MRC Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2002

www.mrchr.com

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CORPORATE INFORMATION

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
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COMPANY HOMEPAGE
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CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of the Company, I am pleased to present the annual audited results of the Company and its subsidaires (the "Group") for the financial year ended 30th June, 2002.

FINANCIAL PERFORMANCE

During the period under review, the Group recorded a net loss of approximately HK$7.5 million. The Group's turnover for the year ended 30th June, 2002 was approximately HK$6.3 million. The financial position of the Group remained healthy with a non-gearing capital structure.

DEPLOYING RESOURCES IN RESEARCH AND DEVELOPMENT

Despite the decrease in turnover, the Group persists in its research and development investment, which covers many areas, new client server, MRC code and socket data transfer methodology. In order to provide the growth in shareholders' wealth in future, developing resources in research and development is a key success factor.

SUBSCRIPTION OF SHARE IN REACH HUMAN RESOURCES LIMITED ("REACH HUMAN")

The Group has subscribed for 13 new shares in the capital of Reach Human, representing approximately 11.5% of the issued share capital of Reach Human. The investment in Reach Human will expand the Group's market to the PRC as Reach Human has established business relationship with companies in the PRC by providing them business management consultancy and corporate image consultancy services and it could introduce the Group's products while providing such services to its corporate clients.

PROSPECTS AND APPRECIATION

Year 2002 is a very challenge and difficult year for the Group as the software market is still undergoing a slow recovery. However, the Group is optimistic about its future prospects as the board of directors believe that the PRC's accession to the WTO will increase the demand of the software market particularly in human resources sotfwares. The Group will continune to deploy resources in research and development.

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 Group.

FINANCIAL REVIEW

During the year ended 30th June, 2002, turnover of approximately HK$6.3 million and the loss attributable to shareholders of approximately HK$7.5 million was recorded. The decrease in turnover of 39% as compared with the corresponding period last year was principally due to the economic conditions pertaining to the IT industry. The Group still maintains a non gearing capital structure.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30th June, 2002, the shareholders' funds of the Group amounted to approximately HK$7.7 million. Current assets amounted to approximately HK$7.7 million, of which approximately HK$5.2 million were cash and bank deposits and approximately HK$2.5 million were debtors, and other receivables. Its current liabilities amounted to approximately HK$2.7 million, mainly comprise of other payable and taxation payable amounted to approximately HK$2.2 million and HK$0.5 million respectively. The net asset value per share was HK$0.02. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 30th June, 2002, the Group did not have any borrowings and long-term debts. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was zero (2001: zero), reflecting the adequacy of financial resources.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year ended 30th June, 2002, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in Hong Kong Dollars and the Group conducted its business transactions principally in this type of currency. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 30th June, 2002, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 30th June, 2002, the Group had no material investment.

CAPITAL COMMITMENTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Capital expenditure contracted, but not provided for	**591**	—

Capital commitments disclosed above represent an amount in respect of capital contributions to subsidiaries registered in the PRC.

CONTINGENT LIABILITIES

As at the two years ended 30th June, 2002, the Group had no material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 30th June, 2002, the Group had no charges on the Group's assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2002, the Group had 52 employees. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include share option scheme, contributions to statutory mandatory provident fund scheme and medical scheme to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

COMPARISON OF USE OF PROCEEDS

	Amount to be used up to 30th June, 2002 as disclosed in the prospectus *(in HK$'million)*	Actual amount used up to 30th June, 2002 *(in HK$'million)*
Geographical expansion	3.4	2.3
ASP business	1.5	—
Product enhancement and development	2.0	1.8
Sales and marketing	1.3	1.4
Recruitment portal cooperation	0.5	—
Total	8.7	5.5

Up to 30th June, 2002, the Group had utilised about HK$5.5 million of the placing proceeds. The under-utilisation is mainly due to the cost saving on slowing down the geographical expansion as well as the delay in ASP business.

COMPARISON OF BUSINESS OBJECTIVE

Geographical expansion

Objective:	Japan market	—	Organise HRM seminars and traning course with local universities and HRM institutions
		—	Organise user group meetings
		—	Form alliances with other professional bodies and consultancy firms
		—	Commence to build sales and marketing team
		—	Advertise in human resource journals
	The PRC, Taiwan, Singapore and Malaysia markets	—	Distribution agents will be appointed
Actual:	Japan market	—	Due to the adverse market condition in IT industry, the Group is still looking for a stable partner
	The PRC, Taiwan, Singapore and Malaysia markets	—	One agent has been appointed as a distributor in PRC

ASP business

Objective:	Increase marketing effort to promote the ASP payroll services in Hong Kong
	Launch ASP payroll service in Taiwan
Actual:	ASP payroll services will be launched in October 2002

Product enhancement and development

Objective:	Launch Employee Survey system
	Develop Balance Score Card module
Actual:	The Group will start develop of Employee Survey system in January 2003 and the development of Balance Score Card module was completed in August 2002

Sales and marketing

Objective:	Increase the number of sales and marketing staff to 9
Actual:	The actual numbers of sales and marketing staff is 9

EXECUTIVE DIRECTORS

Mr. Ho Kwok Kin, aged 55, is the Chairman of the Company. Mr. Ho is responsible for the Group's overall strategic planning and development. He has over 34 years of experience in the computer software industry and over 11 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 54, 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 31 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 34, 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 12 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 18 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 30, 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.

Mr. Ng Tin Lok, aged 29, 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 30, 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 26, 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.

