

# MRC

## MRC Holdings Limited

(Incorporated in the Cayman Islands with limited liability)



*We CARE*

*We SHARE*

### Annual Report 2001

[www.mrchr.com](http://www.mrchr.com)

## **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](http://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 annual 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 annual report.

This annual 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. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: — (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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# CORPORATE INFORMATION

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## **EXECUTIVE DIRECTORS**

Mr. Ho Kwok Kin (*Chief Executive Officer*)  
Mr. Peter David Hilling  
Mr. Lau Yuk Cheong

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Mr. Ting Wai Cheung, Bernie  
Mr. Chan Kin Wai

## **COMPANY SECRETARY**

Ms. Lau Wai Fung

## **QUALIFIED ACCOUNTANT**

Ms. Lau Wai Fung

## **COMPLIANCE OFFICER**

Mr. Ho Kwok Kin

## **AUTHORISED REPRESENTATIVES**

Mr. Ho Kwok Kin  
Mr. Lau Yuk Cheong

## **MEMBERS OF AUDIT COMMITTEE**

Mr. Ting Wai Cheung, Bernie  
(*Chairman of the audit committee*)  
Mr. Chan Kin Wai

## **AUDITORS**

Fan, Mitchell & Co.  
3rd Floor, Chinachem Tower  
34-37 Connaught Road Central  
Hong Kong

## **PRINCIPAL BANKER**

Standard Chartered Bank  
3 Fleming Road  
Wanchai  
Hong Kong

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Office No. 03, 13th Floor  
Tung Wai Commercial Building  
Nos. 109-111 Gloucester Road and  
Nos. 22-26 Fleming Road  
Hong Kong

## **REGISTERED OFFICE**

P.O. Box 2681 GT  
Zephyr House, Mary Street  
George Town, Grand Cayman  
British West Indies

## **COMPANY HOMEPAGE**

[www.mrchr.com](http://www.mrchr.com)

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Bank of Bermuda (Cayman) Limited  
36C Bermuda House, 3rd Floor  
P.O. Box 513 G.T.  
Dr. Roy's Drive, George Town  
Grand Cayman, Cayman Islands  
British West Indies

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Secretaries Limited  
5th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

## **LEGAL ADVISERS**

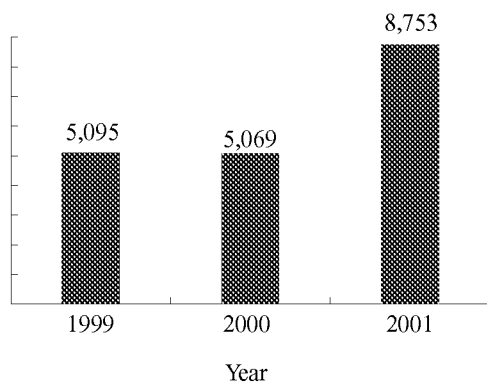
Fairbairn Catley Low & Kong  
43rd Floor, Gloucester Tower  
The Landmark  
11 Pedder Street  
Hong Kong

# FINANCIAL HIGHLIGHTS

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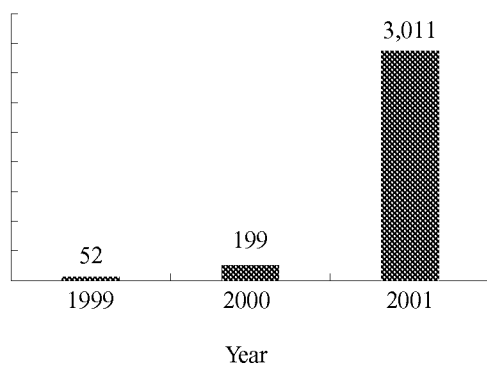
## TURNOVER

(HK\$'000)



## PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK\$'000)



# CHAIRMAN'S STATEMENT



To our shareholders

On behalf of the board of directors (the "Board") of MRC Holdings Limited (the "Company"), I am pleased to present the annual audited results of the Company and its subsidiaries (the "Group") for the financial year ended 30th June, 2001. The Company was listed on the GEM of the Stock Exchange on 5th June, 2001, making it the first human resources application software developer listed on the Hong Kong stock market.

## FINANCIAL PERFORMANCE

During the period under review, the Group recorded a net profit of approximately HK\$3 million, representing a substantial growth of approximately 1,413% in comparison with last financial year. The Group's turnover for the financial year ended 30th June, 2001 was approximately HK\$8.7 million, representing an increase of approximately 73% as compared with approximately HK\$5 million in last financial year. The financial position of the Group remained healthy with a non-gearing capital structure. This encouraging result surely marks an excellent beginning for the Group's development as a listed company.

# CHAIRMAN'S STATEMENT

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## BUSINESS REVIEW AND OUTLOOK

Apart from the growth in sales of application software in year 2001 by approximately 117%, provision for the maintenance income also grew during the year by about 19% as compared with last financial year. The Group has persistently dedicating resources in research and development of new application and technology which will create value for our existing products. For instance, part of our efforts has focused on the development of a new client-server version of our existing products in order to target customers' needs. Looking forward, the Group will continue to focus its business in providing a full range of human resources automation services and the major activities in the forthcoming future will include:

- Geographical expansion — will hire a new manager responsible for our new China office. Initially we have identified Dongguan for our new China office. Also, we have recruited a staff for the development of Japan market. We expect that we would be able to sign the first contract in Taiwan before the end of September 2001. We have started contacting some of our existing clients in the preparation of our business operation in Taiwan.
- Research and Development — continue to research on development of new software tools - "MRC Code" and methodology for development of a new client server human resources system that can run under "thin-client" environment.
- Sales and marketing — a new office has been rented for the new sales and marketing team. We have confirmed offer to hire 2 marketing staff and 6 sales staff. New sales and marketing material will be developed.

## APPRECIATION

People are always the key contributor to the Group's success. On behalf of the Board, I would like to extend my greatest appreciation to our management and staff for their dedication and commitment to the Company.

