



MP Logistics International Holdings Limited

MP 物流國際控股有限公司*

(incorporated in the Cayman Islands with limited liability)



Third Quarterly Report 2003

* For identification purposes only



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.

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.

The principal means of information dissemination on GEM is publication on the internet website 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 howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

FINANCIAL RESULTS

The board of directors (the "Board") of the Company announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 31 December 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	Note	Nine months ended 31 December		Three months ended 31 December	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	35,581	21,573	10,042	8,018
Cost of sales		(27,222)	(14,743)	(7,404)	(5,514)
Gross profit		8,359	6,830	2,638	2,504
Other revenue		53	110	5	32
Selling and distribution costs		(2,087)	(736)	(652)	(213)
Administrative expenses		(5,641)	(4,118)	(1,905)	(1,864)
Profit from operating activities		684	2,086	86	459
Finance costs		(216)	(72)	(79)	(31)
Profit before tax		468	2,014	7	428
Tax	3	(96)	(379)	(1)	(182)
Net profit from ordinary activities attributable to shareholders		372	1,635	6	246
Earnings per share	4				
– Basic (cent)		0.12	0.68	0.002	0.09
– Diluted (cent)		N/A	N/A	N/A	N/A

Notes:

1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 June 2002 under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the companies now comprising the Group on 26 October 2002. Details of the Group Reorganisation are set out in the Company's prospectus dated 31 October 2002. The shares of the Company were listed on GEM on 15 November 2002.

The accounting policies and methods of computation adopted in the preparation of these unaudited consolidated results are consistent with those adopted in the audited accounts for the year ended 31 March 2003 except for the new adoption of Statement of Standard Accounting Practice No. 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants, which has no significant impact on the unaudited consolidated results for the nine months ended 31 December 2003.

All significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

2. TURNOVER

The Group's turnover represents the invoiced value of logistics services provided.

An analysis of the Group's turnover derived from various logistics services is as follows:

	Nine months ended		Three months ended	
	31 December		31 December	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sea freight forwarding	16,209	7,849	4,111	3,935
Road freight forwarding	13,705	10,932	3,257	2,908
Air freight forwarding	1,004	1,087	552	402
Other related logistics services	4,663	1,705	2,122	773
	35,581	21,573	10,042	8,018

3. TAX

Hong Kong profits tax for the three months and nine months ended 31 December 2003 have been provided at the rate of 17.5% (three months and nine months ended 31 December 2002: 16%) on the estimated assessable profits arising in Hong Kong during the periods.

The Group has not recorded deferred tax assets as they may not be recovered in the foreseeable future. There is no material deferred taxation effect on the results of the Group for the current or prior accounting periods.

4. EARNINGS PER SHARE

The calculations of basic earnings per share for the three months and nine months ended 31 December 2003 are based on the unaudited net profit from ordinary activities attributable to shareholders for the three months and nine months ended 31 December 2003 of approximately HK\$6,000 and HK\$372,000 respectively (three months and nine months ended 31 December 2002: approximately HK\$246,000 and HK\$1,635,000 respectively) and 300,000,000 shares in issue during the three months and nine months ended 31 December 2003 (pro forma number of shares in issue during the three months and nine months ended 31 December 2002: 271,717,391 and 239,298,182 shares respectively).

No diluted earnings per share has been presented as no dilutive events existed during the three months and nine months ended 31 December 2003 and the corresponding periods in 2002.

5. RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	–	3,867	1,254	5,121
Net profit for the period	–	–	1,389	1,389
At 30 September 2002	–	3,867	2,643	6,510
Premium on issuance of shares	25,494	–	–	25,494
Capitalisation issue	(2,450)	–	–	(2,450)
Share issuance expenses	(8,098)	–	–	(8,098)
Net profit for the period	–	–	246	246
At 31 December 2002	14,946	3,867	2,889	21,702
At 1 April 2003	14,946	3,867	3,475	22,288
Net profit for the period	–	–	366	366
At 30 September 2003	14,946	3,867	3,841	22,654
Net profit for the period	–	–	6	6
At 31 December 2003	14,946	3,867	3,847	22,660

INTERIM DIVIDEND

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

FINANCIAL REVIEW

During the nine months ended 31 December 2003, the Group recorded a turnover of approximately HK\$35,581,000 (nine months ended 31 December 2002: approximately HK\$21,573,000), an increase of approximately 65% compared to the corresponding period in previous year. The increase in turnover was attributed to the increase in services provided to new and existing customers. During the period under review, income derived from logistics services relating to sea freight forwarding, road freight forwarding, air freight forwarding and other related logistics services represented approximately 46%, 38%, 3% and 13% respectively of the Group's total turnover (nine months ended 31 December 2002: approximately 36%, 51%, 5% and 8% respectively).

Net profit from ordinary activities attributable to shareholders for the nine months ended 31 December 2003 amounted to approximately HK\$372,000 (nine months ended 31 December 2002: approximately HK\$1,635,000), representing a decrease of approximately 77% compared to the corresponding period in previous year. The decrease was mainly attributed to a decrease in gross profit margin from approximately 32% in the nine months ended 31 December 2002 to approximately 23% in the nine months ended 31 December 2003 due to lower pricing for services provided. Selling and distribution costs increased by approximately 2.8 times, from approximately HK\$736,000 in the corresponding period in previous year to approximately HK\$2,087,000, due to the increase in the number of sales staff and higher promotion expenses. Administrative expenses of the Group also increased by approximately 37% to HK\$5,641,000 during the nine months ended 31 December 2003 as compared to the corresponding period in previous year. The increase was mainly due to increase in overheads following the listing of the Company's shares on GEM and the result of the Group's expansion.

