



MRC Holdings Limited

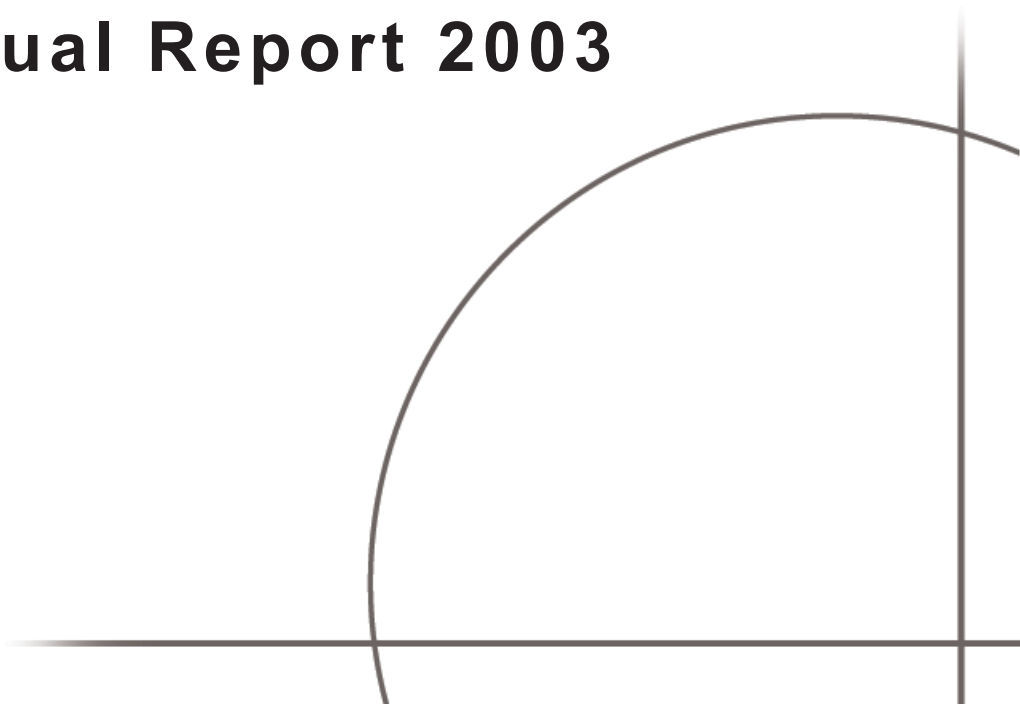
(incorporated in the Cayman Islands with limited liability)



We CARE

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Annual Report 2003



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THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

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This report, for which the directors of MRC Holdings Limited collectively and individually accept full 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 for the purpose of giving information with regard to MRC Holdings Limited. 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.

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EXECUTIVE DIRECTORS

Mr. Wang Wenliang (*Chairman*)
Mr. Hao Yu (*Chief Executive Officer*)
Mr. Li Weisong
Mr. Yang Jianguo
Mr. Li Zifeng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shun Long
Mr. Luo Yong Tai

QUALIFIED ACCOUNTANT

Mr. Lui Siu Keung, *AHKSA*

COMPANY SECRETARY

Mr. Lui Siu Keung, *AHKSA*

COMPLIANCE OFFICER

Mr. Hao Yu

AUTHORISED REPRESENTATIVES

Mr. Wang Wenliang
Mr. Hao Yu

AUDIT COMMITTEE

Mr. Wang Shun Long
(*Chairman of the audit committee*)
Mr. Luo Yong Tai

AUDITORS

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

PRINCIPAL BANKER

Standard Chartered Bank
3 Fleming Road
Wanchai
Hong Kong

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**

Offices 01–02, 9th Floor
Tung Wai Commercial Building
109-111 Gloucester Road and
22-26 Fleming Road
Wanchai, Hong Kong

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

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

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

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

It gives me great pleasure to present the annual audited consolidated results of the Group for the financial year ended 30th June, 2003, for the first time as the chairman of the Company appointed in July 2003.

FINANCIAL PERFORMANCE

During the year under review, the Group's turnover for the year ended 30th June, 2003 was approximately HK\$8.2 million. The Group recorded a net loss of approximately HK\$5.4 million. The financial position of the Group remained healthy with a non-gearing capital structure.

With a view to provide a good opportunity for the Group to capitalize on the recent positive market sentiment to raise funds to strengthen its capital base and improve its financial position to provide flexibility to pursue any new business opportunities for the Group's future development and expansion, the Company proposed to raise HK\$20.27 million (the "Proceeds"), before expenses, by issuing 405,400,000 new shares (the "Rights Shares") of the Company by way of the rights issue (the "Rights Issue") at the subscription price of HK\$0.05 per Rights Share on the basis of one Rights Share for every existing share (the "Shares") of the Company. Details of which are set out in the circular of the Company dated 23rd September, 2003. The extraordinary general meeting has been held on 23rd September, 2003 on which the resolution in respect of the Rights Issue was duly passed. As at the date hereof, the Rights Issue is still conditional upon the underwriting agreement (the "Underwriting Agreement") dated 15th August, 2003, entered into between the Company and Hezhong Investment Holding Company Limited ("Hezhong") in relation to the underwriting in respect of the Rights Issue becoming conditional. Accordingly, the Rights Issue has yet not been completed. The Underwriting Agreement is expected to become unconditional on or before 9th October, 2003.