Mr. Ng Pui Keung, aged 34, is the general manager of the PRC operations of the Group. He is responsible to oversee the sales and marketing and to formulate the strategic plan for the Company's expansion within this region. He holds a bachelor degree of international studies in information technology from the Meiji Gakuin University in Japan. Prior to joining the Group in June 2001, he possesses more than 10 years of sales and marketing experience.

The Directors submit their annual report together with the audited accounts for the year ended 30th June, 2002.

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 Revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") in preparing for the listing of the shares of the Company 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 Cyber Dynamic Enterprise Limited ("CDEL") and its subsidiaries. Details of the Reorganisation are set out in 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 14 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, Mainland 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	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Principal activities:				
Software	**3,592**	6,610	**(194)**	4,652
Other operations	**312**	259	**34**	—
Service	**2,377**	1,884	**1,842**	1,749
	6,281	8,753	**1,682**	6,401
Unallocated			**(10,398)**	(2,790)
Operating (loss)/profit			**(8,716)**	3,611
Principal markets:				
Hong Kong	**5,477**	8,392	**(8,505)**	3,410
People's Republic of China (the "PRC")	**795**	361	**(1,235)**	147
Other	**9**	—	**(14)**	—
	6,281	8,753	**(9,754)**	3,557
Other revenue			**1,038**	54
Operating (loss)/profit			**(8,716)**	3,611

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 21 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 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital are set out in note 20 to the accounts.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law (Revised) 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, 2002, 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$(32,000) (2001: HK$5,736,000).

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 earliest period presented.

	2002	2001	2000
	HK$'000	HK$'000	HK$'000
Turnover	**6,281**	8,753	5,069
Profit attributable to shareholders	**(7,513)**	3,011	199
Total assets	**9,956**	18,908	2,678
Total liabilities	**(2,286)**	(2,222)	(928)
Net assets	**7,670**	16,686	1,750

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 *(Chairman)*
Peter Daivd Hilling
Lau Yuk Cheong

Independent Non-Executive Directors
Ting Wai Cheung, Bernie
Chan Kin Wai

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 themselves 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 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, 2002, which also constitute connected transactions and is exempted under the GEM Listing Rules are disclosed in note 24 to the accounts.

DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTEREST IN SECURITIES

At 30th June, 2002, the interests of the Directors and Chief Executives 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:

	Number of shares		
	Personal interests	**Corporate interests** *(note)*	**Total**
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 30th June, 2002, 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 Executive.

	Number of shares			
	Personal interests	**Corporate interests**	**Total**	**Percentage of issued share capital**
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 1)*	Nil	119,600,000	119,600,000	29.50%

1. High Peak was incorporated in the British 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 Man, 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 Limited was incorporated in Hong Kong and is a wholly ownded subsidiary of FlexSystem Holdings Limited, the issued shares of which are listed on GEM.

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, 2002 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.

SHARE OPTION SCHEME

As at 30th June, 2002, options to subscribe for an aggregate of 35,424,000 shares of the Company pursuant to the share option scheme adopted on 21st May, 2001 were outstanding. Details of which are as follows:

No. of share options	Name of grantees Subscription	price per share	Date of grant
3,996,000	Mr. Ho*	0.16	22nd Mary, 2002
3,996,000	Mr. Lau*	0.16	22nd Mary, 2002
996,000	Mr. Peter David Hilling*	0.16	22nd Mary, 2002
498,000	1 other employee of the Group	0.16	11th Mary, 2002
2,496,000	2 other employees of the Group	0.16	12th Mary, 2002
996,000	1 other employee of the Group	0.16	13th Mary, 2002
498,000	1 other employee of the Group	0.16	14th Mary, 2002
996,000	1 other employee of the Group	0.16	15th Mary, 2002
1,500,000	1 other employee of the Group	0.16	19th Mary, 2002
3,492,000	4 other employees of the Group	0.16	22nd Mary, 2002
498,000	1 other employee of the Group	0.16	23nd Mary, 2002
996,000	1 other employee of the Group	0.16	25nd Mary, 2002
2,496,000	2 other employees of the Group	0.16	2rd April, 2002
2,994,000	4 other employees of the Group	0.16	4th April, 2002
498,000	1 other employee of the Group	0.16	5th April, 2002
8,478,000	8 other employees of the Group	0.16	6th April, 2002
35,424,000			

* *director of the Company*

The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the Directors and employees of the Group because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

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	45%
- five largest suppliers combined	97%
Sales	
- the largest customer	9%
- five largest customers combined	29%

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 the 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
Director

Hong Kong, 30th September, 2002

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF
MRC HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 17 to 49 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, 2002 and of the loss 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, 30th September, 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30th June, 2002

	Note	**2002**	2001
		HK$'000	*HK$'000*
Turnover	3	**6,281**	8,753
Cost of sales		**(1,783)**	(870)
Gross profit		**4,498**	7,883
Other revenue	3	**1,038**	54
Distribution costs		**(1,680)**	(506)
Administrative expenses		**(9,243)**	(2,556)
Other operating expenses		**(3,329)**	(1,264)
Operating (loss)/profit	4	**(8,716)**	3,611
Finance costs	5	**(4)**	(5)
(Loss)/profit before taxation		**(8,720)**	3,606
Taxation	6	**198**	(595)
(Loss)/profit after taxation		**(8,522)**	3,011
Minority interest		**1,009**	—
(Loss)/profit attributable to shareholders		**(7,513)**	3,011
Dividend attributable to the year:			
Interim dividend declared and paid during the year	7	**1,014**	—
(Loss)/earning per share - basic	9	**(1.85) cents**	0.82 cents

The only component of the statements of recognized gains and losses is the net loss or profit for the year.