**Ho Kwok Kin**

*Chairman*

Hong Kong , 24th September, 2001

# COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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## COMPARISON OF USE OF PROCEEDS

Period	Amount to be used up to 30th June, 2001 as disclosed in the prospectus <i>(in HK\$'million)</i>	Actual amount used up to 30th June, 2001 <i>(in HK\$'million)</i>
Geographical expansion	0.3	0
ASP business	0.5	0
Product enhancement and development	0.2	0.13
Sales and marketing	0.3	0
Recruitment portal cooperation	0.3	0
Total	1.6	0.13

Up to 30th June, 2001, the Group had utilised about HK\$0.13 million of the placing proceeds. The under-utilisation is mainly attributable to the short period of time between the listing of the Company's shares on GEM on 5th June, 2001 and the year end date of the Group of 30th June, 2001.

## COMPARISON OF BUSINESS OBJECTIVE

### Geographic expansion

Objective:	Japan market	Hire a manger for the development of the Japan market.
	China market	Take part in a product presentation seminar for PRC factories invested by Taiwanese.  One staff will be stationed in the PRC to provide ongoing support to the distribution agents of the Group.
	Taiwan market	Send one to two staff to Taiwan to train the technical and marketing staff of the DeloitteFlex e-Business, Incorporated ("DeloitteFlex") for the use of the Group's products and provide assistance in running product seminars. The Taiwan office of DeloitteFlex will be the first batches of users to perform a test run of the products. One staff will be stationed in Taiwan to provide ongoing support to the distribution agents of the Group.
Actual situation:	Japan Market	We have hired a manager for the development of the Japan market in June 2001.
	China Market	In the process of setting up an office in Dongguan. We attended an exhibition in Dongguan in June 2001.
	Taiwan market	In June 2001, we have sent one staff to Taiwan to train the technical and marketing staff of DeloitteFlex for the use of the Group's products.



# COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

## **ASP business**

Objective: Start selling the ASP payroll service in Hong Kong mainly to the customers of the FlexSystem Group's ASP accounting service.

Advertising and direct mailing will be used to promote this service.

Actual situation: We are in the process of formulating our marketing and pricing strategy. Upon completion of these tasks, we will enter into agreements with three customers to use these new services. Upon completion of offering this service to these customers for three months, we will review our marketing and pricing strategy and its operation efficiency.

## **Product enhancement and development**

Objective: Develop staff enquiry module.

Actual situation: Completed the development of the staff enquiry module. We have also deployed resources to build a new client-server version of our human resources system. The new software will use the following technology:

MRC Code — a new software coding method for our software development. We have completed the development of this methodology. We have also tested this methodology and were satisfied with the efficiency and stability of the performance.

Socket Data Transfer — a methodology to enable data transfer can be conducted via "thin wire" efficiently.

We anticipate we would be able to complete the development of our client-server version (consisting of base module and payroll) by January 2002.

## **Sales and Marketing**

Objective: Increase the number of sales and marketing staff to five.

Actual situation: Sales and marketing staff cannot be hired in June 2001 as no suitable candidates were identified.

## **Recruitment portal cooperation**

Objective: Modify the existing applicant tracking module.

Actual situation: We are still in the process of negotiating the final agreement with the business practices and have not yet commenced modifying the existing applicant tracking module.

# BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

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## EXECUTIVE DIRECTORS

**Mr. Ho Kwok Kin**, aged 54, is the Chairman of the Company. Mr. Ho is responsible for the Group's overall strategic planning and development. He has over 33 years of experience in the computer software industry and over 10 years of experience in human resource automation process. Prior to founding the Group in May 1987, Mr. Ho worked as an IT professional with international financial institutions and large corporations in Hong Kong. Mr. Ho initiated and has been directly involved in the research and development of the Group's products and field research with a number of human resource managers. Mr. Ho is a member of The Hong Kong Institute of Human Resource Management. Mr. Ho is actively involved in the HRM profession. His involvement includes writing articles for human resource journals, being a conference speaker on human resource topics and providing human resource training.

**Mr. Peter David Hilling**, aged 53, is the quality assurance director of the Group. He is responsible for the product quality and documentation standards of the products of the Group. He has more than 30 years of experience in software development and implementation. Prior to joining the Group in January 1999, Mr. Hilling worked in an international bank as a regional finance system manager responsible for all financial system development and implementation for Asia Pacific region.

**Mr. Lau Yuk Cheong**, aged 33, is the research and development director of the Group. He is responsible for the research of software development approach to ensure the best and suitable methodology is used for the development of the Group's products. Mr. Lau joined the Group in October 1989. He is a certified SAP R/3 consultant and has accumulated over 10 years of experience in design and development of HRM system.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ting Wai Cheung, Bernie**, aged 35, holds a bachelor degree in mechanical engineering and a master degree in business administration in Canada and the US respectively. Mr. Ting is the general manager and director of Qualidux Industrial Co. Ltd. and he holds directorships in several companies in Hong Kong. He is an adviser to TS Creative Limited and an executive committee member of Hong Kong Toy Council. He joined the Group in May 2001.

**Mr. Chan Kin Wai**, aged 42, is the senior consultant of Lighthouse Services Limited and is responsible for information systems consulting work for a wide range of clients including banks, transportation companies and semi-government bodies. He has more than 17 years of experience in information systems consulting work some of which involved multinational companies. Mr. Chan holds a bachelor of science degree in computer science from the University of Ottawa in Canada. He joined the Group in May 2001.

## SENIOR MANAGEMENT

**Ms. Lau Wai Fung**, aged 29, is the qualified accountant and company secretary of the Company. She is responsible for the overall financial accounting of the Group. Ms. Lau has over five years of experience in the audit and the accounting fields. She obtained her first degree of bachelor of arts degree in business studies from the Hong Kong Polytechnic University and a master of science degree in financial management from University of London. She is an associate member of both the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Ms. Lau joined the Group in 2001.

## BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Ng Tin Lok**, aged 28, is the customer service manager of the Group. He is responsible for the system implementation and customer support. Mr. Ng joined the Group in 1996 after having obtained a bachelor of business administration degree in management information system in Chu Hai College of Hong Kong. Mr. Ng is also an associate member of The Hong Kong Institute of Human Resource Management.

**Mr. Cheung King Kin**, aged 29, is the sales manager of the Group. He is responsible for the sales and marketing of the Group's products. Mr. Cheung joined the Group in 2000. Prior to joining the Group in 2000, Mr. Cheung worked as a sales executive with Hong Kong Telecom. Mr. Cheung holds a bachelor of business administration degree in management information system and finance from the Simon Fraser University in Canada.

**Mr. Cheng Ho Yip**, aged 31, is the research and development manager of the Group. He is responsible for software development. Mr. Cheng joined the Group as a programmer in 1995 after having obtained the higher diploma in computer studies from the City University of Hong Kong.

**Mr. Mong On Heng, Irwin**, aged 25, is the manager for the China operations of the Group. He is responsible for the software customisation and co-ordination with the Group's re-sellers. Mr. Mong joined the Group in 1997 as a programmer after having obtained a bachelor of engineering degree in computer engineering in the Hong Kong University of Science and Technology.

# REPORT OF THE DIRECTORS

The Directors submit their first annual report together with the audited accounts for the year ended 30th June, 2001.

## GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 12th February, 2001 as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands. Pursuant to a Group reorganisation (the "Reorganisation") in preparing for the listing of the shares of the Company on GEM, the Company acquired the entire issued share capital of Cyber Dynamic Enterprise Limited ("CDEL") and became the holding company of CDEL and its subsidiaries. Details of the Reorganisation are set out in the paragraph headed "Group reorganisation" in the section headed "Further information about the Company and its subsidiaries" in Appendix V to prospectus (the "Prospectus") dated 30th May, 2001 issued by the Company.

The Reorganisation has been reflected in the accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 13 to the accounts. The Group is principally engaged in the development and sale of human resources management system software as well as rendering of maintenance services in Hong Kong and China.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is as follows:

	Turnover		Contribution to profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities:				
Sale of application software	6,610	3,050	2,768	278
Resale of hardware	259	430	—	—
Rendering of maintenance services	1,884	1,589	789	145
	<u>8,753</u>	<u>5,069</u>	<u>3,557</u>	<u>423</u>
Interest income			54	36
Operating profit			<u>3,611</u>	<u>459</u>
Principal markets:				
Hong Kong	8,392	5,058	3,410	422
People's Republic of China (the "PRC")	361	11	147	1
	<u>8,753</u>	<u>5,069</u>	<u>3,557</u>	<u>423</u>
Interest income			54	36
Operating profit			<u>3,611</u>	<u>459</u>

**RESULTS AND APPROPRIATIONS**

The results for the year are set out in the consolidated profit and loss account on page 17.

The Directors do not recommend the payment of any dividend in respect of the year.

**RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 17 to the accounts.

**DONATIONS**

No charitable and other donations is made by the Group during the year.

**FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

**SHARE CAPITAL**

Details of the movements in share capital are set out in note 16 to the accounts.

**DISTRIBUTABLE RESERVES**

Pursuant to the Companies Law (2001 Revision) of the Cayman Islands and the articles of association of the Company, share premium of the Company is distributable to the shareholders. At 30th June, 2001 in the opinion of the Directors, the Company's reserves available for distribution to shareholders comprising share premium and retained profits, amounted in total to approximately HK\$5,736,000 (2000: HK\$Nil).

**THREE YEAR FINANCIAL SUMMARY**

The Reorganisation referred to in note 1 to the accounts has been reflected in the three year financial summary by treating the Company as having been the holding company of the Group from the beginning of the earliest period presented.

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover	<u>8,753</u>	<u>5,069</u>	<u>5,095</u>
Profit attributable to shareholders	<u>3,011</u>	<u>199</u>	<u>52</u>
Total assets	<b>18,908</b>	2,678	2,917
Total liabilities	<u>(2,222)</u>	<u>(928)</u>	<u>(1,366)</u>
Net assets	<u><b>16,686</b></u>	<u>1,750</u>	<u>1,551</u>

# REPORT OF THE DIRECTORS

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## DIRECTORS

The directors of the Company during the year were:

### Executive Directors

Ho Kwok Kin ( <i>Chairman</i> )	Appointed on 12/2/2001
Peter David Hilling	Appointed on 1/5/2001
Lau Yuk Cheong	Appointed on 12/2/2001

### Independent Non-Executive Directors

Ting Wai Cheung, Bernie	Appointed on 21/5/2001
Chan Kin Wai	Appointed on 21/5/2001

In accordance with Article 87 of the Company's Articles of Association, Lau Yuk Cheong will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of two years commencing from 1st May, 2001 and which will continue thereafter until terminated by three months' notice in writing served by either party on the other.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the directors and senior management are set out on page 8.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company and its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 30th June, 2001, which also constitute connected transactions and is exempted under the GEM Listing Rules are disclosed in note 20 to the accounts.

**DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTEREST IN SECURITIES**

At 30th June 2001, the interests of the directors and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI ordinance")), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

	<b>Personal interests</b>	<b>Corporate interests (note)</b>	<b>Total</b>
Mr. Ho Kwok Kin ("Mr. Ho")	Nil	200,400,000	200,400,000
Mr. Lau Yuk Cheong ("Mr. Lau")	Nil	200,400,000	200,400,000

Note: These shares were held by High Peak Development Limited ("High Peak"), a private company beneficially owned by as to about 71.27% by Mr. Ho, as to about 21.95% by Madam So Miu Han, Simee who is the wife of Mr. Ho, as to about 4.07% by Mr. Lau and as to about 2.71% by Mr. Cheng Ho Yip.