PROSPECTUS

The past year was still the difficult year for the Group due to the continuous unfavourable economic conditions pertaining to the information technology (the "IT") industry. The economies of both the People's Republic of China (the "PRC") and Hong Kong had been further hit by the sudden outbreak of the severe acute respiratory syndrome (the "SARS") in the second quarter of 2003 in the PRC and Hong Kong. As the Group's business operation is mainly performed in the PRC and Hong Kong, the outbreak of the SARS also had negative impact on the business operation of the Group. Given the SARS has been effectively under control since July 2003 in the PRC and Hong Kong, the negative impact of SARS on the Group's business operation is only temporary and the business operation of the Group has been returned to normal in the third quarter of 2003.

Now, with the impact of the SARS and with the economies of the PRC and Hong Kong gradually recovering, we believe that the business environment in the PRC and Hong Kong will become more positive in the future but the prospects for the IT industry is still challenging due to keen competition from exiting local and overseas competitors.

CHAIRMAN'S STATEMENT (CONT'D)

The Group will continue to engage in the sale of human resources management (“HRM”) system software in the PRC and Hong Kong. The Group intends to stay vigilant over the market environment and will maintain a prudent and conservative approach in its existing business operations. In order to enhance the competitive edge of the Group, we will continue to diversify or expand the sale strategies of the Group by the provision of a wider spectrum of services, such as a large scale human resources automation project, to its customers. In order to improve the results of the Group’s business, we will continue to strengthen its financial control. In the meantime, we will also pursue new investment opportunities in the future, with a view to improve the earning capability of the Group.

APPRECIATION

People are always the key contributor to the Group’s success. On behalf of the board (the “Board”) of Directors, I would like to extend my greatest appreciation to our management team and staff for their dedication and contribution in the past year. I would also like to take this opportunity to express appreciation to our shareholders and customers for their continuous support and confidence in the Group.

Wang Wenliang

Chairman

Hong Kong, 30th September, 2003

FINANCIAL REVIEW

The turnover of the Group increased from approximately HK\$6.3 million for the year ended 30th June, 2002 to approximately HK\$8.2 million for the year ended 30th June, 2003, representing an increase of approximately 30.2%. The increase was primarily attributable to the turnover growth from the software project income which was the result of the enhancement in the Group's marketing and brand building activities carried out during the year under review. However, the Group recorded a net loss of approximately HK\$5.4 million during the year as a result of the difficult economic conditions pertaining to the IT industry and the sudden outbreak of the SARS in the second quarter of 2003.

FINANCIAL RESOURCES AND LIQUIDITY

During the year under review, the Group generally finances its operations with internally generated resources.

As at 30th June, 2003, the Group had net current assets of approximately HK\$0.1 million. The current assets amounted to approximately HK\$2.4 million, including trade and other receivables of approximately HK\$1.9 million and cash and bank balances of approximately HK\$0.5 million. The current liability amounted to approximately HK\$2.3 million, including other payables of approximately HK\$2.3 million.

FINANCIAL RATIO

As at 30th June, 2003, the liquidity ratio of the Group, represented by a ratio of current assets to current liabilities, was approximately 1.04 (2002 (restated): 2.8), reflecting the adequacy of financial resources.

The Group expresses its gearing ratio as a ratio of bank borrowings and long-term debts to total shareholders' equity. As at 30th June, 2003, the Group did not have any bank borrowings and long-term debts.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year ended 30th June, 2003, 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, 2003, the Group had no significant investment and material acquisitions and disposals of subsidiaries and affiliated companies.

CAPITAL COMMITMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure contracted, but not provided for	<u>—</u>	<u>591</u>

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

CONTINGENT LIABILITIES

As at 30th June, 2003, the Group had no material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 30th June, 2003, the Group had no charges on the Group's assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2003, the Group had 37 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 BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

COMPARISON OF USE OF PROCEEDS

<i>(in HK\$'million)</i>	Amount to be used up to 30th June, 2003 as disclosed in the prospectus	Actual amount used up to 30th June, 2003
Geographical expansion	4.2	4.6
ASP business	1.5	–
Product enhancement and development	2.3	3.0
Sales and marketing	1.6	2.1
Recruitment portal cooperation	0.5	–
	<hr/>	<hr/>
Total	<u>10.1</u>	<u>9.7</u>

Up to 30th June, 2003, the Group had utilised approximately HK\$9.7 million of the net proceeds (the “Net Proceeds”) from the listing of the Shares on GEM on 5th June, 2001. The under-utilisation was mainly due to the cost saving on slowing down the geographical expansion as well as the delay in ASP business.