CONSOLIDATED BALANCE SHEET

As at 30th June, 2002

	Note	2002 HK$'000	2001 HK$'000
Intangible assets	12	**1,313**	881
Plant and equipment	13	**990**	549
Current assets			
Trade and other receivables	17	**2,465**	2,700
Bank balances and cash	15	**5,188**	14,778
		7,653	17,478
Current liabilities			
Other payables	19	**2,067**	1,543
Taxation payable	6	**437**	424
Bank overdraft	16	**161**	62
		2,665	2,029
Net current assets		**4,988**	15,449
Total assets less current liabilities		**7,291**	16,879
Non-current liabilities			
Deferred taxation	6	**—**	193
Minority interests		**379**	—
		7,670	16,686
Financed by:			
Share capital	20	**4,054**	4,054
Reserves	21	**3,616**	12,632
Shareholders' funds		**7,670**	16,686

BALANCE SHEET

As at 30th June, 2002

	Note	2002 *HK$'000*	2001 *HK$'000*
Investments in subsidiaries	14	**10**	(4,000)
Current assets			
Other receivables	17	**6**	58
Bank balances and cash	15	**4,247**	14,036
		4,253	14,094
Current liabilities			
Other payables	19	**241**	304
Net current assets		**4,012**	13,790
Total assets less current liabilities		**4,022**	9,790
Financed by:			
Share capital	20	**4,054**	4,054
Reserves	21	**(32)**	5,736
Shareholders' funds		**4,022**	9,790

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June, 2002

	Note	2002 HK$'000	2001 HK$'000
Net cash (outflow)/inflow from operating activities	22(a)	**(6,351)**	3,537
Returns on investments and servicing of finance			
Interest received		**232**	54
Dividend paid		**(1,014)**	—
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(782)**	54
Taxation			
Hong Kong profits tax refund/(paid)		**18**	(17)
Investing activities			
Purchase of fixed assets		**(1,017)**	(475)
Payment for deferred development expenditures		**(1,698)**	(627)
Net cash inflow from purchase of subsidiaries	22(d)	**630**	—
Net cash outflow from investing activities		**(2,085)**	(1,102)
Net cash (outflow)/inflow before financing		**(9,200)**	2,472
Financing			
(Additional share issue expenses)/ net proceeds from issue of shares	22(b)	**(489)**	11,925
Net cash (outflow)/inflow from financing		**(489)**	11,925
(Decrease)/increase in cash and cash equivalents		**(9,689)**	14,397
Cash and cash equivalents at 1st July		**14,716**	319
Cash and cash equivalents at 30th June		**5,027**	14,716
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		**5,027**	14,716

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, 2002 are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, for the remeasurement of certain fixed assets as further explained below are stated at fair value.

In current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA") which are effective for accounting periods commencing on or after 1st January, 2001.

SSAP 9 (revised)	Events after the balance sheet date
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

(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.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Subsidiaries and controlled enterprises

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.

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly, or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognized in the consolidated profit and loss account as they arise.

Apart from the Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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 any impairment losses (note 2(d)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the company, in which case, it is stated at fair value with changes in fair value recognized in the profit and loss account as they arise. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Plant and equipment and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalized as an additional cost of that asset.

Depreciation is calculated on the straight line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

The gain or loss on disposal of plant and equipment 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) Leases

(i) Computer software program held for use in operating leases

Where the Group leases out computer software program under operating leases, the computer software program are included in the balance sheet according to their nature and, where applicable, are amortised in accordance with the Group's amortisation policies, as set out in note 2(j) below. Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 2(h)(v) below.

(ii) Operating lease charge

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

(e) 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.

(f) 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.

(g) 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.

For the purpose of consolidation, the accounts of subsidiaries expressed in foreign currencies are translated into Hong Kong dollars 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)*

(h) Turnover and revenue recognition

Revenue is recognized when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with a transaction will flow to the Group. Revenue is recognized on the following bases:

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 the resale of hardware is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

iii) Revenue from maintenance service agreements is recognised pro-rata over the life of the agreement corresponding to notional delivery of the services. The unearned portion of the maintenance service income received is stated as deferred income in the balance sheet.

iv) Interest income is recognised on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

v) Revenue from the lease of packaged software is recognized when the leasing income becomes due and receivable.

vi) Course and seminar income is recognized when the related courses and seminars are held.

vii) Ticketing income and booth rental income are recognized when the related exhibitions are held.

viii) Book revenue is recognized when books are sold to customers.

ix) Sub-letting income is recognized on a straight-line basis over the periods of the respective lease.

(i) Staff retirement benefits

Contributions to mandatory provident funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account as incurred.

Apart from the MPF scheme, the Group also contributes to other retirement schemes. The contributions are expensed as incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Intangible assets - research and development costs

Research costs are written off as incurred. Development costs are charged against income in the period incurred except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and where they comply with the following criteria: (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce and market, or use, the product or process; (iv) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (v) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product of process. The expenditure capitalized includes the cost of materials and direct labour. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognized as an expense in the period in which it is incurred. Capitalised development costs are amortised on a straight-line basis over the period of not more than three years in which the related products are expected to be sold, starting from the commencement of sales, or the processes are expected to be used.

Where an indication of impairment exists, the carrying amount of any intangible asset, is assessed and written down immediately to its recoverable amount.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(k) 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.

