



中裕燃气

中裕燃气控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 8070)

QUARTERLY RESULTS
FOR THE NINE MONTHS ENDED
31 MARCH 2004

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

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This report, for which the directors of Zhongyu Gas 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 of 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.

HIGHLIGHTS

- The Group's unaudited turnover amounted to approximately HK\$6,494,000 for the nine months ended 31 March 2004, representing a slight decrease of approximately 5.5% over the same period last year.
- The Group's unaudited loss attributable to shareholders amounted to approximately HK\$2,836,000 for the nine months ended 31 March 2004, representing an improvement of approximately 15.2% over the same period last year.
- On 9 October 2003, the Company raised the net proceeds of approximately HK\$19,500,000 by issuing 405,400,000 Shares by way of the Rights Issue.
- On 19 December 2003, the Group completed the acquisition of 97% equity interest in China Gas Construction. China Gas Construction is an investment holding company of which the principal asset is the holding of 100% interest in Linyi China Gas. Linyi China Gas is principally engaged in the development, construction and operation of natural gas projects in Linyi City, Shandong Province, the PRC.
- On 14 January 2004, the financial year end date of the Group was changed from 30 June to 31 December commencing from the year 2004.
- On 20 February 2004, the name of the Company was changed from "MRC Holdings Limited" to "Zhongyu Gas Holdings Limited 中裕燃气控股有限公司".
- On 18 March 2004, Portwood, a wholly-owned subsidiary of the Company and Hanzhong City Natural Gas, an Independent Third Party, entered into the Joint Venture Agreement, as supplemented by the Supplemental Agreement, pursuant to which, both parties thereto agreed to establish the Hanzhong JV which is principally engaged in the construction and operation of natural gas projects in Hanzhong City, Shaanxi Province, the PRC.
- An ordinary resolution in respect of the appointment of Messrs. Deloitte Touche Tohmatsu as the new auditors of the Company and its subsidiaries for the financial year ending 31 December 2004 until the conclusion of the next general meeting was duly passed at the extraordinary general meeting of the Company convened on 1 April 2004.

CONSOLIDATED RESULTS OF THE GROUP

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the three months and the nine months ended 31 March 2004, together with the comparative unaudited figures for the corresponding periods in 2003, which are set out as follows:

	<i>Notes</i>	Three months ended 31 March		Nine months ended 31 March	
		2004 (unaudited) <i>HK\$'000</i>	2003 (unaudited) <i>HK\$'000</i>	2004 (unaudited) <i>HK\$'000</i>	2003 (unaudited) <i>HK\$'000</i>
Turnover	2	2,503	2,608	6,494	6,871
Cost of sales		(551)	(619)	(1,429)	(1,725)
GROSS PROFIT		1,952	1,989	5,065	5,146
Other revenue		104	12	179	210
Selling and marketing expenses		(461)	(588)	(1,058)	(1,484)
Administrative expenses		(2,507)	(2,010)	(5,326)	(5,687)
Other operating expenses		(657)	(634)	(1,869)	(1,876)
OPERATING LOSS		(1,569)	(1,231)	(3,009)	(3,691)
Finance costs		(21)	0	(25)	(8)
LOSS BEFORE TAXATION		(1,590)	(1,231)	(3,034)	(3,699)
Taxation	3	0	0	0	0
LOSS AFTER TAXATION		(1,590)	(1,231)	(3,034)	(3,699)
Minority interests		93	50	198	355
LOSS ATTRIBUTABLE TO SHAREHOLDERS		(1,497)	(1,181)	(2,836)	(3,344)
Interim dividend	4	0	0	0	0
LOSS PER SHARE <i>(HK cent)</i>					
- Basic	5	(0.156)	(0.243)	(0.378)	(0.687)
- Diluted		N/A	N/A	N/A	N/A

Notes:

1. Basis of presentation and accounting policies

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

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

2. Turnover

Turnover comprises as follows:

	Three months ended 31 March		Nine months ended 31 March	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
By principal activities:				
Software project income	1,805	1,900	4,104	4,773
Render of maintenance services	553	677	2,214	1,981
Resale of hardware and software rental income	145	31	176	117
	<u>2,503</u>	<u>2,608</u>	<u>6,494</u>	<u>6,871</u>
By principal markets:				
Hong Kong	2,469	1,699	6,356	5,106
PRC	34	909	138	1,765
	<u>2,503</u>	<u>2,608</u>	<u>6,494</u>	<u>6,871</u>

3. Taxation

No provision for the Hong Kong profits tax has been made as the Group had no assessable profits for the nine months ended 31 March 2004 (2003: Nil).