The Directors currently are of the view that the economic environment pertaining to the geographical expansion and the development of ASP business is still not favourable. As such, the Directors intend to use the remaining balance of HK\$0.4 million from the Net Proceeds as general working capital.

COMPARISON OF BUSINESS OBJECTIVE

Geographical Expansion

Objective:	Japan market	<ul style="list-style-type: none"> — Continue to perform marketing activities, including seminars, training courses, group meeting and advertising — Recruit more staff for the sales and marketing team
	The PRC, Taiwan, Singapore and Malaysia markets	<ul style="list-style-type: none"> — More distribution agents will be appointed
Actual situation:	Japan market	<ul style="list-style-type: none"> — Due to the unfavourable market condition pertaining to the IT industry, the Group is still looking for a stable partner
	The PRC, Taiwan, Singapore and Malaysia markets	<ul style="list-style-type: none"> — One agent has been appointed as a distributor in the PRC

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (CONT'D)

Product Enhancement and Development

Objective: Launch Career Planning module and Succession Plan module

Actual: The Group started the development 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 13

Actual: The actual numbers of sales and marketing staff was 13

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wang Wenliang, aged 32, is the Chairman of the Group. He joined the Group in July 2003. Mr. Wang has held investments in various industries in the PRC including aluminum, property, and information technology. Mr. Wang has been a deputy general manager of a company in Zhengzhou, the PRC (whose principal business is the manufacture and sale of aluminum products) since 1996 and has been a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) since 1997. Mr. Wang also has been a president of a company in Henan Province, the PRC since 2000, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang completed his postgraduate course in Finance in the Chinese Academy of Social Science in the PRC in 2001. Mr. Wang is a chairman of Hezhong.

Mr. Hao Yu, aged 31, is the Chief Executive Officer of the Group. He joined the Group in July 2003. He received his master degree in Enterprise Management from the Tianjin University of Finance and Economics in the PRC in 2001 and is currently pursuing a doctorate degree in Managerial Science and Engineering from the University of Tianjin, the PRC. Mr. Hao has about eight years' working experience in the securities industry in the PRC, holding various positions with responsibilities in daily operations and business planing. Mr. Hao is a director of Hezhong.

Mr. Li Weisong, aged 33, has been the general manager of a company which is principally engaged in the manufacture and sale of aluminum products in the PRC since 1996 and a managing director of a company which is principally engaged in property management and rental in the PRC since 1997. He joined the Group in July 2003. Mr. Li is a director of Hezhong.

Mr. Yang Jianguo, aged 43, received his bachelor degree in Economics from the University of Zhengzhou in the PRC in 1982. Mr. Yang has held investments in the property industry and interior decoration industry. Further, Mr. Yang has about 13 years' working experience in the property industry and has been a managing director of a company which is principally engaged in property development, rental and management in the PRC since 1996. Mr. Yang has also been a managing director of a company which is principally engaged in interior decoration (in particular, door and window decoration) since 2001. He joined the Group in July 2003. Mr. Yang is a director of Hezhong.

Mr. Li Zifeng, aged 33, completed his postgraduate course in Economic Management from the University of Beijing, the PRC in 2002. Mr. Li had worked for a bank in the PRC for about six years (responsible for credit business), had worked for a company in the PRC for about four years (responsible for mortgage business), and had worked for a securities firm in the PRC (responsible for asset management). He joined the Group in July 2003. Mr. Li is a director of Hezhong.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT (CONT'D)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shun Long, aged 39, is the head of strategic department of SIIC Medical Science and Technology (Group) Limited. He graduated from Tsinghua University in the PRC with a doctoral degree in engineering and was employed by the Eindhoven University of Technology in The Netherlands as a researcher for three years. Mr. Wang has eight years of experience in corporate management and investment planning. He joined the Group in July 2003.

Mr. Luo Yong Tai, aged 57, is a professor in management of Tianjin University of Finance and Economics, the head of the Microeconomic Institute of Tianjin University of Finance and Economics, a member of the committee of the Tianjin City People's Political Consultative Conference, the deputy supervisor of the People's Republic of China System Engineering Committee and also held positions in various professional organisations. Mr. Luo is a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC and has been engaged in various national and provincial projects in recent years. Mr. Luo is also an independent director of two companies listed on the Shanghai Stock Exchange. He joined the Group in July 2003.

SENIOR MANAGEMENT

Mr. Lui Siu Keung, aged 31, is the financial controller of the Group and the company secretary and qualified accountant of the Company. He joined the Group in June 2003. Mr. Lui has approximately 7 years of experience in auditing, accounting and corporate finance fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy. Mr. Lui is an associate member of the Hong Kong Society of Accountants.

