



MRC HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED
31ST DECEMBER, 2001**

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This report, for which the directors of MRC Holdings Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. 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.

SUMMARY

- Recorded an unaudited combined turnover of approximately HK\$2.8 million for the six months ended 31st December, 2001.
- Recorded an unaudited combined loss of approximately HK\$2.8 million for the six months ended 31st December, 2001.
- Interim dividend of HK0.25 cents recommended.

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of MRC Holdings Limited, I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months and the three months ended 31st December, 2001 together with comparative unaudited figures for the corresponding period in 2000.

CONDENSED COMBINED INCOME STATEMENT

For the three months and six months ended 31st December, 2001

		For the three months ended 31st December,		For the six months ended 31st December,	
		2001	2000	2001	2000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	1,404	2,020	2,821	3,753
Cost of sales		(812)	(122)	(869)	(383)
Gross profit		592	1,898	1,952	3,370
Other revenue		83	10	201	12
Distribution costs		(741)	(74)	(821)	(132)
Administrative expenses		(1,920)	(477)	(3,868)	(865)
Other operating expenses		(522)	(438)	(638)	(700)
(Loss)/profit from operations	3	(2,508)	919	(3,174)	1,684
Finance costs		(3)	0	(4)	(1)
(Loss) / Profit before taxation		(2,511)	919	(3,178)	1,683
Taxation		0	105	—	(17)
Minority Interest		(2,511)	1,024	(3,178)	1,666
Net (Loss) / Profit attributable to shareholders		342	0	342	0
Dividend		(2,169)	1,024	(2,836)	1,666
(Loss)/Earnings per share - basic	4	1,013	0	1,013	0
		(0.58) cents	0.28 cents	(0.74) cents	0.46 cents

CONDENSED COMBINED BALANCE SHEET

		At 31st December, 2001 (Unaudited) HK\$'000	At 30th June, 2001 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Intangible assets		1,294	881
Fixed assets		1,198	549
		2,492	1,430
CURRENT ASSETS			
Other receivable	5	2,566	2,700
Bank and cash balances		10,445	14,778
		13,011	17,478
CURRENT LIABILITIES			
Other payables	6	1,226	1,543
Provision for taxation		424	424
Bank overdrafts - unsecured		173	62
		1,823	2,029
NET CURRENT ASSETS		11,188	15,449
TOTAL ASSETS LESS CURRENT LIABILITIES		13,680	16,879
NON-CURRENT LIABILITIES			
Deferred taxation		193	193
		193	193
NET ASSETS		13,487	16,686
CAPITAL AND RESERVES			
Share capital		4,054	4,054
Reserves	7	9,296	12,632
Minority interest		137	0
SHAREHOLDERS' FUNDS		13,487	16,686

CONDENSED COMBINED STATEMENT OF RECOGNISED GAINS AND LOSSES

	<i>Notes</i>	For the six months ended 31st October, 2001 (Unaudited) <i>HK\$'000</i>	For the six months ended 31st October, 2000 (Unaudited) <i>HK\$'000</i>
Net (Loss)/profit for the period attributable to shareholders		(2,836)	1,666
Total recognised gains and losses		<u>(2,836)</u>	<u>1,666</u>

CONDENSED COMBINED CASH FLOW STATEMENT

	For the six months ended 31st December, 2001 (Unaudited) <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(2,590)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	196
TAX PAID, NET	0
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(1,550)</u>
NET CASH OUTFLOW BEFORE FINANCING	(3,944)
NET CASH OUTFLOW FROM FINANCING	<u>(500)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(4,444)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>14,716</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>10,272</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Bank and cash balances	10,445
Bank overdrafts	<u>(173)</u>
	<u><u>10,272</u></u>

Notes:

1. Basis of presentation

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 reorganization, which was completed on 21st May, 2001 to rationalize the Group's structure in preparation for a listing of the Company's share on GEM, 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.

The results of the Group have been prepared on a merger basis as if the current group structure had been in existence throughout the periods under review or since the respective dates of incorporation or establishment of the respective subsidiaries now comprising the Group, whichever is a shorter period.

All significant intra-group transactions and balances have been eliminated on combination.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

The interim financial statements are prepared in accordance with the requirements as set out in the GEM Listing Rules and the Statement of Standard Accounting Practice 2.125 "Interim Financial Reporting" as issued by the Hong Kong Society of Accountants except that the comparative figures of the condensed combined cash flow statement have not been prepared as the Company has taken advantage of the Transitional provision set out in the GEM Listing Rules. The same accounting policies adopted in the audited accounts for the year ended 30th June, 2001 have been applied to the interim financial statements.

2. Turnover

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

	For the three months ended 31st December, 2001		For the six months ended 31st December, 2001	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
By Principal activities				
Software project income	924	2,014	1,705	3,318
Render of maintenance services	480	6	1,116	435
	<u>1,404</u>	<u>2,020</u>	<u>2,821</u>	<u>3,753</u>
By Principal markets				
Hong Kong	1,404	2,020	2,601	3,753
PRC	0	0	220	0
	<u>1,404</u>	<u>2,020</u>	<u>2,821</u>	<u>3,753</u>

3. Taxation

No provision for the Hong Kong profits tax (2000: 16%) have been made as no assessable profits during the period.