At no time during the year was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

**SUBSTANTIAL SHAREHOLDERS**

The register of substantial shareholders maintained under section 16 (1) of the SDI Ordinance shows that as at 30 th June, 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

	<b>Number of shares</b>			<b>Percentage of Issued share capital</b>
	<b>Personal interests</b>	<b>Corporate Interests</b>	<b>Total</b>	
High Peak (note 1)	Nil	200,400,000	200,400,000	49.43%
Mr. Ho (note 1)	Nil	200,400,000	200,400,000	49.43%
FlexSystem Limited (note 2)	Nil	119,600,000	119,600,000	29.50%
FlexSystem Holdings Limited (note 2)	Nil	119,600,000	119,600,000	29.50%

1. High Peak was incorporated in the Birtish Virgin Islands and its entire issued share capital is beneficially owned as to about 71.27% by Mr. Ho, as to about 21.95% by Madam So Miu Han, Simee who is the wife of Mr. Ho, as to about 4.07% by Mr. Lau and as to about 2.71% by Mr. Cheng Ho Yip.
2. FlexSystem Lintied was incorporated in Hong Kong and is a wholly owned subsidiary of FlexSystem Holdings Limited, the issued shares of which are listed on GEM.

# REPORT OF THE DIRECTORS

## SPONSOR'S INTERESTS

CSC Asia Limited (the "Sponsor") has entered into a sponsorship agreement with the Company whereby, for a fee, the Sponsor will act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the remaining period up to 30th June, 2003.

Save as disclosed above, neither the Sponsor nor its directors or employees or associates (as defined in the GEM Listing Rules), as at 30th June, 2001 had any interest in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

### Purchases

- the largest supplier	23%
- five largest suppliers combined	73%

### Sales

- the largest customer	7%
- five largest customers combined	21%

FlexSystem Limited, a shareholder owns more than 5% of the Company's share capital, is the largest customer of the Group.

None of the directors, their associates or any shareholder except FlexSystem Limited (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

## BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since listed on GEM.



## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of an Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors, namely Mr. Ting Wai Cheung, Bernie and Mr. Chan Kin Wai.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## AUDITORS

The accounts have been audited by Messrs. Fan, Mitchell & Co., who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Ho Kwok Kin**

*Chairman*

Hong Kong, 24th September, 2001

# REPORT OF THE AUDITORS

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TO THE SHAREHOLDERS OF  
**MRC HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

We have audited the accounts on pages 17 to 35 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

## **OPINION**

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 30th June, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**FAN, MITCHELL & CO.**

*Certified Public Accountants*

Hong Kong, 24th September, 2001

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the year ended 30th June, 2001*

	<i>Note</i>	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Turnover	3	<b>8,753</b>	5,069
Cost of sales		<b>(870)</b>	(883)
Gross profit		<b>7,883</b>	4,186
Other revenue	3	<b>54</b>	36
Distribution costs		<b>(506)</b>	(156)
Administrative expenses		<b>(2,556)</b>	(2,206)
Other operating expenses		<b>(1,264)</b>	(1,401)
Operating profit	4	<b>3,611</b>	459
Finance costs	5	<b>(5)</b>	(1)
Loss on disposal of fixed assets		<b>—</b>	(219)
Profit before taxation		<b>3,606</b>	239
Taxation	6	<b>(595)</b>	(40)
Profit after taxation		<b>3,011</b>	199
Earning per share - basic	8	<b>0.82 cents</b>	0.05cents

The only component of the statements of recognised gains and losses is the net profit for the years.

CONSOLIDATED  
BALANCE SHEET

As at 30th June, 2001

	Note	2001 HK\$'000	2000 HK\$'000
Intangible assets	11	<u>881</u>	<u>509</u>
Fixed assets	12	<u>549</u>	<u>372</u>
Current assets			
Trade and other receivables	14	2,700	1,477
Tax recoverable	6	—	1
Bank balances and cash		<u>14,778</u>	<u>319</u>
		<u>17,478</u>	<u>1,797</u>
Current liabilities			
Trade and other payables	15	1,543	888
Taxation payable	6	424	—
Bank overdraft		<u>62</u>	<u>—</u>
		<u>2,029</u>	<u>888</u>
Net current assets		<u>15,449</u>	<u>909</u>
Total assets less current liabilities		<u>16,879</u>	<u>1,790</u>
Non current liabilities			
Deferred taxation	6	<u>193</u>	<u>40</u>
		<u>16,686</u>	<u>1,750</u>
Financed by:			
Share capital	16	4,054	10
Reserves	17	<u>12,632</u>	<u>1,740</u>
Shareholders' funds		<u>16,686</u>	<u>1,750</u>

**Ho Kwok Kin**  
Director

**Lau Yuk Cheong**  
Director

**BALANCE  
SHEET**

*As at 30th June, 2001*

	<i>Note</i>	<b>2001 HK\$'000</b>
Investments in subsidiaries	13	(4,000) -----
Current assets		
Other receivables	14	58
Bank balances and cash		14,036 -----
		14,094
Current liabilities		
Other payables	15	304 -----
Net current assets		13,790 -----
Total assets less current liabilities		9,790 -----
Financed by:		
Share capital	16	4,054
Reserves	17	5,736 -----
Shareholders' funds		9,790 -----

**Ho Kwok Kin**  
*Director*

**Lau Yuk Cheong**  
*Director*

CONSOLIDATED  
CASH FLOW STATEMENT

For the year ended 30th June, 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash inflow from operating activities	18(a)	<u>3,537</u>	<u>843</u>
Returns on investments and servicing of finance			
Interest received		<u>54</u>	<u>36</u>
Net cash inflow from returns on investments and servicing of finance		<u>54</u>	<u>36</u>
Taxation			
Hong Kong profits tax paid		<u>(17)</u>	<u>—</u>
Investing activities			
Purchase of fixed assets		<u>(475)</u>	<u>(523)</u>
Payment for deferred development expenditures		<u>(627)</u>	<u>(763)</u>
Net cash outflow from investing activities		<u>(1,102)</u>	<u>(1,286)</u>
Net cash inflow/(outflow) before financing		<u>2,472</u>	<u>(407)</u>
Financing			
Net proceeds from issue of shares	18(b)	<u>11,925</u>	<u>750</u>
Net cash inflow from financing		<u>11,925</u>	<u>750</u>
Increase in cash and cash equivalents		<u>14,397</u>	<u>343</u>
Cash and cash equivalents at 1st July		<u>319</u>	<u>(24)</u>
Cash and cash equivalents at 30th June		<u>14,716</u>	<u>319</u>
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		<u>14,716</u>	<u>319</u>