Mr. Ho Kwok Kin, aged 56, is the sales and marketing manager of the Group. He is responsible for overseeing the sales and marketing of the Group's products. He has over 35 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 information technology 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 human resource management 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 55, is the quality assurance manager of the Group. He is responsible for the product quality and documentation standards of the products of the Group. He has more than 32 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 35, is the research and development manager of the Group. He is responsible for the research of software development 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 13 years of experience in design and development of human resource management system.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT (CONT'D)

Mr. Ng Tin Lok, aged 30, 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. Mong On Heng, Irwin, aged 27, 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 35, 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.

DIRECTORS' REPORT

The Directors submit their annual report together with the audited financial statements for the year ended 30th June, 2003.

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 2 to the accounts.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the Company's subsidiaries are set out in note 19 to the accounts. The Group is principally engaged in the development and sale of human resources management ("HRM") system software as well as rendering of the provision of related consultancy services including project management, implementation and maintenance of the MRC HRM System in the PRC and Hong Kong.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 22.

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 26 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 16 to the accounts.

DIRECTORS'
REPORT (CONT'D)

SHARE CAPITAL

Details of the movements in share capital are set out in note 25 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, 2003, in the opinion of the Directors, the Company's reserves available for distribution to shareholders comprising share premium and accumulated losses, amounted in total to approximately HK\$(4,297,000) (2002: HK\$(32,000)).

FINANCIAL SUMMARY

	2003 <i>HK\$'000</i>	(Restated) 2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Results				
Turnover	<u>8,226</u>	<u>6,281</u>	<u>8,753</u>	<u>5,069</u>
(Loss)/Profit attributable to shareholders	<u>(5,391)</u>	<u>(7,710)</u>	<u>3,011</u>	<u>199</u>
Assets and liabilities				
Total assets	<u>3,593</u>	<u>9,956</u>	<u>18,908</u>	<u>2,678</u>
Total liabilities	<u>(2,920)</u>	<u>(3,407)</u>	<u>(2,222)</u>	<u>(928)</u>
Net assets	<u>673</u>	<u>6,549</u>	<u>16,686</u>	<u>1,750</u>

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' REPORT (CONT'D)

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Wang Wenliang (<i>Chairman</i>)	(<i>appointed on 10th July, 2003</i>)
Mr. Hao Yu (<i>Chief Executive Officer</i>)	(<i>appointed on 10th July, 2003</i>)
Mr. Li Weisong	(<i>appointed on 10th July, 2003</i>)
Mr. Yang Jianguo	(<i>appointed on 10th July, 2003</i>)
Mr. Li Zifeng	(<i>appointed on 10th July, 2003</i>)
Mr. Ho Kwok Kin	(<i>resigned on 10th July, 2003</i>)
Mr. Peter David Hilling	(<i>resigned on 10th July, 2003</i>)
Mr. Lau Yuk Cheong	(<i>resigned on 10th July, 2003</i>)

Independent non-executive Directors

Mr. Wang Shun Long	(<i>appointed on 31st July, 2003</i>)
Mr. Luo Yong Tai	(<i>appointed on 31st July, 2003</i>)
Mr. Ting Wai Cheung, Bernie	(<i>resigned on 31st July, 2003</i>)
Mr. Chan Kin Wai	(<i>resigned on 31st July, 2003</i>)

In accordance with Article 87 of the articles of association of the Company, Mr. Wang Shun Long and Mr. Luo Yong Tai will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of Directors and senior management of the Company are set out on page 9.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company and its holding company or any of its subsidiaries 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.

DIRECTORS' REPORT (CONT'D)

CONNECTED TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 30th June, 2003, which also constitute connected transactions and is exempted under the GEM Listing Rules are disclosed in note 29 to the accounts.

DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTEREST IN SHARES

As at 30th June, 2003, the interests of the Directors in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which would have to be notified to the Company and the Exchange pursuant to the provisions of Divisions 7 and 8 Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which had to be notified to the Company and the Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

(a) The Company

Interest in shares of the Company

Name of Directors	Capacity	Number of shares	Approximate % of holding
Mr. Ho Kwok Kin ("Mr. Ho") (Note 1)	Interest of controlled corporations	200,400,000 (Note 2)	49.43%
Mr. Lau Yuk Cheong ("Mr. Lau") (Note 1)	Interest of controlled corporations	200,400,000 (Note 2)	49.43%

Notes:

- Both Mr. Ho and Mr. Lau resigned as the Directors on 10th July, 2003.
- 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, about 21.95% by Madam So Miu Han, Simee who is the wife of Mr. Ho, about 4.07% by Mr. Lau and as to about 2.71% by Mr. Cheng Ho Yip.