4. Earning per shares

The calculation of the Group's basic (loss)/earning per share for the six months ended 31st December, 2001 and 2000 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$(2,836,000) and 1,666,000 and the weighted average of 384,700,000 and 364,000,000 shares deemed to be issued during the period respectively.

The calculation of the Group's basic (loss)/earnings per share for the three months ended 31st December, 2001 and 2000 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$(2,169,000) and 1,024,000 and the weighted average number of 374,350,000 and 364,000,000 shares in issue respectively.

No diluted (loss)/earnings per share is shown because there were no dilutive potential ordinary shares.

5. Trade and other receivables

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

The following is an aged analysis of trade receivables at the reporting date:

	31st December, 2001 (Unaudited) HK\$'000	30th June, 2001 (Audited) HK\$'000
0-30 days	586	1,065
31-90 days	679	540
91-180 days	159	438
>180 days	576	81
	<hr/>	<hr/>
	2,000	2,124
Other receivables, deposit and prepayment	566	576
	<hr/>	<hr/>
	2,566	2,700
	<hr/> <hr/>	<hr/> <hr/>

6. Other payables

No aged analysis of trade payables as the Group do not have trade payable at the reporting date:

	31st December, 2001 (Unaudited) HK\$'000	30th June, 2001 (Audited) HK\$'000
Other payables, accrual charges and deferred income	1,226	1,543
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7. Reserves

Group	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July, 2001	5,881	3,740	3,011	12,632
Share issue expenses	(500)	—	—	(500)
Loss for the period	—	—	(2,836)	(2,836)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2001	<u>5,381</u>	<u>3,740</u>	<u>175</u>	<u>9,296</u>

INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK0.25 cents per share for the six months ended 31st December 2001 (six months ended 31st December, 2000: Nil). The dividend will be payable on Friday, 8th March 2002 to shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 7th March, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed between Tuesday, 5th March, 2002 and Thursday, 7th March, 2002 during which period no transfer of shares will be effected. To rank for the aforesaid interim dividend, all completed transfer forms, accompanied by the relevant shares certificates, must be lodged with the Company's Hong Kong branch share register, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, financial resources and capital structure

As at 31st December, 2001, the Group had net current assets of approximately HK\$11 million. The financial position of the Group remains healthy with a non-gearing capital structure.

Capital commitments and significant investments

As at 31st December, 2001, the Group did not have any significant capital commitments and significant investments.

Financial resources

As at 31st December, 2001, the Group had bank balances of approximately HK\$10 million. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances available.

Material acquisitions/disposals

The Group had no material acquisitions/disposals during the Reporting Period.

Segmental information

An analysis of business and geographical segments is as follows:

	Turnover		Contribution to (Loss)/profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities:				
Sale of application software	1,705	3,318	(2,039)	1,478
Rendering of maintenance services	1,116	435	(1,336)	194
	<u>2,821</u>	<u>3,753</u>	<u>(3,375)</u>	<u>1,672</u>
Interest income			201	12
Operating (Loss)/profit			<u>(3,174)</u>	<u>1,684</u>
Principal markets:				
Hong Kong	2,601	3,753	(3,112)	1,672
People's Republic of China (the "PRC")	220	0	(263)	0
	<u>2,821</u>	<u>3,753</u>	<u>(3,375)</u>	<u>1,672</u>
Interest income			201	12
Operating profit			<u>(3,174)</u>	<u>1,684</u>

Employee information

As at 31st December, 2001, the Group had 63 employees spreading from Hong Kong to the PRC.

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

The Group encourages employees to receive training and further education. It also sponsors senior executives for higher education programs.

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

Charge on group assets

As at 31st December, 2001, the Group did not have any charges on group assets.

Details of future plans for material investment or capital assets

The Directors do not have any future plans for material investment or capital assets.

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars and Renminbei (“RMB”). The Directors considers the impacts of foreign exchange exposure of the Group is minimal.

Contingent liabilities

As at 31st December, 2001, the Group did not have any contingent liabilities.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Geographical expansion

Objective:	Japan market	—	Contract large Japanese consultancy firms to look for business partners to develop the market.
		—	Finalize the business partner and form a joint venture with such business partner.
		—	Commence software localization work for Japan market.
		—	Send one or two staff to Japan to train the technical staff and marketing staff of the Japanese partner.
	China market	—	Setting up a support center in the China to provide ongoing support.
	Singapore and Malaysia markets	—	Commence software localization work for the Singapore market.
		—	Send one to two staff members to Singapore to train the technical staff and marketing staff of the Singapore office of the FlexSystem.