## 1. GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) The Company was incorporated in the Cayman Islands on 12th February, 2001 as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands.
- (b) Pursuant to a group reorganisation ("Reorganisation"), which was completed on 21st May, 2001 to rationalise the Group's structure in preparation for a listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Cyber Dynamic Enterprise Limited ("CDEL") through a share swap and became the holding company of CDEL and its subsidiary.
- (c) The shares of the Company were listed on GEM of the Stock Exchange on 5th June, 2001.
- (d) The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.127 "Accounting for group reconstructions". The consolidated accounts of the Group for the year ended 30th June, 2001 including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.
- (e) The difference between the nominal value of the shares of CDEL acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange therefore is dealt with in the merger reserve on consolidation.
- (f) The accounts have been prepared under the historical convention, in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.
- (g) No balance sheet of the Company as at 30th June, 2000 is presented in the accounts as the Company was not incorporated on that date.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th June.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power of the issued share capital or controls the composition of the board of directors.

**2. PRINCIPAL ACCOUNTING POLICIES** (continued)**(b) Fixed assets and depreciation**

Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	over the useful life or the lease term, if shorter
Equipment	30%
Furniture and fixtures	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amount of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

**(c) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payables under such operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective lease.

**(d) Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(e) Taxation**

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is accounted for under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the accounts, to the extent that a liability or asset is expected with reasonable probability to crystallize in the foreseeable future. Deferred tax assets are not recognized unless its realization is assured beyond reasonable doubt.

**(f) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.



**2. PRINCIPAL ACCOUNTING POLICIES** *(continued)***(g) Turnover and revenue recognition**

- i) Software project income is recognised by reference to the stage of completion of the project at the balance sheet date. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed.
- ii) Revenue from service agreements is recognised pro-rata over the life of the agreement corresponding to notional delivery of the services.
- iii) Interest income is recognised on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

**(h) Staff retirement benefits**

The costs of staff retirement benefits are charged to the profit and loss account as incurred.

**(i) Intangible assets - research and development costs**

Research and development costs are expensed as incurred, except where the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than three years to reflect the pattern in which the related economic benefits are recognised.

**(j) Related parties**

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

**(k) Cash equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

**3. TURNOVER AND REVENUE**

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. Revenue recognised during the year is as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Turnover		
Software project income	<b>6,610</b>	3,050
Resale of hardware	<b>259</b>	430
Rendering of maintenance services	<b>1,884</b>	1,589
	<b>8,753</b>	5,069
Other revenue		
Interest income	<b>54</b>	36
Total revenues	<b>8,807</b>	5,105

**4. OPERATING PROFIT**

Operating profit is stated after crediting and charging the following:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Crediting		
Interest income	<b>54</b>	36
Charging		
Staff costs (including directors' emoluments)		
- Basic salaries and allowances	<b>3,510</b>	2,581
- Mandatory provident fund	<b>87</b>	—
- Capitalised as research and development	<b>(627)</b>	—
Amortisation of research and development	<b>255</b>	255
Depreciation of fixed assets	<b>298</b>	162
Auditors' remuneration	—	—
- for this year	<b>300</b>	20
- overprovision for previous year	<b>(20)</b>	—
Bad debt written off	—	4
Provision for bad debts	<b>51</b>	—
Operating lease rentals in respect of land and buildings	<b>185</b>	197

## 5. FINANCE COSTS

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Bank charges	<u>5</u>	<u>1</u>

## 6. TAXATION

Hong Kong profits tax has been provided for at the rate of 16% (2000: 16%) on the estimated assessable profit for the year.

a) The amount of taxation charged to the consolidated profit and loss account represents:-

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax	<b>442</b>	—
Deferred taxation	<b>153</b>	40
	<u>595</u>	<u>40</u>

b) Taxation in the consolidated balance sheet represents: -

Provision for Hong Kong profits tax for the year	<b>442</b>	—
Less:		
Tax paid	—	(1)
Tax refundable	<b>(18)</b>	—
	<u>424</u>	<u>(1)</u>

c) Deferred taxation in the consolidated balance sheet represents: -

Balance at 1st July	<b>40</b>	—
Charged to Profit and Loss Account	<b>153</b>	40
	<u>193</u>	<u>40</u>
Excess of depreciation allowances over depreciation charged in the financial statements	<b>52</b>	21
Capitalised research and development with allowance claimed	<b>141</b>	82
Tax losses	—	(63)
	<u>193</u>	<u>40</u>

## 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$145,000 (2000: HK\$Nil).

**8. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of HK\$3,011,000 (2000: HK\$199,000) and the weighted average of 367,062,466 (2000: 364,000,000 shares) deemed to be issued during the year. In determining the weighted average number of shares deemed to be issue in the current year, the 1,000,000 shares issued as consideration for the acquisition by the Company of the issued capital of CDEL and the capitalisation issue of 363,000,000 shares as referred to in note 16 were deemed to have been in issue on 1st July, 2000.

For comparison purposes, both the 1,000,000 shares issued as consideration for the acquisition by the Company of the issued capital of CDEL and the capitalisation issued of 363,000,000 shares mentioned above were also deemed to have been in issue on 1st July, 1999 for the purposes of the calculation of basic earnings per share.

There is no diluted earnings per share since the Company has no dilutive potential ordinary shares.