Save as disclosed above, as at 30th June, 2003, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT (CONT'D)

Long positions in underlying shares of equity derivatives of the Company

Name of Director	Number and description of equity derivatives	Nature of interests	Number of underlying Shares
Ho Kwok Kin ("Mr. Ho") <i>(Note 1)</i>	3,996,000 options <i>(Note 2)</i>	Beneficial	3,996,000
Lau Yuk Cheong ("Mr. Lau") <i>(Note 1)</i>	3,996,000 options <i>(Note 2)</i>	Beneficial	3,996,000
Peter David Hilling <i>(Note 1)</i>	996,000 options <i>(Note 2)</i>	Beneficial	996,000

Notes:

- All of Mr. Ho, Mr. Lau and Mr. Peter David Hilling resigned as the Directors on 10th July, 2003.
- The options were granted under the share option scheme adopted by the Company on 21st May, 2001 and entitled the holders of options ("the Optionholders") to subscribe for Shares at an exercise price of HK\$0.16 per Share during the period from 8th March, 2002 to 7th March, 2012. In July 2003, all the Optionholders (including the above Directors) accepted the mandatory unconditional cash offer made by First Shanghai Securities Limited on behalf of Hezhong in respect of the cancellation of their outstanding Options. For details, please refer to the announcement of the Company dated 10th July, 2003 jointly issued by the Company and Hezhong.

Save as disclosed above, at no time during the year was the Company or its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the Directors, or their spouses or children under the age of 18, had any rights to subscribe for shares of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2003, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

	Number of shares			Approximate % of holding
	Personal interests	Corporate Interests	Total	
High Peak <i>(Note 1)</i>	Nil	200,400,000	200,400,000	49.43%
Mr. Ho <i>(Note 1)</i>	Nil	200,400,000	200,400,000	49.43%
FlexSystem Limited <i>(Note 2)</i>	Nil	119,600,000	119,600,000	29.50%
FlexSystem Holdings Limited <i>(Note 2)</i>	Nil	119,600,000	119,600,000	29.50%

DIRECTORS' REPORT (CONT'D)

Notes:

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, about 21.95% by Madam So Miu Han, Simee who is the wife of Mr. Ho, as to about 4.07% by Mr. Lau and as to about 2.71% by Mr. Cheng Ho Yip.
2. FlexSystem 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.

Save as disclosed above, as at 30th June, 2003, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution in writing of the then shareholders passed on 21st May, 2003, the Company has adopted the share option scheme pursuant to which the Directors were authorised to grant options to full-time employees (including executive directors) of the Company or any of its subsidiaries to subscribe for Shares. No options were granted during the year and all outstanding options at 30th June, 2003 were cancelled in July 2003.

Details of the current year's movements in the number of ordinary shares under the share option scheme adopted by the Company are set out in note 25 to the accounts.

SPONSOR'S INTEREST

As updated and notified by CSC Asia Limited (the "Sponsor"), neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group, including options or rights to subscribe for or to nominate persons to subscribe for such securities.

Pursuant to the agreement dated 25th May, 2001 entered into between the Company and the Sponsor, the Sponsor would receive a fee for acting as the Company's retained sponsor for the period from 5th June, 2001 to 30th June, 2003.

Save as disclosed above, the Sponsor had no other interest in the Company as at 30th June, 2003.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

- | | |
|-----------------------------------|-------|
| – the largest supplier | 20.6% |
| – five largest suppliers combined | 73.2% |

Sales

- | | |
|-----------------------------------|-------|
| – the largest customer | 6.9% |
| – five largest customers combined | 31.7% |

None of the directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the share capital of any of the five largest suppliers or customers of the Group.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since listed on GEM.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rules 5.23 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board.

The audit committee comprises two independent non-executive Directors, including Mr. Wang Shun Long and Mr. Luo Yong Tai, both of them being appointed to the audit committee on 31st July, 2003 to replace Mr. Ting Wai Cheung, Bernie and Mr. Chan Kin Wai who were resigned on that day. Mr. Wong Shun Long is the chairman of the audit committee.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year 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.

DIRECTORS'
REPORT (CONT'D)

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

Wang Wenliang

Chairman

Hong Kong, 30th September, 2003

AUDITORS' REPORT

AUDITORS' REPORT TO THE SHAREHOLDERS OF MRC HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 22 to 62 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

We have considered the adequacy of the disclosures made in note 2 to the accounts concerning the basis of preparation by the Directors. As explained in note 2 to the accounts, the Group incurred a net loss attributable to shareholders of HK\$5,391,000 for the year ended 30th June, 2003. The Group's accounts have been prepared on a going concern basis, the validity of which is dependent upon the successful outcome of the measures currently being undertaken by the Directors to ensure that adequate cash resources are available to the Group to enable it to meet its future working capital and financial requirements. The accounts do not include any adjustments that may be necessary should the implementation of such measures become unsuccessful. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

AUDITORS' REPORT

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, 2003 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, 2003

