



**MRC HOLDINGS LIMITED**

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

**THIRD QUARTERLY REPORT  
FOR THE NINE MONTHS ENDED  
31ST MARCH, 2003**

## CHARACTERISTICS OF THE GEM

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*This report, for which the directors of MRC Holdings Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## SUMMARY

- Recorded an unaudited combined turnover of approximately HK\$6.8 million for the nine months ended 31st March, 2003.
- Recorded an unaudited combined loss of approximately HK\$3.3 million for the nine months ended 31st March, 2003.

## 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 three months and nine months ended 31st March, 2003 together with comparative unaudited figures for the corresponding periods in 2002.

### Results

		Three months ended		Nine months ended	
		31st March,		31st March,	
		2003	2002	2003	2002
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	2,608	2,279	6,871	5,100
Cost of sales		(619)	(867)	(1,725)	(1,736)
Gross profit		1,989	1,412	5,146	3,364
Other revenue		12	29	210	230
Distribution costs		(588)	(960)	(1,484)	(1,781)
Administrative expenses		(2,010)	(2,133)	(5,687)	(6,001)
Other operating expenses		(634)	(286)	(1,876)	(924)
Operating Loss		(1,231)	(1,938)	(3,691)	(5,112)
Finance costs		0	0	(8)	(4)
Loss before taxation		(1,231)	(1,938)	(3,699)	(5,116)
Taxation	3	0	0	0	0
Loss after taxation		(1,231)	(1,938)	(3,699)	(5,116)
Minority interest		50	286	355	629
Net loss attributable to shareholders		(1,181)	(1,652)	(3,344)	(4,487)
Dividend		0	0	0	1,013
Loss per share - basic	4	(0.29) cents	(0.44) cents	(0.80) cents	(1.13) cents

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 the Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

## 2. Turnover

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

	Three months ended		Nine months ended	
	31st March,		31st March,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities				
Software project income	1,759	866	4,632	2,570
Render of maintenance services	677	630	1,981	1,747
Training and HR events	141	758	141	758
Resale of hardware	31	25	117	25
	<u>2,608</u>	<u>2,279</u>	<u>6,871</u>	<u>5,100</u>
By principal markets				
Hong Kong	1,699	1,998	5,106	4,600
PRC & others	909	281	1,765	500
	<u>2,608</u>	<u>2,279</u>	<u>6,871</u>	<u>5,100</u>

## 3. Taxation

No provision for the Hong Kong profits tax has been made as there were no assessable profits during the period.

#### **4. Loss per shares**

The calculation of the Group's basic loss per share for the three months and nine months ended 31st March, 2003 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$1,181,000 and HK\$3,344,000 respectively and the weighted average of 405,400,000 shares respectively deemed to be issued during the period.

The calculation of the Group's basic loss per share for the three months and nine months ended 31st March, 2002 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$1,652,000 and HK\$4,487,000 respectively and the weighted average number of approximately 374,350,000 and 395,050,000 shares in issue.

The exercise of the share options granted by the Company in 2002 would have an anti-dilutive effect on the loss per share for the three months and nine months ended 31st March, 2003.

#### **5. Reserves**

There has been no transfer to or from reserves during the nine months ended 31st March, 2003 and 31st March, 2002.

### **INTERIM DIVIDEND**

The Directors do not recommend dividend payment for the nine months ended 31st March, 2003 (Nine months ended 31st March, 2002: Nil).

### **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**

For the nine months ended 31st March, 2003, turnover increased by approximately 34% to approximately HK\$6.8 million as compared with the corresponding period of last year. Moreover, the Group recorded a net loss of HK\$3.3 million these nine months as a result of difficult economic condition pertaining to the computer industry.

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

#### **Business Development**

##### *Sale and Marketing*

After the launch of the new version, MRC HR Podium, the Group has signed five contracts with our customers in Hong Kong and the PRC. It is proved that our new version meets the market's demand.

After restructuring the sale and marketing team in the last period, the staff number of our sale and marketing team is now 12 persons, with seven persons in Hong Kong and five persons in the PRC.

### *Research and Development*

The Group still continues in its research and development efforts and has successfully completed the Career Planning and Succession Plan module. The Group will deploy more resources in research and development in future.

### *Geographic Expansion*

The Group puts more weight on Hong Kong and the PRC markets as the sale growth rate in these markets are much higher than in other areas.

### *Outlook*

The Group believes that the remaining quarter of the fiscal year will be much more difficult than the Group had originally expected. The widespread of the severe acute respiratory syndrome in Hong Kong has seriously attacked the Hong Kong's economy. However, the Group still has confidence in Hong Kong's economy for the future.

## **SUBSTANTIAL SHAREHOLDERS**

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st March, 2003, 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	
	Personal interests	Corporate interests	of issued capital	
			Total	
High Peak Development Limited ("High Peak") (note 1)	Nil	200,400,000	200,400,000	49.43%
Mr. Ho Kwok Kin ("Mr. Ho") (note 1)	Nil	200,400,000	200,400,000	49.43%
FlexSystem Limited (note 2)	Nil	119,600,000	119,600,000	29.50%
FlexSystem Holdings Limited (note 2)	Nil	119,600,000	119,600,000	29.50%

1. High Peak was incorporated in the 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 Han, Simee who is the wife of Mr. Ho, as to about 4.07% by Mr. Lau Yuk Cheong ("Mr. Lau") and as to about 2.71% by Mr. Cheng Ho Yip.
2. FlexSystem Limited 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 March, 2003, 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:

	<b>Personal interests</b>	<b>Corporate interests</b> <i>(note)</i>	<b>Total</b>
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.

Save as disclosed below, 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 March, 2003, 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:-

<b>No. of share options</b>	<b>Name of grantees</b>	<b>Subscription price per share</b>	<b>Date of grant</b>
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 quarterly accounts for the nine months ended 31st March, 2003.

## **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 nine months ended 31st March, 2003.

## **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 March, 2003, 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, 12th May, 2003