**9. RETIREMENT SCHEME**

With the implementation of Mandatory Provident Fund ("MPF") Schemes Ordinance on 1st December, 2000, the Group also participates in master trust MPF schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employee at 5% of the employees' monthly relevant income capped at HK\$20,000. The Group's contribution to the retirement scheme charged to the profit and loss account was approximately HK\$87,000 for the year (2000: HK\$Nil).

**10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS****(a) Directors' remuneration**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Fees	—	—
Other emoluments:		
Basic salaries, allowances, and benefits in kind	<b>1,351</b>	962
Contributions to pension scheme for directors of the Company	<b>17</b>	—
	<b>1,368</b>	962

For the year ended 30th June, 2000, the emoluments were paid and payable to the directors by the Company in respect of their services rendered for managing the subsidiaries.

The executive directors received individual emoluments for the year ended 30th June, 2001 of approximately HK\$762,000 (2000: HK\$422,000), HK\$361,000 (2000: HK\$310,000) and HK\$244,000 (2000: HK\$230,000) respectively. Included in the emoluments HK\$361,000 and HK\$244,000 paid to two executive directors, HK\$215,000 and HK\$681,000 were capitalized as research and development cost respectively (2000: HK\$Nil).

All independent non-executive directors did not receive any fee and other emoluments for the year ended 30th June, 2001.

There has been no arrangement under which a director has waived or agreed to waived any emoluments for the year ended 30th June, 2001 (2000: HK\$Nil).

**10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (continued)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include three directors whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining two (2000: two) individuals during the year are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Basic salaries, allowances, and benefits in kind	<b>496</b>	701
Pension scheme contributions	<b>14</b>	—
	<b>510</b>	701

The number of employees whose emoluments fell within the following bands is as follows:

<b>Emolument bands</b>	<b>Number of individuals</b>	
	<b>2001</b>	2000
HK\$nil - HK\$1,000,000	<b>2</b>	2

**11. INTANGIBLE ASSETS****Deferred development costs**

	<i>HK\$'000</i>
Cost :	
At 1st July, 2000	764
Additions	627
At 30th June, 2001	1,391
Accumulated amortisation :	
At 1st July, 2000	255
Charges for the year	255
At 30th June, 2001	510
Net book value :	
At 30th June, 2001	881
At 30th June, 2000	509

NOTES TO  
THE ACCOUNTS (CONT'D)

For the year ended 30th June, 2001

12. FIXED ASSETS

	Leasehold improvements <i>HK\$'000</i>	Group Equipment and computer software <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1st July, 2000	99	237	213	549
Additions	—	441	34	475
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2001	99	678	247	1,024
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation:				
At 1st July, 2000	49	83	45	177
Charges for the year	50	199	49	298
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2001	99	282	94	475
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value:				
At 30th June, 2001	—	396	153	549
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2000	50	154	168	372
	<hr/>	<hr/>	<hr/>	<hr/>

13. INVESTMENTS IN SUBSIDIARIES

	Company 2001 <i>HK\$'000</i>
Investments at cost:	
Unlisted shares	10
Amount due to a subsidiary	(4,010)
	<hr/>
	(4,000)
	<hr/>

The amount due to a subsidiary is unsecured, interest-free, and repayable on demand.

**13. INVESTMENTS IN SUBSIDIARIES** (continued)

The following is a list of the subsidiaries at 30th June, 2001 :

Name	Place of incorporation	Principal activities and place of operation	Principal of issued share capital and registered capital	Effective interest held
<i>Subsidiary held directly</i>				
Cyber Dynamic Enterprises Limited*	British Virgin Islands	Investment holding in Hong Kong	10,310.90 ordinary shares of US\$1 each	100%
<i>Subsidiaries held indirectly</i>				
Manpower Resource Computing Limited	Hong Kong	Development and distribution of human resource management software system and provision for maintenance and consultancy services in Hong Kong	1,300,000 ordinary shares of HK\$1 each	100%

\* Not audited by Fan, Mitchell & Co.

**14. TRADE AND OTHER RECEIVABLES**

	Group		Company
	2001	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Due from:			
A shareholder	177	—	—
Affiliated companies	101	62	—
A director	43	235	—
Trade receivables	2,124	1,014	—
Prepayments and deposits	197	166	—
Other receivables	58	—	58
	<u>2,700</u>	<u>1,477</u>	<u>58</u>

The amounts due from a shareholder and affiliated companies are unsecured and interest free. The affiliated companies are beneficially owned by the minor shareholders of the Company.

Included in prepayments and deposits is an amount of HK\$62,000 in respect of rental deposits which are expected to be repaid after twelve months.

## 15. TRADE AND OTHER PAYABLES

	<b>Group</b>	<b>Company</b>
	<b>2001</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Due to:		
An affiliated company	2	—
Other payables	186	52
Accruals	150	37
Deferred income	1,205	799
	<u>1,543</u>	<u>888</u>
	<u>1,543</u>	<u>304</u>

The amounts due to an affiliated company is unsecured and interest-free. The affiliated company is beneficially owned by a minor shareholder of the company.