**CONSOLIDATED PROFIT
AND LOSS ACCOUNT**

For the year ended 30th June, 2003

	<i>Note</i>	2003 HK\$'000	(Restated) 2002 <i>HK\$'000</i>
Turnover	5	8,226	6,281
Cost of sales		(2,131)	(1,785)
Gross profit		6,095	4,496
Other revenue	5	162	1,038
Distribution costs		(1,823)	(1,680)
Administrative expenses		(7,857)	(9,396)
Other operating expenses		(2,446)	(3,371)
Operating loss	6	(5,869)	(8,913)
Finance costs	7	(7)	(4)
Loss before taxation		(5,876)	(8,917)
Taxation	8	–	198
Loss after taxation		(5,876)	(8,719)
Minority interests		485	1,009
Loss attributable to shareholders		(5,391)	(7,710)
Dividend attributable to the year:			
Interim dividend declared and paid during the year	9	–	1,014
Loss per share – basic	11	(1.33) cents	(1.90) cents

CONSOLIDATED
BALANCE SHEET

As at 30th June, 2003

	Note	2003 HK\$'000	(Restated) 2002 HK\$'000
Intangible assets	15	656	1,313
Fixed assets	16	564	990
Current assets			
Trade and other receivables	17	1,929	2,465
Bank balances and cash	21	444	5,188
		2,373	7,653
Current liabilities			
Other payables	23	2,348	2,249
Taxation payable	8	–	437
Bank overdraft	22	–	161
		2,348	2,847
Net current assets		25	4,806
Total assets less current liabilities		1,245	7,109
Non-current liabilities			
Provision for long service payment	24	(572)	(560)
Minority interests		864	379
		1,537	6,928
Financed by:			
Share capital	25	4,054	4,054
Reserves	26	(2,517)	2,874
Shareholders' funds		1,537	6,928

BALANCE
SHEET

As at 30th June, 2003

	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
Investments in subsidiaries	19	10	10
Current assets			
Other receivables	17	93	6
Bank balances and cash	21	279	4,247
		372	4,253
Current liabilities			
Other payables	23	625	241
Net current (liabilities)/assets		(253)	4,012
Total assets less current liabilities		(243)	4,022
Financed by:			
Share capital	25	4,054	4,054
Reserves	26	(4,297)	(32)
Shareholders' funds		(243)	4,022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June, 2003

	<i>Note</i>	2003 HK\$'000	(Restated) 2002 HK\$'000
Shareholders' equity at 1st July			
As previously reported		7,670	16,686
Prior years' adjustments arising from change in accounting policy for employee benefits	12	(742)	(545)
As restated		6,928	16,141
Loss for the year			
As previously reported			(7,513)
Prior years' adjustments arising from change in accounting policy for employee benefits	12		(197)
Loss for the year (2002: as restated)		(5,391)	(7,710)
Movements in share premium:			
– Additional expenses incurred in connection with the issue of shares		–	(489)
– Interim dividend paid in the current year		–	(1,014)
Shareholders' equity at 30th June		1,537	6,928

CONSOLIDATED
CASH FLOW STATEMENT

For the year ended 30th June, 2003

	Note	2003 HK\$'000	(Restated) 2002 HK\$'000
Operating activities			
Loss before taxation		(5,876)	(8,917)
Adjustment for:			
Depreciation	6	587	576
Amortisation of deferred development costs	6	657	910
Research and development costs written off	6	–	356
Interest income	6	(14)	(232)
		(4,646)	(7,307)
Operating loss before changes in working capital			
Decrease in prepayments, deposits, trade and other receivables	17	1,218	466
(Decrease)/increase in other payables, accruals and deferred income	23	(68)	505
Increase in provision for annual leave payment	23	125	85
Increase in amount due from former ultimate holding company	17	(4)	–
Decrease/(increase) in amounts due from affiliated companies	17	127	(173)
Decrease in amount due to an affiliated company		–	(2)
Decrease in amount due from ex-shareholder	17	102	54
Increase in amount due to directors	23	63	–
Decrease in amount due from a director		–	43
Decrease/(increase) in amounts due from officers	17	93	(155)
(Decrease)/increase in amount due to a related party	23	(21)	21
Increase in provision for long service payment	24	12	112
		(2,999)	(6,351)
Cash used in operations			
Interest received	6	14	232
Tax (paid)/refund	8	(437)	18
		(3,422)	(6,101)
Investing activities			
Deposit paid for investment	18	(1,000)	–
Purchase of fixed assets	16	(161)	(1,017)
Payment for deferred development expenditures		–	(1,698)
Net cash inflow from purchase of subsidiaries		–	630
		(1,161)	(2,085)
Net cash used in investing activities			
Financing activities			
Additional share issue expenses		–	(489)
Dividend paid		–	(1,014)
		–	(1,503)
Net cash used in financing activities			
Net decrease in cash and cash equivalents		(4,583)	(9,689)
Cash and cash equivalents at 1st July		5,027	14,716
Cash and cash equivalents at 30th June		444	5,027
Analysis of balances of cash and cash equivalents			
Bank balances and cash	21	444	5,188
Bank overdraft	22	–	(161)
		444	5,027

1. CORPORATE INFORMATION

- (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. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- (b) High Peak Development Limited and FlexSystem Limited disposed of their entire interests in the Company on 14th June, 2003 to Hezhong Investment Holding Company Limited, the current ultimate holding company.

