



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 REPORT
FOR THE FIFTEEN MONTHS ENDED
30 SEPTEMBER 2004

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 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.

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\$11,258,000 for the fifteen months ended 30 September 2004, representing an increase of approximately 15.0% over the same period last year.
- The Group's unaudited loss attributable to shareholders amounted to approximately HK\$7,388,000 for the fifteen months ended 30 September 2004, representing an increase of approximately 13.3% 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 Economic Development District and Hedong District, 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.
- A 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.
- On 2 November 2004, the Company raised the net proceeds of approximately HK\$18,250,000 by placing the aggregate of 102,000,000 Shares at a price of HK\$0.18 per share to eight independent individual subscribers.

CONSOLIDATED RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Group for the three months and the fifteen months ended 30 September 2004, together with the comparative figures for the corresponding periods in 2003, which are set out as follows:

	Notes	Three months ended 30 September		Fifteen months ended 30 September	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	2,260	1,562	11,258	9,788
Cost of sales		(537)	(445)	(2,972)	(2,576)
GROSS PROFIT		1,723	1,117	8,286	7,212
Other revenue		112	61	314	223
Selling and marketing expenses		(397)	(269)	(1,956)	(2,092)
Administrative expenses		(3,460)	(1,639)	(11,705)	(9,496)
Other operating expenses		(267)	(469)	(2,649)	(2,915)
OPERATING LOSS		(2,289)	(1,199)	(7,710)	(7,068)
Finance costs		(5)	(2)	(12)	(9)
LOSS BEFORE TAXATION		(2,294)	(1,201)	(7,722)	(7,077)
Taxation	3	-	-	-	-
LOSS AFTER TAXATION		(2,294)	(1,201)	(7,722)	(7,077)
Minority interests		174	71	334	556
LOSS ATTRIBUTABLE TO SHAREHOLDERS		(2,120)	(1,130)	(7,388)	(6,521)
Interim dividend	4	-	-	-	-
LOSS PER SHARE	5				
Basic		<u>HK0.221 cent</u>	<u>HK0.232 cent</u>	<u>HK0.886 cent</u>	<u>HK1.340 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

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 audited financial statements of the Group for the year ended 30 June 2003.

2. Turnover

An analysis of the turnover of the Group for the three months and fifteen months ended 30 September 2004, together with the comparative figures for the corresponding periods in 2003 is as follows:

	Three months ended 30 September		Fifteen months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
By principal activities:				
Connection of natural gas pipeline - Connection fees	625	-	995	-
Software project income	774	753	5,962	6,098
Render of HRM software related maintenance services	794	769	3,843	3,404
Resale of hardware and software rental income	3	11	317	196
Others	64	29	141	90
	<u>2,260</u>	<u>1,562</u>	<u>11,258</u>	<u>9,788</u>
By principal markets:				
Hong Kong	1,557	1,553	9,963	8,318
PRC	703	9	1,295	728
Others	-	-	-	742
	<u>2,260</u>	<u>1,562</u>	<u>11,258</u>	<u>9,788</u>

3. Taxation

No provision for the Hong Kong profits tax has been made as the Group had no assessable profits for the fifteen months ended 30 September 2004 (2003: Nil).

4. Interim dividend

The Board does not recommend the payment of any interim dividend for the fifteen months ended 30 September 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 fifteen months ended 30 September 2004 of approximately HK\$2,120,000 and HK\$7,388,000 (2003: HK\$1,130,000 and HK\$6,521,000) respectively and the weighted average number of 960,800,000 and 833,983,406 (2003: 486,480,000 and 486,480,000) ordinary shares respectively in issue during 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. 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	-	-	(7,388)	(7,388)
At 30 September 2004	<u>27,383</u>	<u>3,740</u>	<u>(18,023)</u>	<u>13,100</u>

7. Acquisitions, disposals and significant investments

On 19 December 2003, the Company, through its wholly-owned subsidiary, Portwood International Limited ("Portwood") completed the acquisition of 97% of the issued share capital of China Gas Construction and the aggregate amount owed 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 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 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 development, construction and operation of natural gas projects in Linyi City, Shandong Province, 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 Economic Development District and Hedong District, Linyi City.

On 18 March 2004, Portwood 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"), the details of which were set out in the announcement of the Company dated 18 March 2004 and the circular of the Company dated 8 April 2004.

The Hanzhong JV 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.

The registered capital of the Hanzhong JV was HK\$10,000,000, of which HK\$9,000,000 was contributed by the Group by using the net proceeds derived from the Rights Issue, and the remaining HK\$1,000,000 was contributed by Hanzhong City Natural Gas by way of contribution in kind. The Hanzhong JV is owned as to 90% by Portwood and the remaining 10% by Hanzhong City Natural Gas.

Save as disclosed above, the Group had no acquisitions, disposals nor significant investments for the fifteen months ended 30 September 2004.

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.

BUSINESS AND OPERATIONAL 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 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. China Gas Construction is an investment holding company of which the principal asset is the holding of 100% interest in Linyi China Gas, a wholly-foreign-owned enterprise established in the PRC on 18 July 2003. 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 Economic Development District and Hedong District, Linyi City. Linyi China Gas was granted the exclusive right to develop, construct and operate natural gas projects in the Linyi Economic Development District and Hedong 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.