## 16. SHARE CAPITAL

	<b>2001</b>
	<i>HK\$'000</i>
<i>Authorised:</i>	
10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>
<i>Issued and fully paid:</i>	
405,400,000 ordinary shares of HK\$0.01 each	<u>4,054</u>

- (a) The Company was incorporated on 12th February, 2001 with an authorised share capital of HK\$400,000 divided into 4,000,000 shares of HK\$0.10 each.
- (b) In preparation for the listing of the Company's shares on the Stock Exchange, the following changes in the Company's authorised and issued share capital took place:
- (i) 1 share was allocated and issued to Codan Trust Company(Cayman)Limited as the subscriber and transferred to Mr. Ho Kwok Kin on 12th February, 2000 in consideration of HK\$0.10;
  - (ii) on 19th May, 2001, each of the issued and unissued shares of \$0.10 each in the share capital of the Company was subdivided into 10 shares;
  - (iii) on 21st May, 2001, the authorised share capital of the Company was increased from HK\$400,000 to HK\$100,000,000 by the creation of an additional 9,960,000,000 new shares of HK\$0.01 each;
  - (iv) as consideration for the acquisition by the Company of the entire issued capital of Cyber Dynamic Enterprise Limited on 21st May, 2001, currently an intermediate holding company of the Group, an aggregate of 999,990 shares of the Company were issued, credited as fully paid to the then shareholders of Cyber Dynamic Enterprise Limited; and



**16. SHARE CAPITAL** (continued)

- (c) On 4th June, 2001, an additional 41,400,000 shares of HK\$0.01 each were issued by way of placing at price of HK\$0.39 per share to public for cash consideration of HK\$16,146,000 and traded on the GEM of The Stock Exchange.
- (d) On 4th June, 2001, an amount of \$3,630,000 standing to the credit of the share premium account was applied in paying up in full 363,000,000 ordinary shares of \$0.01 each which were allotted and distributed as fully paid to holders of shares of the Company whose names appear on the register of members of the Company at the close of business on 21st May, 2001 in proportion to their shares then held.
- (e) The share capital presented in the consolidated balance sheet as at 30th June, 2000 represents the share capital of the Company, arising on incorporation and from the share swap transaction described in notes (b) (i) and (b) (iv) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in note 1 (d). The difference between the nominal value of these shares and the nominal value of shares of the subsidiaries acquired pursuant to the Reconstruction is accounted for as merger reserve as at 1st July, 1999 (note 17).

**17. RESERVES**

Group	Share premium HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July, 1999 (Note 16(e))	—	1,740	(199)	1,541
Profit for the year	—	—	199	199
At 30th June, 2000	—	1,740	—	1,740
Company and subsidiaries				
At 30th June, 2000	—	1,740	—	1,740
At 1st July, 2000	—	1,740	—	1,740
Issue of shares in CDEL prior to the Reorganisation	—	2,000	—	2,000
Premium on issue of shares (Note 16(c))	15,732	—	—	15,732
Share issue expenses	(6,221)	—	—	(6,221)
Capitalisation issue (Note 16(d))	(3,630)	—	—	(3,630)
Profit for the year	—	—	3,011	3,011
At 30th June, 2001	5,881	3,740	3,011	12,632

The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the Reorganisation as set out in note 1 to the accounts and the nominal value of the share capital of the Company issued in exchange thereof.

**17. RESERVES** (continued)

The share issue expenses represent the expenses incurred for the listing of the Company's shares on the Stock Exchange. The total expenses incurred for the listing is approximately HK\$10,221,000 which is HK\$2,221,000 higher than the estimated amount HK\$8,000,000 stated in the prospectus dated 30th May, 2001 issued by the Company due to additional shares issued and additional expenses incurred. Mr. Ho Kwok Kin has borne HK\$4,000,000 of the listing expenses in accordance with the prospectus that 50% of the estimated expenses for the listing expenses is payable by him. The remaining amount of listing expenses HK\$6,221,000 is therefore charged to the share premium account.

Company	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Premium on issuance of new shares	15,732	—	15,732
Share issue expenses	(6,221)	—	(6,221)
Capitalisation issue	(3,630)	—	(3,630)
Loss for the year	—	(145)	(145)
	<u>5,881</u>	<u>(145)</u>	<u>5,736</u>

**18. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Operating profit	<b>3,606</b>	239
Depreciation	<b>298</b>	162
Amortisation of deferred development costs	<b>255</b>	255
Interest income	<b>(54)</b>	(36)
Loss on disposal of fixed assets	—	219
Decrease/(increase) in amount due from a director	<b>192</b>	(235)
Increase in amount due from a shareholder	<b>(177)</b>	—
Increase in amounts due from affiliated companies	<b>(39)</b>	(62)
(Increase)/decrease in trade and other receivables	<b>(1,199)</b>	608
Increase in trade and other payables, accruals, deferred income and sales deposits received	<b>653</b>	167
Increase in amounts due to an affiliated company	<b>2</b>	—
Decrease in amounts due to directors	—	(474)
Net cash inflow from operating activities	<u><b>3,537</b></u>	<u>843</u>

**18. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** (continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium		Merge reserve on consolidation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1 July	10	10	1,740	1,740
Issue of ordinary shares of				
- the Company	16,146	—	—	—
- CDEL prior to the Reorganisation	—	—	2,000	—
Share issue expenses	(6,221)	—	—	—
At 30th June	<u>9,935</u>	<u>10</u>	<u>3,740</u>	<u>1,740</u>

**19. COMMITMENTS AND CONTINGENT LIABILITIES**(a) **Commitments under operating leases**

(i) At 30th June, 2001, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows :

	Group	
	2001 Land and buildings HK\$'000	2000 Land and buildings HK\$'000
Within one year	890	470
In the second to fifth year inclusive	511	—
	<u>1,401</u>	<u>470</u>

The Group leases a number of properties for office premises and director quarters under operating leases. The leases typically run for a period of one to two years without stating any renewal option. None of the leases includes contingent rentals.

(b) At 30th June, 2001, the Group had no capital commitment.

(c) For the year ended 30th June, 2001 and 2000, the Group had no contingent liabilities.