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are set out in note 19.

2. BASIS OF PRESENTATION

The Group incurred a consolidated net loss attributable to shareholders of HK\$5,391,000 for the year ended 30th June, 2003. In view of liquidity problems faced by the Group and its uncertain ongoing prospects due to the prevailing recession of the economy, the Directors have adopted the following measures with a view to improving the Group's overall financial position, immediate liquidity and cash flows in order to sustain the Group as a going concern:

- Subsequent to the balance sheet date, the Company proposed to raise HK\$20,270,000, before expenses, from a rights issue of 405,400,000 new shares of the Company. The net proceeds from the rights issue are intended to be used for future investment and for general working capital of the Group.
- The Directors are actively exploring new business opportunities in order to revitalize the Group.
- The Directors have taken active cost-saving measures to streamline the Group's exiting operations and to strengthen its financial control.

In the opinion of the Directors, if the above measures accomplish the expected results, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the Directors are satisfied that it is appropriate to prepare the accounts on a going concern basis.

The accounts have not incorporated any adjustments for the possible failure of the Group to implement the aforesaid measures. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in the accounts.

3. ADOPTION OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (Revised)	Presentation of accounts
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

These new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these accounts. The adoption of these new and revised SSAPs have affected the amounts reported for the current or prior years as set out in note 12. Certain comparative amounts and disclosures for the previous year have been restated in order to achieve a consistent presentation.

4. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

These accounts have been prepared in accordance with all applicable SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provision of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention, except for certain fixed assets as further explained below.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries for the year ended 30th June, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries and controlled enterprises

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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and controlled enterprises *(continued)*

An investment in a controlled subsidiary is consolidated into the consolidated accounts, 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.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less any impairment losses (note 4(f)), 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.

(d) Fixed assets

Fixed assets 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 recognized in the profit and loss account.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Leases

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating 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 4(k) below. Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 4(j)(v) below.

(ii) Operating lease charge

Rental payables under operating leases are accounted for in the profit and loss account on a straight line basis over the periods of the respective lease.

(f) 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.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 in the year in which the reversal are recognized.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) 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.

(h) 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.

(i) 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.

On consolidation, the results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year, balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) 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 recognized 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 recognized 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 recognized 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.
- x) Software consultancy income, outsource fee income, management fee income and training income are recognized when the related services are rendered.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) 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.

(l) 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.

(m) 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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) 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.

(o) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company or Group 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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) 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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Segment reporting *(continued)*

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.

(q) 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 accounts. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

(r) Employee benefits

(i) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognized as an expense in the profit and loss account as incurred, except to the extent that they are included in the cost of intangible assets not yet recognized as an expense.

(ii) Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognized until the time of leave.

(iii) The subsidiaries operating in the People's Republic of China (the "PRC") are required to participate in the state-organised pension scheme operated by the Government of the PRC for its employees. The contributions are recognized as an expense in the profit and loss account as incurred.

(iv) Termination benefits are recognized when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

5. 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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Software project income	4,794	3,592
Resale of hardware	141	41
Rendering of maintenance services	2,635	2,377
Course and seminar income	38	240
Rental income of software	44	31
Software consultancy income	551	–
Outsource fee income	23	–
	8,226	6,281
Other revenue		
Ticket income	–	102
Booth rental income	–	625
Book revenue	–	2
Bank interest income	14	232
Management fee income	–	8
Sub-letting income	–	27
Sundry income	138	42
Training income	8	–
Exchange gain	2	–
	162	1,038
Total revenue	8,388	7,319

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.

5. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting segment – business segment (continued)

	Software		Service		Other operations		Group	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	5,345	3,592	2,635	2,377	246	312	8,226	6,281
Segment results	(87)	(237)	2,120	1,841	134	34	2,167	1,638
Unallocated							(8,050)	(10,783)
Operating loss							(5,883)	(9,145)
Interest income							14	232
Finance costs							(7)	(4)
Loss before taxation							(5,876)	(8,917)
Taxation							–	198
Loss after taxation							(5,876)	(8,719)
Minority interests							485	1,009
Loss attributable to shareholders							(5,391)	(7,710)

	Software		Service		Other operations		Group	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	902	1,860	64	344	19	717	985	2,921
Unallocated assets							2,608	6,874
Total assets							3,593	9,795
Segment liabilities	167	94	1,010	1,082	1	–	1,178	1,176
Unallocated liabilities							1,742	2,070
Total liabilities							2,920	3,246

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

Primary reporting segment – business segment (continued)

	Software		Service		Others		Unallocated		Group	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	-	1,342	-	-	-	-	161	1,017	161	2,359
Depreciation and amortisation charge	657	910	-	-	-	-	587	576	1,244	1,486
Provision for doubtful debts	-	368	-	325	2	25	-	-	2	718
Bad debts written off	-	-	-	-	50	-	-	-	50	-
Provision for long service payments	-	-	-	-	-	-	12	112	12	112
Provision for annual leave payment	73	43	6	1	-	-	46	41	125	85

Segment assets consist of intangible assets and trade receivables (net of provision for bad and doubtful debts) which are directly attributable to individual segments.