BUSINESS REVIEW AND PROSPECTS

General

The Group is principally engaged in coordinating various logistics services for its customers. The logistics services provided by the Group include sea freight forwarding, road freight forwarding, air freight forwarding and other related logistics services such as customs clearance and declaration, purchasing on behalf of customers of insurance policies, repackaging and storage. The services provided for each assignment may consist of a combination of the services described above. It is the objective of the Group to become one of the pivotal players in the logistics services markets in the Greater China Region.

Business Review

During the period under review, the Group continued to enjoy growth in its turnover as the Group continued to promote its services and the gradual recovery of the business environment from the outbreak of the Severe Acute Respiratory Syndrome ("SARS"). However, the growth has been offset by the decrease in the gross profit margins due to intense price competition.

The Group continued to promote its services through advertisements in shipping gazette and direct marketing by holding meetings and seminars with existing and potential customers.

The Group continued to expand its operational facilities during the period under review. The expansion was by leasing or using facilities owned by third parties instead of acquiring such operational facilities as no suitable operational facilities were identified.

The Group is also continuing on its negotiations with some independent third parties for the acquisition of a foreign invested enterprise in the People's Republic of China in order to expand its current scope of services and improve the Group's quality of service and profit margins. The Group has commenced preliminary assessment and negotiation with these independent third parties but no agreement has been reached to date.

Prospects

Looking ahead, the Group is cautiously optimistic as the business environment in Hong Kong and the People's Republic of China is expected to improve as a result of the Closer Economic Partnership Arrangement. However, the recent bird flu outbreak, if uncontrolled, may result in negative impact on the business environment.

Nevertheless, the Group will continue to market its services more effectively and maintain cost efficiency to remain competitive.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2003, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or 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 minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules were as follows:

Director	Number of Shares				
	Corporate Interests	Personal Interests	Family Interests	Other Interests	Total Interests
Mr. Wong Kwong Kwok (Note)	223,000,000	–	–	–	223,000,000

Note: These shares are registered in the name of Best Method Investments Limited. Best Method Investments Limited is beneficially owned by Profound Wise International Limited, Accent On Investments Limited and Absolute Prime Investments Limited in the proportion of 40%, 30%, and 30% respectively. Profound Wise International Limited is owned by Mr. Wong Kwong Kwok and Mr. Yeung Leung Kong, the executive directors of the Company, as to 70% and 30% respectively. Accent On Investments Limited is 100% owned by Mr. Wong Kwong Kwok. Absolute Prime Investments Limited is 100% owned by Mr. Chan Chi Yin.

SUBSTANTIAL SHAREHOLDER

As at 31 December 2003, the interests and short positions of persons, other than a director of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, 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 other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Number of shares held	Approximate percentage of shareholding in the Company
Best Method Investments Limited (Note)	223,000,000	74.33%

Note: Best Method Investments Limited is beneficially owned by Profound Wise International Limited, Accent On Investments Limited and Absolute Prime Investments Limited in the proportion of 40%, 30% and 30% respectively. Profound Wise International Limited is owned by Mr. Wong Kwong Kwok and Mr. Yeung Leung Kong, the executive directors of the Company, in the proportion of 70% and 30% respectively. Accent On Investments Limited is 100% owned by Mr. Wong Kwong Kwok. Absolute Prime Investments Limited is 100% owned by Mr. Chan Chi Yin.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the paragraph headed "Directors' interests in securities" above, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

On 26 October 2002, the Company adopted the Share Option Scheme under which share options to subscribe for the shares of the Company may be granted under the terms and conditions stipulated therein. As at 31 December 2003, no share option was granted under the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the nine months ended 31 December 2003, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

COMPETING INTERESTS

None of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

During the nine months ended 31 December 2003, the Company has complied with the Board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

INTEREST OF SPONSOR

As at 31 December 2003, Kingston Corporate Finance Limited (the "Sponsor"), its directors, employees or associates did not have any interest in the securities of the Company or of any members of the Group, or have any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

Pursuant to the sponsor agreement entered into between the Company and the Sponsor, the Sponsor received, and will receive, fees for acting as the Company's retained sponsor for the purpose of chapter 6 of the GEM Listing Rules for the period up to 31 March 2005.

AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) on 26 October 2002, with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control system of the Group. Pursuant to the appointment of Mr. Liu Feng as an audit committee member on 5 January 2004, the Committee now comprises three independent non-executive directors of the Company, Ms. Leung Wai Ling, Wylie, Mr. Wong Ah Chik and Mr. Liu Feng. The unaudited consolidated results of the Group for the three months and nine months ended 31 December 2003 have been reviewed by the Committee, who was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

By order of the Board

MP Logistics International Holdings Limited

Wong Kwong Kwok

Chairman

Hong Kong, 12 February 2004