(l) 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.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalized as part of the cost of that asset at rates based on the actual cost of specific borrowings. All other borrowing costs are recognized as an expense in the period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Provisions

Provisions are recognized for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(p) Post balance sheet events

Post balance sheet events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) development of software for sale and leasing purpose; (ii) resale of hardware products; (iii) the provision of maintenance services; (iv) organization of other human resource related services. Revenue recognized during the year is as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover		
Software project income	**3,592**	6,610
Resale of hardware	**41**	259
Rendering of maintenance services	**2,377**	1,884
Course and seminar income	**240**	—
Rental income of software	**31**	—
	6,281	8,753
Other revenue		
Ticket income	**102**	—
Booth rental income	**625**	—
Book revenue	**2**	—
Bank interest income	**232**	54
Management fee income	**8**	—
Sub-letting income	**27**	—
Sundry income	**42**	—
	1,038	54
Total revenue	**7,319**	8,807

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting segment - business segment

The Group is organized into 3 major operating units:

(i) Software - development and sale of software; (ii) Service - provision of maintenance services; (iii) Organization of other human resource related services, other operations of the Group which mainly comprise of resale of hardware and software rental income.

There are no sales or transactions between the business segments.

	Software		Service		Other operations		Group	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**3,592**	6,610	**2,377**	1,884	**312**	259	**6,281**	8,753
Segment results	**(194)**	4,652	**1,842**	1,749	**34**	—	**1,682**	6,401
Unallocated							**(10,398)**	(2,790)
Operating (loss)/profit							**(8,716)**	3,611
Finance costs							**(4)**	(5)
(Loss)/profit before Taxation							**(8,720)**	3,606
Taxation							**198**	(595)
(Loss)/profit after Taxation							**(8,522)**	3,011
Minority interests							**1,009**	—
(Loss)/profit attributable to shareholders							**(7,513)**	3,011

	Software		Service		Other operations		Group	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,313**	881	**—**	—	**—**	—	**1,313**	881
Unallocated assets							**8,482**	17,965
Total assets							**9,795**	18,846
Segment liabilities	**—**	—	**1,081**	1,206	**—**	—	**1,081**	1,206
Unallocated liabilities							**1,423**	761
Total liabilities							**2,504**	1,967

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting segment - business segment *(continued)*

	Software		Service		Others		Group	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Capital expenditure	**1,342**	627	**—**	—	**1,017**	475	**2,359**	1,102
Depreciation and amortisation charge	**910**	255	**—**	—	**576**	298	**1,486**	553

Secondary reporting format - geographical segments

The group's business is managed in Hong Kong and the PRC. The customers in respect of software income and exhibition and seminar income are located in Hong Kong and the PRC. The customers in respect of maintenance service income, resale of hardware and software income are located in Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

All the segment revenue are generated from external customers.

	Hong Kong	**PRC**	**Others**	**Group**
	2002	**2002**	**2002**	**2002**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Segment revenue	**5,477**	**795**	**9**	**6,281**
Segment assets	**8,948**	**838**	**9**	**9,795**
Capital expenditure incurred during the year	**2,280**	**79**	**—**	**2,359**

	Hong Kong	PRC	Others	Group
	2001	2001	2001	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	8,392	361	—	8,753
Segment assets	18,846	—	—	18,846
Capital expenditure incurred during the year	1,102	—	—	1,102

4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:

	2002	2001
	HK$'000	*HK$'000*
Crediting:		
Interest income	**232**	54
Sub-letting income less outgoings	**27**	—
Rental income of software	**31**	—
Charging:		
Staff costs (including directors' emoluments)		
- basic salaries and allowances	**8,522**	3,510
- mandatory provident fund	**261**	87
- capitalised as research and development costs	**(1,342)**	(627)
- written off as research and development costs	**(72)**	—
Research and development costs		
- amortisation of this year	**910**	255
- written off as incurred	**356**	—
- previously capitalized written off	**764**	—
- accumulated amortisation written back	**(764)**	—
Depreciation of fixed assets	**576**	298
Auditors' remuneration		
- for this year	**300**	300
- overprovision for previous year	**—**	(20)
Provision for doubtful debts	**718**	51
Operating lease rentals in respect of land and buildings	**1,035**	185

5. FINANCE COSTS

	2002	2001
	HK$'000	*HK$'000*
Bank charges	**4**	5

6. TAXATION

Hong Kong profits tax has been provided for at the rate of 16% (2001: 16%) on the estimated assessable profit for the year.

No provision for income tax of the People's Republic of China ("PRC") has been made in the accounts as the subsidiary in the PRC has no assessable profit for the year.

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

	2002 HK$'000	2001 HK$'000
Provision for Hong Kong profits tax for the year	—	442
Overprovision in respect of previous year	(5)	—
Deferred taxation	(193)	153
	(198)	595

b) Taxation in the consolidated balance sheet represents:

	2002 HK$'000	2001 HK$'000
Provision for Hong Kong profits tax for the year	—	442
Provision for Hong Kong profits tax for previous year	437	—
Less: Tax refundable	—	(18)
Tax payable	437	424

c) Deferred taxation in the consolidated balance sheet represents:

	2002 HK$'000	2001 HK$'000
Balance at 1st July	193	40
(Reversed)/charged to profit and loss account	(193)	153
Balance at 30th June	—	193

Calculation of deferred taxation would give rise to a debit balance which in accordance with Standard Accounting Practice No. 12 should not be included in these financial statements.