As at 30 September 2004, Linyi China Gas had built natural gas pipeline of approximately 12 km and there were two industrial users completed the connection of the natural gas pipeline. The remaining construction works on natural gas pipeline network in Linyi Economic Development District are expected to be completed by the end of 2007.

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 and Hanzhong City Natural Gas, entered into the JV Agreement, as supplemented by the Supplemental Agreement entered into by the same parties on 26 March 2004 in relation to the Hanzhong JV, pursuant to which, both parties thereto agreed to establish 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.

As at 30 September 2004, the Hanzhong JV had built natural gas pipeline of approximately 40.5 km and there were 1,450 domestic household users and one commercial user completed the connection of the natural gas pipeline. The remaining construction works on natural gas pipeline network in Hanzhong City are expected to be completed by the end of 2006.

On 2 November 2004, the Company raised the net proceeds of approximately HK\$18,250,000 by placing the aggregate of 102,000,000 shares at a price of HK\$0.18 per share to eight independent individual subscribers in order to broaden the Company’s shareholders base as well as to strength the Company’s capital base so as to provide flexibility for the Company to capture any new investment opportunities if and when opportunities arise.

FINANCIAL REVIEW

Overall

During the period under review, the Group is principally engaged in (i) the development, construction and operation of natural gas projects in the PRC, which principally 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; and (ii) the business of human resource management (“HRM”) solution provision in Hong Kong and the PRC, which principally include development and sale of HRM software, as well as provision of related consultancy services including the project management, implementation and maintenance of the HRM system.

For the fifteen months ended 30 September 2004, the Group recorded a turnover of approximately HK\$11,258,000, representing an increase of approximately 15.0% over the same period last year. Of the Group’s total turnover, approximately 8.8% was derived from connection of natural gas pipeline - connection fees, approximately 53.0% was derived from software project income, approximately 34.1% was derived from render of HRM software related maintenance services, approximately 2.8% was derived from resale of hardware and software rental income and the remaining approximately 1.3% was derived from others.

For the fifteen months ended 30 September 2004, the Group’s overall gross profit margin was approximately 73.6%, representing a slight decrease of approximately 0.1% over the same period last year. The decrease was mainly attributable to the net effect of (i) the introduction of connection of natural gas pipeline - connection fees with a gross profit margin of approximately 50.2% since April 2004; and (ii) the increase of a gross profit margin contributed by the render of HRM software related maintenance services.

The Group’s total operating expenses, including selling and marketing expenses, administrative expenses and other operating expenses, for the fifteen months ended 30 September 2004 amounted to approximately HK\$16,310,000, representing an increase of approximately 12.5% over the same period last year. The increase was mainly attributable to the absorption of operating expenses of Linyi China Gas, acquired by the Group in December 2003 and the Hanzhong JV, formed by the Group in April 2004.

The Group posted loss attributable to shareholders of approximately HK\$7,388,000 for the fifteen months ended 30 September 2004, representing an increase of approximately 13.3% over the same period last year.

The Board does not recommend the payment of any interim dividend for the fifteen months ended 30 September 2004.

Basic loss per share for the fifteen months ended 30 September 2004 amounted to approximately HK0.886 cent.

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

The development, construction and operation of Natural Gas Projects

Connection of Natural Gas Pipeline - Connection Fees

The Group has commenced to charge customers connection fees for connection of natural gas pipeline since April 2004. For the fifteen months ended 30 September 2004, the turnover of the Group derived from the connection fees amounted to approximately HK\$995,000. The Directors expected that the connection fees would become one of the Group's key source of income in the next financial year.

For the fifteen months ended 30 September 2004, the gross profit margin of connection fees was approximately 50.2%.

The business of HRM Software Provision

Software Project Income

For the fifteen months ended 30 September 2004, the Group recorded a turnover of approximately HK\$5,962,000, representing a decrease of approximately 2.2% over the same period last year. The decrease in turnover was mainly attributable to the decrease in contract price resulting from the intensive pricing competition.

For the fifteen months ended 30 September 2004, the gross profit margin of software project income was approximately 66.0%, representing a decrease of approximately 1.8% over the same period last year. The decrease was mainly attributable to the intensive pricing competition.

Render of HRM Software related Maintenance Services

For the fifteen months ended 30 September 2004, the turnover of the Group derived from the render of HRM software related maintenance services amounted to approximately HK\$3,843,000, representing an increase of approximately 12.9% over the same period last year. The increase in the turnover was mainly attributable to the increase of the accumulated number of customer using the HRM software.

For the fifteen months ended 30 September 2004, the gross profit margin of HRM software related maintenance services income was approximately 91.8%, representing an increase of approximately 9.2% over the same period last year. The increase was mainly attributable to the implementation of the stringent cost control measures.

PROSPECTS

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 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. The Directors expect that the development, construction and operation of natural gas projects in the PRC would become one of the Group's key businesses in the next financial year.

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 software 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.

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 30 September 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 Directors	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 30 September 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 30 September 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 30 September 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 30 September 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 of shareholders	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 30 September 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 of the Company (the “Audit Committee”) comprises three independent non-executive Directors, including Mr. Wang Shun Long, Dr. Luo Yong Tai and Mr. Hung, Randy King Kuen. 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 fifteen months ended 30 September 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 fifteen months ended 30 September 2004.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the fifteen months ended 30 September 2004, the Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

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 fifteen months ended 30 September 2004.

BOARD OF DIRECTORS

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

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 12 November 2004