



MRC HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED
31ST DECEMBER, 2002**

CHARACTERISTICS OF THE GEM

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

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\$4.3 million for the six months ended 31st December, 2002.
- Recorded an unaudited combined loss of approximately HK\$2.2 million for the six months ended 31st December, 2002.

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, 2002 together with comparative unaudited figures for the corresponding period in 2001.

CONDENSED COMBINED INCOME STATEMENT

For the three months and six months ended 31st December, 2002

		For the three months ended 31st December,		For the six months ended 31st December,	
		2002	2001	2002	2001
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	2,096	1,404	4,263	2,821
Cost of sales		(485)	(812)	(1,106)	(869)
Gross profit		1,611	592	3,157	1,952
Other revenue		96	83	197	201
Distribution costs		(421)	(741)	(896)	(821)
Administrative expenses		(1,769)	(1,920)	(3,677)	(3,868)
Other operating expenses		(583)	(522)	(1,242)	(638)
Loss from operations	3	(1,066)	(2,508)	(2,461)	(3,174)
Finance costs		(6)	(3)	(8)	(4)
Loss before taxation		(1,072)	(2,511)	(2,469)	(3,178)
Taxation		0	0	0	0
Minority Interest		(1,072)	(2,511)	(2,469)	(3,178)
Net Loss attributable to shareholders		199	342	305	342
Dividend		(873)	(2,169)	(2,164)	(2,836)
Loss per share - basic	4	NIL	1,013	NIL	1,013
		(0.22) cents	(0.58) cents	(0.53) cents	(0.74) cents

CONDENSED COMBINED BALANCE SHEET

		At 31st December, 2002 (Unaudited) <i>HK\$'000</i>	At 30th June, 2002 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Intangible assets		1,018	1,313
Fixed assets		785	990
		1,803	2,303
CURRENT ASSETS			
Trade and other receivable	5	4,906	2,465
Bank and cash balances		764	5,188
		5,670	7,653
CURRENT LIABILITIES			
Other payables	6	2,734	2,067
Provision for taxation		—	437
Bank overdrafts - unsecured		37	161
		2,771	2,665
NET CURRENT ASSETS		2,898	4,988
TOTAL ASSETS LESS CURRENT LIABILITIES		4,702	7,291
Minority interest		804	379
NET ASSETS		5,506	7,670
CAPITAL AND RESERVES			
Share capital		4,054	4,054
Reserves	7	1,452	3,616
SHAREHOLDERS' FUNDS		5,506	7,670

CONDENSED COMBINED CASH FLOW STATEMENT

	For the six months ended 31st December,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(4,205)	(2,394)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(95)	(1,550)
NET CASH OUTFLOW BEFORE FINANCING	(4,300)	(3,944)
NET CASH OUTFLOW FROM FINANCING	—	(500)
DECREASE IN CASH AND CASH EQUIVALENTS	(4,300)	(4,444)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	5,027	14,716
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>727</u>	<u>10,272</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	764	10,445
Bank overdrafts	(37)	(173)
	<u>727</u>	<u>10,272</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. The same accounting policies adopted in the audited accounts for the year ended 30th June, 2002 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,		For the six months ended 31st December,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
By Principal activities				
Software project income	1,445	924	2,873	1,705
Render of maintenance services	650	480	1,304	1,116
Resale of hardware	1	—	86	—
	<u>2,096</u>	<u>1,404</u>	<u>4,263</u>	<u>2,821</u>
By Principal markets				
Hong Kong	1,611	1,404	3,407	2,601
PRC and others	485	—	856	220
	<u>2,096</u>	<u>1,404</u>	<u>4,263</u>	<u>2,821</u>

3. Taxation

No provision for the Hong Kong profits tax (2001: 16%) have been made as no assessable profits during the period.

4. Earning per shares

The calculation of the Group's basic loss per share for the six months ended 31st December, 2002 and 2001 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$2,164,000 and HK\$2,836,000 and the weighted average of 405,400,000 and 384,700,000 shares deemed to be issued during the period respectively.

The calculation of the Group's basic loss per share for the three months ended 31st December, 2002 and 2001 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$873,000 and HK\$2,169,000 and the weighted average number of 405,400,000 and 374,500,000 shares in issue respectively.

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

5. Trade and other receivables

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

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

	31st December, 2002 (Unaudited) HK\$'000	30th June, 2002 (Audited) HK\$'000
0-30 days	924	1,515
31-90 days	608	119
91-180 days	339	320
>180 days	961	436
	<hr/>	<hr/>
	2,832	2,390
Less: Provision for bad and doubtful debts	—	(769)
	<hr/>	<hr/>
	<u>2,832</u>	<u>1,621</u>

6. Other payables

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

7. Reserves

Group	Share premium HK\$'000	Merger reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st July, 2001	5,881	3,740	3,011	12,632
Additional expenses incurred in connection with the issue of shares	(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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2002	4,378	3,740	(4,502)	3,616
Loss for the period	—	—	(2,164)	(2,164)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	<u>4,378</u>	<u>3,740</u>	<u>(6,666)</u>	<u>1,452</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31st December, 2002 (six months ended 31st December, 2001: HK0.25 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Resources and Liquidity

As at 31st December, 2002, the shareholders' funds of the Group amounted to approximately HK\$5.5 million. Current assets amounted to approximately HK\$5.7 million, of which approximately HK\$0.8 million were cash and bank deposits and approximately HK\$4.9 million were debtors, and other receivables. Its current liabilities amounted to approximately HK\$2.8 million, mainly comprise of other payable and bank overdrafts amounted to approximately HK\$2.7 million and HK\$0.1 million respectively. The net asset value per share was HK\$0.014. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 31st December, 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 2:1 (2001: 2.9:1), reflecting the adequacy of financial resources.