The principal components of the Group's unprovided deferred tax asset calculated at 16% (2001: 16%) at the balance sheet date are as follows:

	2002 HK$'000	2001 HK$'000
Excess of depreciation allowances over depreciation charged in the financial statements	104	52
Capitalised research and development costs with allowance claimed	210	141
Tax losses	(968)	—
Deferred tax (asset)/liability	(654)	193

7. DIVIDEND

	2002	2001
	HK$'000	*HK$'000*
Interim dividend declared and paid of 0.25 cents per share (2001: Nil)	**1,014**	—

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$4,265,000 (2001: HK$145,000).

9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK$7,513,000 (2001: profit of HK$3,011,000) and the weighted average of 405,400,000 (2001: 367,062,466 shares) ordinary shares in issue during the year.

The diluted loss per share for the year ended 30th June, 2002 has not been shown as the potential ordinary shares outstanding during the period has no dilutive effect on the basic loss per share (2001: no dilutive potential ordinary shares).

10. RETIREMENT SCHEME

With the implementation of Mandatory Provident Fund ("MPF") Scheme Ordinance on 1st December, 2000, the Group also participates in master trust MPF schemes operated by independent service providers. Mandatory contribution to these MPF are made by both the employers and employees 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 with approximately HK$261,000 for the year. (2001: HK$87,000)

The PRC subsidiary of the Group has participated in an employees' retirement scheme implemented by the China Government. Contributions are made to the scheme based on 14% (2001: Nil) of the applicable basic payroll costs.

11. 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:

	2002	2001
	HK$'000	*HK$'000*
Fees	**—**	—
Other emoluments:		
- Basic salaries, allowances, and benefits in kind	**2,112**	1,351
- Contributions to pension scheme for directors of the Company	**30**	17
	2,142	1,368

For the year ended 30th June, 2002, 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, 2002 of approximately HK$1,196,000 (2001: HK$762,000), HK$631,000 (2001: HK$361,000), and HK$195,000 (2001: HK$244,000) respectively. Included in the emoluments HK$631,000 and HK$195,000 paid to two executive directors, HK$579,000 (2001: HK$215,000) and HK$Nil (2001: HK$68,000) were capitalized as research and development costs respectively.

The independent non-executive directors received individual emoluments for the year ended 30th June, 2002 of approximately HK$60,000 (2001: HK$Nil) and HK$60,000 (2001: HK$Nil) respectively.

There has been no arrangement under which a director has waived or agreed to waive any emoluments for the year ended 30th June, 2002 (2001: HK$Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

During the year, 8,988,000 share options of the Company were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 14. No value in respect of the share options granted during the year has been charged to the profit and loss account.

11. 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 two directors (2001: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: two) individuals during the year are as follows:

	2002	2001
	HK$'000	*HK$'000*
Basic salaries, allowances, and benefits in kind	**1,296**	496
Bonus	**55**	—
Pension scheme contributions	**18**	14
	1,369	510

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

Emolument bands	**Number of individuals**	
	2002	2001
HK$		
Nil to 1,000,000	**3**	2

During the year, 5,994,000 share options of the Company were granted to the three highest paid individuals other than the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 14. No value in respect of the share options granted during the year has been charged to the profit and loss account.

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

12. INTANGIBLE ASSETS

Deferred development costs

	Group	
	2002	2001
	HK$'000	*HK$'000*
Cost:		
At 1st July, 2001	**1,391**	764
Additions	**1,342**	627
Write-off	**(764)**	—
At 30th June, 2002	**1,969**	1,391
Accumulated amortisation:		
At 1st July, 2001	**510**	255
Write-off	**(764)**	—
Amortisation for the year	**910**	255
At 30th June, 2002	**656**	510
Net book value:		
At 30th June, 2002	**1,313**	881

Development costs capitalized include expenses incurred by the Group in the development of certain new software products. During the year ended 30th June, 2002, total expenditures on research and development were approximately HK$1,698,000 of which approximately HK$1,342,000 was capitalized. At the end of the year, the directors considered that one of the software product, capitalized last year may not be able to demonstrate that the product met the criteria for recognition as an intangible asset and therefore the costs were written off from intangible assets.

13. PLANT AND EQUIPMENT

	Group			
	Leasehold improvements	**Equipment and computer software**	**Furniture and fixtures**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 1st July, 2001	99	678	247	1,024
Additions	196	707	114	1,017
At 30th June, 2002	295	1,385	361	2,041
Accumulated depreciation:				
At 1st July, 2001	99	282	94	475
Charges for the year	98	405	73	576
At 30th June, 2002	197	687	167	1,051
Net book value:				
At 30th June, 2002	98	698	194	990
At 30th June, 2001	—	396	153	549

The directors are of the opinion that there is no indication of impairment on the carrying value of property, plant and equipment as of 30th June, 2002.