4. Interim dividend

The Board does not recommend the payment of any interim dividend for the nine months ended 31 March 2004 (2003: Nil).

5. Loss per share

The calculation of the basic loss per share is based on the loss attributable to shareholders for the three months and nine months ended 31 March 2004 of approximately HK\$1,497,000 and HK\$2,836,000 (2003: HK\$1,181,000 and HK\$3,344,000) respectively and the weighted average number of 960,800,000 and 749,592,727 (2003: 486,480,000 and 486,480,000) ordinary shares respectively in issue during the the same periods. The weighted average number of shares outstanding for 2003 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.

6. Movements of reserves

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2003	4,378	3,740	(10,635)	(2,517)
New issue of shares on Rights Issue	15,464	—	—	15,464
Capitalisation issue of shares for acquisition	7,541	—	—	7,541
Net loss for the period	—	—	(2,836)	(2,836)
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At 31 March 2004	<u>27,383</u>	<u>3,740</u>	<u>(13,471)</u>	<u>(17,652)</u>

COMPETING INTEREST

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the period under review, the Group is principally engaged in the business of natural gas supply in the People's Republic of China (the "PRC") and the business of human resources management ("HRM") solutions provision in Hong Kong and the PRC.

Financial Review

For the nine months ended 31 March 2004, the Group recorded a turnover of approximately HK\$6,494,000, representing a slight decrease of approximately 5.5% over the same period last year. The decrease in turnover was mainly attributable to the combined effect of the decrease in demand for HRM software resulting from the continuous sluggish global economic which hindered the plan of enterprises from purchasing information technology (the "IT") products and the decrease in contract price resulting from the intensive pricing competition.

The Group posted a net loss of approximately HK\$2,836,000 for the nine months ended 31 March 2004, representing an improvement of approximately 15.2% over the same period last year. The improvement was mainly attributable to the implementation of stringent cost control measure in the Group.

The Group's total operating expenses for the three months ended 31 March 2004 amounted to approximately HK\$3,625,000, representing an increase of approximately 12.2% over the same period last year. The increase was mainly attributable to the absorption of operating expenses of China Gas Construction, acquired by the Group in late 2003.

The Board does not recommend the payment of any interim dividend for the nine months ended 31 March 2004.

Basic loss per share for the nine months ended 31 March 2004 amounted to approximately HK0.378 cent.

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

Business Review

On 9 October 2003, the Company raised the net proceeds of approximately HK\$19,500,000 by issuing 405,400,000 Shares by way of rights on the basis of one rights Share for every one Share held by the Shareholders whose names appeared on the register of members of the Company on 13 October 2003 (the "Rights Issue") so as to strengthen its capital base and improve its financial position and thus to provide flexibility to pursue any new business opportunities for the Group's future development and expansion.

On 19 December 2003, the Group completed the acquisition of 97% equity interest in China Gas Construction Expansion Company Limited (“China Gas Construction”). China Gas Construction is an investment holding company of which the principal asset is the holding of 100% interest in 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. Linyi China Gas is principally engaged in the development, construction and operation of natural gas projects in Linyi City, Shandong Province, the PRC. Its main business activities include the design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as the sale and maintenance of natural gas appliances in Linyi City. Linyi China Gas was granted the exclusive right to develop, construct and operate natural gas projects in the Linyi Economic Development District, Linyi City for a period of 50-year. The Directors believe that such acquisition could provide an ideal opportunity for the Group to diversify into natural gas business with growth potential which might increase the Group’s source of income and improve the earning base of the Group. Construction work on natural gas pipeline network in Linyi Economic Development District has commenced and is expected to be completed by the mid of 2005.