**20. RELATED PARTY TRANSACTIONS**

Save as disclosed elsewhere in this report, the following significant related party transactions have been entered into by the Group during the year:

		<b>Group</b>	
	<i>Note</i>	<b>2001</b>	2000
		<b>HK\$'000</b>	HK\$'000
Sales to a shareholder, FlexSystem Limited	i	<b>537</b>	13
Sales to Flex System (Shanghai) Company Limited, a fellow subsidiary of FlexSystem Limited	i	<b>101</b>	11
Rental expenses paid to a director, Mr. Ho Kwok Kin and his wife, Madam So Miu Han	ii	<b>240</b>	240
Rental expenses paid to a director, Mr. Lau Yuk Cheong	iii	<b>132</b>	132
Design fee paid to Flex System (Shanghai) Co. Ltd., a fellow subsidiary of FlexSystem Limited	iv	—	11
Supporting service fee paid to an affiliated company, Flexlink Limited	v	<b>51</b>	—
Commission paid to an affiliated company, PayEasy System Limited	vi	<b>70</b>	—
Purchases from Flex Education Technology Limited, a fellow subsidiary of FlexSystem Limited	vii	<b>3</b>	—
Accountancy fee paid to Net-Accounting Services Limited, a fellow subsidiary of FlexSystem Limited	viii	<b>20</b>	—
		<b>_____</b>	<b>_____</b>

*Notes:*

- (i) Sales to FlexSystem Limited and Flex System (Shanghai) Company Limited were conducted with the discount amounting to 40% and 20% of software royalty and modification of the sold software respectively with reference to comparable market prices as determined by the directors of MRCL.
- (ii) Madam So Miu Han, Simee, the wife of Mr. Ho Kwok Kin, and Mr. Ho leased a property to MRCL to be used as the directors' quarter for a period of one and a half year commencing from 1st July, 1999 to 31st December, 2000 and by a tenancy agreement for a period of two years commencing from 1st January, 2001 to 31st December, 2002 both at a monthly rental of HK\$20,000. These tenancy agreements were on normal commercial terms.
- (iii) Mr. Lau Yuk Cheong, Madam Lui Wai Yi, Vivian and Mr. Lui Yuen Hong, the wife and father-in-law of Mr. Lau Yuk Cheong leased a property to MRCL to be used as the director quarter under a verbal agreement from 1st July, 1998 to 31st December, 2000 and by a tenancy agreement for a period of two years commencing from 1st January, 2001 to 31st December, 2002 both at a monthly rental of HK\$11,000. These tenancy agreements were on normal commercial terms.
- (iv) Design fee represents the payment for the design of the Chinese web page of MRCL on normal commercial terms.
- (v) Service fee paid to Flexlink Limited (Mr. Lok Wai Man being a director of FlexSystem Limited is also a shareholder and a director of Flexlink Limited) for the provision of services rendered for software sold to clients of MRCL. The fee paid was previously agreed by all directors of MRCL on normal commercial terms and was deemed to be non-recurring in nature.

**20. RELATED PARTY TRANSACTIONS** *(continued)*

- (vi) Commission paid to PayEasy System Limited (Mr. Lau Yuk Cheong being the director and shareholder of PayEasy System Limited) represents introduction fee for new customers of HK\$35,000 each on successful basis. The fee paid was previously agreed by all directors and was deemed to be non-recurring in nature. The commission paid to related parties has been terminated since January 2001.
- (vii) The Group purchased software from Flex Education Technology Limited on normal commercial terms.
- (viii) Accountancy fee represents the payment for the accountancy services provided for the listing of the Group on normal commercial terms.

The directors of the Company are of the opinion that the above transactions were conducted in the normal course of business of the Group and were on normal commercial terms.

The transactions set out in notes (i), (ii) and (iii) continue following the listing of the Company's shares on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

**21. ULTIMATE HOLDING COMPANY**

The directors regard High Peak Development Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

**22. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 24th September, 2001.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the first annual general meeting of MRC Holdings Limited (the "Company") will be held at 902, 9th Floor, Tung Wai Commercial Building, 111 Gloucester Road, Wanchai, Hong Kong on 30th October, 2001 at 4:00 p.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 30th June, 2001;
2. to re-elect directors and to authorise the board of directors to fix the directors' remuneration;
3. to re-appoint auditors and to authorise the board of directors to fix their remuneration;

and, as special business, to consider and, if thought fit, passing the following Resolutions as ordinary resolutions:

4. "THAT:
  - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the directors of the Company during the Relevant Period (as herein defined) of all the powers of the Company to allot, issue and deal with unissued shares (each a "Share") of HK\$0.01 each in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
  - (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
  - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as herein defined); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:
    - (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
    - (bb) (if the directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of that Resolution),

and the authority pursuant to paragraph(a) of this Resolution shall be limited accordingly; and

(d) for the purposes of this Resolution:

**“Relevant Period”** means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any other applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution;

**“Rights Issue”** means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the directors of the Company to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

5. “THAT:

- (a) the exercise by the directors of the Company during the Relevant Period (as herein defined) of all powers of the Company to purchase the Shares on The Stock Exchange of Hong Kong Limited (the **“Stcok Exchange”**) or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the GEM Listing Rules and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purposes of this Resolution, “Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association the Company, or any other applicable law of the Cayman Islands to be held; and
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.”

## NOTICE OF ANNUAL GENERAL MEETING

6. "THAT the directors of the Company be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such Resolution."

By order of the board of directors  
**MRC Holdings Limited**  
**Ho Kwok Kin**  
*Chairman*

Hong Kong, 24th September, 2001

Registered office:  
P.O. Box 2681 GT  
Zephyr House, Mary Street  
George Town, Grand Cayman  
British West Indies

Head office and principal place  
of business in Hong Kong:  
Office No. 03, 13th Floor  
Tung Wai Commercial Building  
Nos. 109-111 Gloucester Road and  
Nos. 22-26 Fleming Road  
Hong Kong

### *Notes:*

- 1 A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
- 2 In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrar, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.
- 3 In relation to proposed resolutions nos. 4 and 6 above, approval is being sought from the shareholders for the grant to the directors of a general mandate to authorise the allotment and issue of Shares under the GEM Listing Rules. The directors have no immediate plans to issue any new Shares of the Company other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme or similar arrangement which may be approved by shareholders of the Company.
- 4 In relation to proposed resolution no. 5 above, the directors of the Company wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders of the Company to make an informed decision to vote on the proposed resolution as required by the GEM Listing Rules will be set out in a separate document to be despatched to the shareholders with the annual report for the year ended 30th June, 2001.