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Investments at cost:		
Unlisted shares	**10**	10
Amount due from/(to) a subsidiary	**4,330**	(4,010)
Less: Provision for amount due from subsidiary	**(4,330)**	—
	10	(4,000)

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

14. INVESTMENTS IN SUBSIDIARIES *(continued)*

The following is a list of the subsidiaries at 30th June, 2002:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Effective interest held
Subsidiary held directly				
Cyber Dynamic Enterprise Limited*	British Virgin Islands	Investment holding in Hong Kong	10,310.90 ordinary shares of US$1 each	100%
Subsidiaries held indirectly				
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%
Manpower Resource Computing (China) Limited# (formerly known as FM (China) Limited)	Hong Kong	Investment holding in the PRC	1,600,000 ordinary shares of HK$1 each	69.99%
MRC Human Capital Services Limited#	Hong Kong	Organisation of exhibitions and seminars in Hong Kong and the PRC	675,000 ordinary shares of HK$1 each	77.77%
晉興電腦軟件開發（東莞）有限公司 *^	People's Republic of China	Development and distribution of Human Resource Software System and provision for maintenance service in the PRC	Registered capital US$200,000	69.99%

* *Not audited by Fan, Mitchell & Co.*

\# *Acquired by Cyber Dynamic Enterprise Limited during the year.*

^ *The Company is established as a wholly-owned foreign enterprise in the PRC.*

15. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**5,188**	14,778	**4,247**	14,036

16. BANK OVERDRAFTS

At 30th June, 2002, the unsecured bank overdrafts were repayable as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year or on demand	**161**	62	**—**	—

17. TRADE AND OTHER RECEIVABLES

		Group		Company	
		2002	2001	**2002**	2001
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Due from:					
A shareholder	*(Note 18)*	**123**	177	**—**	—
Affiliated companies	*(Note 18)*	**274**	101	**—**	—
A director	*(Note 18)*	**—**	43	**—**	—
Officers	*(Note 18)*	**155**	—	**—**	—
Trade receivables		**2,390**	2,178	**—**	—
Prepayments and deposits		**286**	197	**—**	—
Other receivables		**6**	58	**6**	58
		3,234	2,754	**6**	58
Less: Provision for bad and doubtful debts		**(769)**	(54)	**—**	—
		2,465	2,700	**6**	58

Notes:

(a) 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.

(b) Included in prepayments and deposits is an amount of HK$Nil (2001: HK$62,000) in respect of rental deposits which are expected to be repaid after twelve months.

17. TRADE AND OTHER RECEIVABLES *(continued)*

(c) Included in trade and other receivables are trade debtors (net of specific allowances for bad and doubtful debts) with the following ageing analysis :

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 month	**1,515**	938	**—**	—
Over 1 month but within 3 months	**119**	286	**—**	—
Over 3 months but within 6 months	**320**	837	**—**	—
Over 6 months but within 2 years	**436**	117	**—**	—
	2,390	2,178	**—**	—
Less : Provision for bad and doubtful debts	**(769)**	(54)	**—**	—
	1,621	2,124	**—**	—

The trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance. The Group maintains strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by management.

18. INFORMATION DISCLOSED PURSUANT TO S.161B OF THE COMPANIES ORDINANCE

(a) Amount due from a director

	Balance at		Maximum amount outstanding during the year
	2002	2001	
	HK$'000	*HK$'000*	*HK$'000*
Ho Kwok Kin	**—**	43	143

The amount due is unsecured, interest free and has no fixed terms of repayment.

18. INFORMATION DISCLOSED PURSUANT TO S.161B OF THE COMPANIES ORDINANCE *(continued)*

(b) Amount due from a shareholder/affiliated companies

	Balance at		Maximum amount outstanding
	2002	2001	**during the year**
	HK$'000	*HK$'000*	*HK$'000*
FlexSystem Limited	**123**	177	463
FlexSystem (Shanghai) Company Limited	**172**	101	172
DeloitteFlex e-Business Inc.	**19**	—	19
Qualidux Industrial Co. Ltd.	**83**	—	83

FlexSystem Limited is a shareholder of the company.

FlexSystem (Shanghai) Company Limited is a fellow subsidiary of FlexSystem Limited.

DeloitteFlex e-Business Inc. is a jointly controlled entity of FlexSystem Holdings Limited, the holding company of FlexSystem Limited.

An independent non-executive director, Mr. Ting Wai Cheung, Bernie, is a director of Qualidux Industrial Co. Ltd.

The amounts due are unsecured, interest free and have no fixed terms of repayment.

(c) Loan to officers

Included in the loan to officers was a loan to the customer service manager, a key management personnel of the Group.

	Balance at		Maximum amount outstanding
	2002	2001	**during the year**
	HK$'000	*HK$'000*	*HK$'000*
Alex Ng Tin Lok	**86**	—	100

The amount due is interest free and unsecured. The loan was granted by the directors and would be settled by 50 monthly installments of HK$2,000 since 21st December, 2001.

The loan to the remaining one individual officer during the year which did not exceed HK$100,000 is also interest free and unsecured.

The total amount of loan to officers expected to be recovered after more than one year is HK$112,000 (2001: HK$Nil).

19. OTHER PAYABLES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Due to:				
An affiliated company	**—**	2	**—**	—
A related party	**21**	—	**—**	—
Other payables	**513**	186	**—**	154
Accruals	**448**	150	**241**	150
Deferred income	**1,085**	1,205	**—**	—
	2,067	1,543	**241**	304

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

20. SHARE CAPITAL

	2002	2001
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
405,400,000 ordinary shares of HK$0.01 each	**4,054**	4,054

Share option scheme

The Company operated a share option scheme during the year, further details of which are set out under the section of "Share option scheme" in the Report of the Directors on page 14.