In order to facilitate the Group to prepare its consolidated financial statements since the Company and its subsidiaries established in the PRC had different financial year end dates, on 14 January 2004, the Company announced that the financial year end date of the Group was changed from 30 June to 31 December commencing from the year 2004.

On 20 February 2004, the name of the Company was changed from “MRC Holdings Limited” to “Zhongyu Gas Holdings Limited 中裕燃氣控股有限公司”. The Board considers that such change would better reflect the diversification of the Group into the natural gas business.

On 18 March 2004, Portwood International Limited (“Portwood”), a wholly-owned subsidiary of the Company and Hanzhong City Natural Gas Company Limited (“Hanzhong City Natural Gas”), an Independent Third Party, entered into a joint venture agreement (the “JV Agreement”), as supplemented by a supplemental agreement (the “Supplemental Agreement”) entered into by the same parties on 26 March 2004 in relation to the Hanzhong JV (as defined below), pursuant to which, both parties thereto agreed to establish 漢中中燃城市燃氣發展有限公司 (Hanzhong China-Gas City Gas Development Company Limited) (“Hanzhong JV”) which is principally engaged in the construction and operation of natural gas projects in Hanzhong City, Shaanxi Province, 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 Hanzhong City. On 8 April 2004, the Hanzhong JV obtained the exclusive right from 漢中市城鄉建設管理局 (Urban Rural Construction Administrative Bureau of Hanzhong City) to engage in the development, construction and operation of piped gas projects in Hanzhong City. The Hanzhong JV is owned as to 90% by Portwood and the remaining 10% by Hanzhong City Natural Gas.

The Directors are of the view that the entering into of the JV Agreement could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operation. In addition, having considered that the natural gas project to be undertaken by the Hanzhong JV is on an exclusive basis, and the increase in demand of natural gas in the PRC, the Directors are of the view that the Hanzhong JV could provide a steady cash inflow to the Group. As such, the entering into of the JV Agreement could provide an opportunity for the Group to increase its source of income and improve the earning base of the Group.

PROSPECTS

With the continues improvement of the economies in the PRC and Hong Kong, the business environment in both the PRC and Hong Kong becomes more favourable. The Directors believe that the demand for the Group's HRM solutions would increase. Nevertheless, 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.

Due to the growing prosperity and annual gross domestic production per capita in the PRC as well as the increasing awareness of environment protection in the PRC, the Directors 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. The Group will strive to obtain more exclusive gas projects from the local government in the PRC to enhance its market position and to improve its financial performance, so as to benefit further from the sustained growth of the natural gas industry in the PRC.

In order to improve the Group's operating results, the Group will continue to implement stringent cost control measures.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31 March 2004, 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 Securities and Future Ordinance (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 5.46 to 5.66 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 ordinary shares of HK\$0.01 each
	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 March 2004, 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 5.46 to 5.66 of the GEM Listing Rules relating to securities transactions by Directors.

As at 31 March 2004, 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 March 2004, 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 of the Company

So far as is known to the Directors, as at 31 March 2004, 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 ordinary shares of HK\$0.01 each
Mr. Zheng Gang	The Company	Beneficial	150,000,000 ordinary shares of HK\$0.01 each

Save as disclosed above, as at 31 March 2004, 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 consolidated results of the Group for the nine months ended 31 March 2004.

BOARD PRACTICE AND PROCEDURES

The Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the nine months ended 31 March 2004.

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 during the nine months ended 31 March 2004.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Wang Wenliang and Mr. Hao Yu, as the executive Directors, Mr. Xu Yongxuan, Mr. Li Weisong, Mr. Yang Jianguo and Mr. Li Zifeng, as the non-executive Directors and Mr. Wang Shun Long and Dr. Luo Yong Tai, as the independent non-executive Directors.

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 13 May 2004