group's source of income and improve the earning base of the Group.

In order to improve the Group's operating results, we will continue to implement stringent cost control measures in the coming financial year.

To reflect the Group's diversification into the natural gas business, the Board proposes to change the name of the Company from "MRC Holdings Limited" to "Zhongyu Gas Holdings Limited 中裕燃氣控股有限公司", which is subject to the approval of shareholders at the extraordinary general meeting of the Company to be held on 20 February 2004.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31 December 2003, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (a) 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 (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Director	Name of company	Capacity	Number and class of securities
Mr. Wang Wenliang	The Company	Corporate <i>(Note 1)</i>	610,120,000 Shares
	Hezhong Investment Holding Company (“Hezhong Investment”)	Beneficial	26,000 ordinary shares of US\$1.00 each
Mr. Hao Yu	Hezhong Investment	Beneficial	6,000 ordinary shares of US\$1.00 each
Mr. Li Weisong	Hezhong Investment	Beneficial	6,000 ordinary shares of US\$1.00 each
Mr. Li Zifeng	Hezhong Investment	Beneficial	6,000 ordinary shares of US\$1.00 each
Mr. Yang Jianguo	Hezhong Investment	Beneficial	6,000 ordinary shares of US\$1.00 each

Note 1: These Shares are held by Hezhong Investment. Mr. Wang Wenliang is beneficially interested in 52% of the issued share capital of Hezhong Investment.

Save as disclosed above, as at 31 December 2003, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) where 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 (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors.

As at 31 December 2003, none of the Directors had any interest, direct or indirect, in any assets which had been, since 30 June 2003, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at 31 December 2003, there was no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group.

(b) Interests of substantial Shareholders

So far as is known to the Directors, as at 31 December 2003, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions 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 Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Name of company	Capacity	Number and class of securities
Hezhong Investment	The Company	Beneficial	610,120,000 Shares
Mr. Zheng Gang	The Company	Beneficial	150,000,000 Shares

Save as disclosed above, as at 31 December 2003, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions 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 Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim results for the six months ended 31 December 2003.

BOARD PRACTICE AND PROCEDURES

The Company has complied with the requirement of Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules for the six months ended 31 December 2003.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares for the six months ended 31 December 2003.

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 12 February 2004