Details of the current year's movements in the number of ordinary shares under the share option scheme adopted by the Company on 21st May, 2001 were as follows:

		Number of ordinary shares under option ('000)					
Exercise price per share *HK$*	**Exercise period**	At 1st July 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	**At 30th June 2002**
0.16	8th March, 2002 to 7th March, 2012	—	35,424	—	—	—	**35,424**

21. RESERVES

Group

	Share premium	Merger reserve	Retained earnings/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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	15,732	—	—	15,732
Share issue expenses	(6,221)	—	—	(6,221)
Capitalisation issue	(3,630)	—	—	(3,630)
Profit for the year	—	—	3,011	3,011
At 30th June, 2001	5,881	3,740	3,011	12,632
At 1st July, 2001	5,881	3,740	3,011	12,632
Additional expenses incurred in connection with the issue of shares *(note (b))*	(489)	—	—	(489)
Exchange difference on translation of financial statements of an overseas subsidiary	—	—	—	—
Loss for the year	—	—	(7,513)	(7,513)
Interim dividend paid in the current year	(1,014)	—	—	(1,014)
At 30th June, 2002	4,378	3,740	(4,502)	3,616

Company

	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
Premium on issue of shares	15,732	—	15,732
Share issue expenses	(6,221)	—	(6,221)
Capitalisation issue	(3,630)	—	(3,630)
Loss for the year	—	(145)	(145)
At 30th June, 2001	5,881	(145)	5,736
At 1st July, 2001	5,881	(145)	5,736
Additional expenses incurred in connection with the issue of shares *(note (b))*	(489)	—	(489)
Loss for the year	—	(4,265)	(4,265)
Interim dividend paid in the current year	(1,014)	—	(1,014)
At 30th June, 2002	4,378	(4,410)	(32)

21. RESERVES *(continued)*

(a) 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.

(b) The amount represents the additional expenses incurred for the listing of the Company's shares on the GEM on 5th June, 2001.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002	2001
	HK$'000	*HK$'000*
Operating (loss)/profit	**(8,720)**	3,606
Depreciation	**576**	298
Amortisation of deferred development costs	**910**	255
Research and development costs written off	**356**	—
Interest income	**(232)**	(54)
Decrease in amount due from a director	**43**	192
Decrease/(increase) in amount due from a shareholder	**54**	(177)
Increase in amounts due from affiliated companies	**(173)**	(39)
Increase in amount due from officers	**(155)**	—
Decrease/(increase) in trade and other receivables	**466**	(1,199)
Increase in trade and other payables, accruals, deferred income and sales deposits received	**505**	653
(Decrease)/increase in amount due to an affiliated company	**(2)**	2
Increase in amount due to a related party	**21**	—
	(6,351)	3,537

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

(b) Analysis of changes in financing during the year

	Share capital including share premium		Merger reserve on consolidation		Minority interests	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1st July	**9,935**	10	**3,740**	1,740	**—**	—
Issue of ordinary shares of						
- the Company	**—**	16,146	**—**	—	**—**	—
- CDEL prior to the Reorganization	**—**	—	**—**	2,000	**—**	—
Minority interests in share of loss	**—**	—	**—**	—	**(1,009)**	—
Minority share of net assets of subsidiaries	**—**	—	**—**	—	**630**	—
Share issue expenses	**(489)**	(6,221)	**—**	—	**—**	—
Dividend	**(1,014)**	—	**—**	—	**—**	—
At 30th June	**8,432**	9,935	**3,740**	3,740	**(379)**	—

(c) Purchase of subsidiaries

	2002	2001
	HK$'000	*HK$'000*
Net assets acquired		
- Cash	**2,275**	—
- Minority interests	**(630)**	—
	1,645	—
Satisfied by:		
- Cash	**1,645**	—

(d) Analysis of the net cash inflow in respect of the purchase of subsidiaries

	2002	2001
	HK$'000	*HK$'000*
Cash consideration	**(1,645)**	—
Cash acquired	**2,275**	—
Net cash inflow in respect of the purchase of subsidiaries	**630**	—

23. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments under operating leases

At 30th June, 2002, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows :

	Group	
	2002	2001
	Land and buildings	Land and buildings
	HK$'000	*HK$'000*
Within one year	**574**	890
In the second to fifth year inclusive	**25**	511
	599	1,401

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) Capital commitments

	Group	
	2002	2001
	HK$'000	*HK$'000*
Capital expenditure contracted, but not provided for	**591**	—

Capital commitments disclosed above represent an amount in respect of capital contributions to a subsidiary registered in the PRC.

(c) At the year ended 30th June, 2002 and 2001, the Group had no contingent liabilities.

24. 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:

		Amount	
		2002	2001
	Note	***HK$'000***	*HK$'000*
Sales to a shareholder, FlexSystem Limited	i	**423**	537
Sales to FlexSystem (Shanghai) Co. Ltd., a fellow subsidiary of FlexSystem Limited	i	**37**	101
Maintenance income from a shareholder, FlexSystem Limited	i	**29**	33
Software rental income from DeloitteFlex e-Business Inc., a jointly controlled entity of FlexSystem Holdings Limited, the holding company of FlexSystem Limited	ii	**9**	—
Rental expenses paid to directors, Mr. Ho Kwok Kin and his wife, Madam So Miu Han	iii	**240**	240
Rental deposit paid to directors, Mr. Ho Kwok Kin and his wife, Madam So Miu Han	iii	**—**	40
Rental expenses paid to a director, Mr. Lau Yuk Cheong	iv	**132**	132
Rental deposit paid to a director, Mr. Lau Yuk Cheong	iv	**—**	22
Supporting service fee paid to an affiliated company, Flexlink Limited	v	**—**	51
Commission paid to an affiliated company, PayEasy System Limited	vi	**—**	70
Purchases from FlexEducation Technology Limited, a fellow subsidiary of FlexSystem Limited	vii	**—**	3
Repairs and maintenance fee paid to a shareholder, FlexSystem Limited	viii	**23**	—
Accounting fee paid to a shareholder, FlexSystem Limited	ix	**20**	—
Purchases from a shareholder, FlexSystem Limited	x	**91**	—
Seminar expense paid to a shareholder, FlexSystem Limited	xi	**3**	—
Accounting fee paid to Net-Accounting Services Limited, a fellow subsidiary of FlexSystem Limited	xii	**—**	20
Booth rental income received from a shareholder, FlexSystem Limited	xiii	**7**	—
Sundry income received from i-Global Solutions Limited	xiv	**16**	—
Sub-letting income received from i-Global Solutions Limited	xiv	**27**	—
Salaries and allowances paid to a director of a subsidiary company, MRC Human Capital Services Limited, Mr. Ng Pui Keung	xv	**574**	—
Sales to Qualidux Industrial Co. Ltd.	xvi	**150**	—
Maintenance income from Qualidux Industrial Co. Ltd.	xvi	**21**	—
Sundry income from Qualidux Industrial Co. Ltd.	xvi	**12**	—

24. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

(i) Sales to FlexSystem Limited and FlexSystem (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 director of Manpower Resource Computing Limited ("MRCL").

Maintenance income received from FlexSystem Limited and FlexSystem (Shanghai) Company Limited were conducted with the discount up to 20% of the maintenance charge with reference to comparable market prices as determined by the director of MRCL.

(ii) Software rental income from DeloitteFlex e-Business Inc. represents rental charge of MRC Human Resource System under cancellable rental agreement conducted with a discount amounting to 40% of software rental income.

(iii) 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 director's quarter by a tenancy agreement for a period of two years commencing from 1st January, 2001 to 31st December, 2002 at a monthly rental of HK$20,000. The rental deposit of HK$40,000, which will be refunded upon the expiry of the tenancy agreement, was paid in year ended 30th June, 2001. The tenancy agreement was on normal commercial terms.

(iv) 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's quarter by a tenancy agreement for a period of two years commencing from 1st January, 2001 to 31st December, 2002 at a monthly rental of HK$11,000. The rental deposit of HK$22,000, which will be refunded upon the expiry of the tenancy agreement, was paid in year ended 30th June, 2001. The tenancy agreement was 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.

(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 FlexEducation Technology Limited on normal commercial terms.

(viii) Repairs and maintenance fee represents software annual maintenance fee paid to FlexSystem Limited and was on normal commercial terms.

(ix) Accounting fee represents service fee paid to FlexSystem Limited on normal commercial terms.

(x) The Group purchased software from FlexSystem Limited on normal commercial terms.

(xi) Seminar expense paid to FlexSystem Limited was on normal commercial terms.

(xii) Accounting fee represents the payment for accounting services provided for the listing of the Group on normal commercial terms.

(xiii) The Group received booth rental income from FlexSystem Limited on normal commercial terms.

(xiv) Mr. Lok Wai Man is a common director of i-Global Solutions Limited and a subsidiary company, Manpower Resource Computing (China) Limited. Sundry income and rental income received from i-Global Solutions Limited was on normal commercial terms.

(xv) Salaries and allowances paid to Mr. Ng Pui Keung were on normal commercial terms.

(xvi) An independent non-executive director, Mr. Ting Wai Cheung, Bernie, is a director of Qualidux Industrial Co. Ltd. The transactions were conducted 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.

25. POST BALANCE SHEET EVENT

Subsequent to the balance sheet on 24th July, 2002, a wholly-owned subsidiary of the Company, MRCL, Reach Human Resources Limited ("Reach Human") and Mr. Yang Xi Hong entered into the Subscription Agreement. Pursuant to the Subscription Agreement, MRCL agreed to subscribe and Reach Human agreed to allot and issue the Subscription Shares, representing approximately 11.5% of the issued share capital of Reach Human (as enlarged by the allotment and issue of the Subscription Shares) with the subscription price in the amount of HK$2,000,000 payable in cash. The Subscription Price was determined by the Company with references to, among other matters, the business prospect of the Reach Human Group, the anticipation on its contributions towards the Company in terms of business connections and expansion of business and the profits guarantee given by Mr. Yang Xi Hong ("the Guarantor") under the Subscription Agreement.

26. ULTIMATE HOLDING COMPANY

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

27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25th September, 2002.

NOTICE IS HEREBY GIVEN that the annual general meeting of MRC Holdings Limited (the "**Company**") will be held at 10:00 a.m. on 30th October, 2002 at Room 902, 9th Floor, Tung Wai Commercial Building, 111 Gloucester Road, Wanchai Hong Kong to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors of the Company (the "**Directors**") and auditors for the year ended 30th June, 2002;

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 (the "**Resolution(s)**") 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**") (the "**GEM Listing Rules**") operated by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the Directors 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 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 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 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, the Companies Law (Law 3 of 1961, as consolidated and revised) of Cayman Islands (the "**Companies Law**"), or any other applicable law of 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 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 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 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 during the Relevant Period (as herein defined) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares of the Company 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 of the Company, the Companies Law, or any other applicable law of 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 by this Resolution."

6. "THAT the Directors 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, 30th September, 2002

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
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
Wanchai
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 proxies 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. A form of proxy for use at the annual general meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and 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. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.

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 Listing Rules. The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders of the Company.

4. In relation to proposed Resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholder of the Company. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed Resolution as required by the GEM Listing Rules is set out in the accompanying document.