- Actual: Japan Market — The prolonged slow economic condition in Japan, the Directors have decided to postpone the localization work of the software and the location of business partners for the development of the Japan Market.
- China Market — A foreign enterprise have been formed in Dongguan with braches offices in Ghouzhou and Shenzen. Full support center was operated and full force sales activities will commerce after Chinese New Year.
- Singapore and Malaysia — With China's entering into the WTO and the slow economics condition in Singapore, the Directors have decided to postpone the expansion in these areas until it is feasible.

ASP business

- Objective: — Review feedback and market acceptance of the ASP service.
- Formulate pricing and form alliance with business partners.
- Actual: — With a positive feedback of the ASP service, the Directors have discussed with a world-wide Certified Public Accountants firm to formulate the co-operation in the ASP services.

Product enhancement and development

- Objective: — Launch Staff Enquiry Module.
- Develop Employee Survey System.
- Actual: — Staff Enquiry Module and Employee Survey System are still under development.
- By using MRC code and socket date transfer methodology, new client-server version is scheduled to be launched in April 2002.

Sales and marketing

Objective: Increase the number of sales and marketing staff to 7.

Actual: Completed

Recruitment portal Cooperation

Objective: — Finish modification of Applicant Tacking Module.

— Formal launch of the enhanced www.foturego.com.

Actual: — In view of the adverse market conditions in Hong Kong, cooperation have been suspended.

USE OF PROCEEDS

The Group has applied the net proceeds from the new issue of shares by way of placing as follows:-

	Amount to be used up to 31st December, 2001 as Disclosed in the Prospectus (in HK\$ million)	Actual amount used up to 31st December, 2001 (in HK\$ million)
Scheduled projected		
Geographical expansion	2.6	2.0
ASP Business	1.4	0
Product enhancement and development	1.5	0.7
Sales and Marketing	1.0	1.4
Recruitment Portal cooperation	0.5	0
	<hr/>	<hr/>
Total	7.0	4.1
	<hr/> <hr/>	<hr/> <hr/>

Up to 31st December, 2001, the Group utilized about HK\$4.1million of the placing proceeds. The under-utilisation is mainly due to the cost saving on recruiting R&D staff as well as the delay in the ASP business.

COMPETING INTEREST

During the period under review, none of the directors or the initial 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.

BUSINESS REVIEW AND PROSPECTS

Financial Review

During the period under review, turnover decreased by approximately 25% to approximately HK\$2.8 million as compared with the corresponding period of last year. Moreover, the Group recorded a loss attributable to shareholders of HK\$2.8 million as a result of difficult economic condition pertaining to the computer industry and the Group also faced with a cut throat competition from our competitors.

Business Development

Sales and Marketing

Despite the downtrend of the computer industry and the Group is still recruiting more sales and marketing staff to join the sales and marketing team, it is expected that enhancement of the sales and marketing team will finally increase the Group's turnover and image.

Geographic Expansion

A new subsidiary in which the Group owned 70% interest has been set up to hold a wholly owned foreign enterprise (the "Enterprise") in Dongguan, the PRC. The Enterprise will be the Group's head quarter in the PRC and will be responsible for the sales and marketing of the Group's products and services in the PRC. The Group has conducted a lot of marketing activities in the PRC including participating in one IT exhibition and holding one seminar in Dongguan. By the formation of the Enterprise in the PRC, it is expected that the Group will penetrate into the PRC market gradually.

Research and development

A new client server version will be launched around in April 2002. This new client server version is capable of handling large organization with the new features such as open operating system platform, open file architecture and open reporting capabilities.

Outlook

The Group believes that the remaining months of the fiscal year will be difficult as the prolonged down sloping economy has continued setting out a negative impact on the IT industry. By the establishment of our PRC office in Dongguan as well as branch offices in Guangzhou and Shenzhen, the Group will procure more customers' base from PRC. In order to enhance our source of income, The Group also provide a wider spectrum of services to our customers such as large scale HR automation project and HR training.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December, 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 below in respect of the Directors and chief executives.

	Number of shares			Percentage of Issued share capital
	Personal interests	Corporate Interests	Total	
High Peak Development Limited ("High Peak") (note 1)	Nil	200,400,000	200,400,000	49.43%
Mr. Ho Kwok Kin ("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 Yuk Cheong ("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.

DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTEREST IN SECURITIES

At 31st December, 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 SDI Ordinance or as notified to the Company were as follows:

	Personal interests	Number of shares Corporate interests (note)	Total
Mr. Ho	Nil	200,400,000	200,400,000
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.

SHARE OPTION SCHEME

Under a share option scheme (the "Scheme") adopted by the shareholders of the Company on 21st May, 2001, the Directors may, at their absolute discretion, invite any full-time employee of the Company or any of its subsidiaries, including any executive director but excluding the non-executive directors of the Company or any such subsidiaries, to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

As at the date of this report, no option was granted by the Company under the Scheme.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 31st December, 2001.

COMPLIANCE WITH BOARD PRACTICE AND PROCEDURES

All of the recommendations and guidelines of the Board of Best Practice issued by the Stock Exchange have been complied with by the Company.

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 six months ended 31st December, 2001.

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 September, 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.

By order of the Board
Ho Kwok Kin
Chairman

Hong Kong, 6th February, 2002