As at 31st December, 2002, the Group had bank balances of approximately HK\$0.8 million. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances available.

Exposure to Exchange rate Fluctuations

During the period ended 31st December, 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.

Capital commitments and significant investments

As at 31st December, 2002, the Group did not have any significant capital commitments and significant investments.

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 from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Principal activities:				
Sale of application software	2,873	1,705	(1,667)	(2,039)
Rendering of maintenance services	1,304	1,116	(857)	(1,336)
Resale of hardware	86	—	(50)	—
	<u>4,263</u>	<u>2,821</u>	<u>(2,474)</u>	<u>(3,375)</u>
Interest income			13	201
Operating Loss			<u>(2,461)</u>	<u>(3,174)</u>
Principal markets:				
Hong Kong	3,407	2,601	(1,977)	(3,112)
People's Republic of China & Others	856	220	(497)	(263)
	<u>4,263</u>	<u>2,821</u>	<u>(2,474)</u>	<u>(3,375)</u>
Interest income			13	201
Operating profit			<u>(2,461)</u>	<u>(3,174)</u>

Employee information

As at 31st December, 2002, the Group had 43 employees (2001: 63) spreading from Hong Kong to the PRC, and the total remuneration for the period was approximately HK\$3.8 million (2001: HK\$2.6 million).

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, 2002, 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.

Contingent liabilities

As at 31st December, 2002, the Group did not have any contingent liabilities.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Geographical Expansion

Objective	Japan Market	— Continue to perform marketing activities such as seminars, training courses, group meeting and advertising.
		— Recruit more staff for the sales and marketing team.
	The PRC, Taiwan Singapore and Malaysia markets	— More distribution agents will be appointed.
Actual	Japan market	— Due to the prolonged slow economic condition in Japan, the directors have decided to postpone the marketing activities in this area unless the market recovers.
	The PRC, Taiwan, Singapore and Malaysia Markets	— Still seeking for suitable distribution agents.

Product enhancement and development

Objective		— Launch Balance Score Card Module.
		— Develop Career Planning Module and Succession Plan Module.
Actual		— Balance Score Card Module have been launched in November 2002.
		— In the process of developing the Career Planning Module and Succession Plan Module.

Sale and Marketing

Objective		— Increase the number of sales and marketing staff to 11.
Actual		— the sales and marketing staff was 8. The budget variance is due to resignation staff during the period. No new staff have been employed during the period.

USE OF PROCEEDS

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

Scheduled projected	Amount to be used up to 31st December, 2002 as Disclosed in the Prospectus (in HK\$ million)	Actual amount used up to 31st December, 2002 (in HK\$ million)
Geographical expansion	4.0	3.9
ASP Business	1.5	—
Product enhancement and development	2.2	2.0
Sales and Marketing	1.4	1.5
Recruitment Portal cooperation	0.5	—
Total	9.6	7.4

Up to 31st December, 2002, the Group utilized about HK\$2.2 million of the placing proceeds. The under-utilisation is mainly due to the delay in the recruitment portal cooperation 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 increased by approximately 51% to approximately HK\$4.3 million as compared with the corresponding period of last year. Moreover, the Group recorded a loss attributable to shareholders of HK\$2.2 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

Sale and Marketing

The Group is now restructuring the sale and marketing teams in order to optimize the benefit of the Group as a whole. Our sale strategy have been slightly changed to tie with some Human Resources consultancy companies to promote our products as well as team up with some softwares companies to tendering HKSAR's human resources project.

A new version, MRC HR Podium, has been launched and it is expected that more companies will use our new version in the forthcoming years.

Research and development

Despite worsen effect of the IT industry, the Group persists in its research and development investment, which covers many areas, including competence, career planning and succession plan module. The Group believes upgrading the products will offer value-added services to meet the variety of customer needs.

Geographic Expansion

The Group has re-assessed its expansion strategy to cope with the economic hardship. Geographically, the Group puts more weight on Hong Kong and the PRC markets, whereas overseas expansion slows down.

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. 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.

SUBSTANTIAL SHARHEOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December, 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 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%

- 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.
- 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, 2002, 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 period 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

As at 31st December, 2002, options to subscribe for an aggregate of 32,436,000 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 March, 2002
3,996,000	Mr. Lau*	0.16	22nd March, 2002
996,000	Mr. Peter David Hilling*	0.16	22nd March, 2002
498,000	1 other employee of the Group	0.16	11th March, 2002
2,496,000	2 other employees of the Group	0.16	12th March, 2002
996,000	1 other employee of the Group	0.16	13th March, 2002
498,000	1 other employee of the Group	0.16	14th March, 2002
996,000	1 other employee of the Group	0.16	15th March, 2002
1,500,000	1 other employee of the Group	0.16	19th March, 2002
3,492,000	4 other employees of the Group	0.16	22nd March, 2002
498,000	1 other employee of the Group	0.16	23rd March, 2002
2,496,000	2 other employees of the Group	0.16	2nd April, 2002
2,496,000	3 other employees of the Group	0.16	4th April, 2002
498,000	1 other employee of the Group	0.16	5th April, 2002
6,984,000	7 other employees of the Group	0.16	6th April, 2002
<u>32,436,000</u>			

* 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 period 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.

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, 2002.

BOARD PRACTICE 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 of The Stock Exchange of Hong Kong Limited.

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, 2002.

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 31st December, 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.

By order of the Board
Ho Kwok Kin
Chairman

Hong Kong, 28th January, 2003