In the previous year's disclosures, segment assets were determined without including trade receivables. The comparative figures of segment assets have been reclassified to conform with current year's presentation.

Unallocated liabilities include provision for long service payment and operating liabilities. The comparative figures of segment liabilities have been restated to comply with the newly adopted SSAP34 "Employee Benefits".

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

Secondary reporting format – geographical segments

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

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 2003 <i>HK\$'000</i>	PRC 2003 <i>HK\$'000</i>	Others 2003 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
Segment revenue	<u>6,765</u>	<u>719</u>	<u>742</u>	<u>8,226</u>
Segment assets	<u>3,368</u>	<u>123</u>	<u>102</u>	<u>3,593</u>
Capital expenditure incurred during the year	<u>78</u>	<u>83</u>	<u>–</u>	<u>161</u>
	Hong Kong 2002 <i>HK\$'000</i>	PRC 2002 <i>HK\$'000</i>	Others 2002 <i>HK\$'000</i>	Group 2002 <i>HK\$'000</i>
Segment revenue	<u>5,477</u>	<u>795</u>	<u>9</u>	<u>6,281</u>
Segment assets	<u>8,948</u>	<u>838</u>	<u>9</u>	<u>9,795</u>
Capital expenditure incurred during the year	<u>2,280</u>	<u>79</u>	<u>–</u>	<u>2,359</u>

6. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting:		
Interest income	14	232
Sub-letting income less outgoings	–	27
Rental income of software	44	31
Exchange gain (net)	<u>2</u>	<u>–</u>
Charging:		
Staff costs (including directors' emoluments)		
– basic salaries, allowances and other benefits	8,453	8,522
– mandatory provident fund	262	261
– capitalised as research and development costs	–	(1,342)
– written off as research and development costs	–	(72)
– provision for annual leave payment (2002: restated)	125	85
– provision for long service payment (2002: restated)	12	112
Research and development costs		
– amortisation of this year	657	910
– written off as incurred	–	356
– previously capitalized written off	–	764
– accumulated amortisation written back	–	(764)
Depreciation of fixed assets	587	576
Auditors' remuneration	263	300
Bad debts written off	50	–
Provision for doubtful debts	2	718
Operating lease rentals in respect of land and buildings	<u>908</u>	<u>1,035</u>

7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Bank charges	<u>7</u>	<u>4</u>

8. TAXATION

No provision for Hong Kong profits tax has been made in the accounts as the companies comprising the Group did not have any assessable profits for the year (2002: Nil).

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:

	2003 HK\$'000	2002 HK\$'000
Provision for Hong Kong profits tax for the year	-	-
Overprovision in respect of previous year	-	(5)
Deferred taxation	-	(193)
	<u>-</u>	<u>(193)</u>
	<u>-</u>	<u>(198)</u>

- b) Taxation in the consolidated balance sheet represents:

Provision for Hong Kong profits tax for the year	-	-
Provision for Hong Kong profits tax for previous year	-	437
	<u>-</u>	<u>437</u>
Tax payable	<u>-</u>	<u>437</u>

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

Balance at 1st July	-	193
Reversed to profit and loss account	-	(193)
	<u>-</u>	<u>-</u>
Balance at 30th June	<u>-</u>	<u>-</u>

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

8. TAXATION (continued)

The principal components of the Group's unprovided deferred tax asset calculated at 17.5% (2002: 16%) at the balance sheet date are as follows:

	2003 HK\$'000	2002 HK\$'000
Excess of depreciation allowances over depreciation charged in the accounts	44	104
Capitalised research and development costs with allowance claimed	115	210
Tax losses	(1,437)	(968)
Deferred tax asset	(1,278)	(654)

9. DIVIDEND

	2003 HK\$'000	2002 HK\$'000
Interim dividend declared and paid (2002: 0.25 cents per share)	–	1,014

10. 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 (2002: HK\$4,265,000).

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK\$5,391,000 (2002: (restated) loss of HK\$7,710,000) and the 405,400,000 (2002: 405,400,000 shares) ordinary shares in issue during the year.

No diluted loss per share for the years ended 30th June, 2003 and 2002 had been presented as the exercise of the potential ordinary shares would result in a reduction in loss per share.

12. CHANGES IN ACCOUNTING POLICY

(i) Translation of accounts of foreign enterprises

In prior years, the results of foreign enterprises were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1st January, 2002, in order to comply with Statement of Standard Accounting Practice 11 (revised) issued by the Hong Kong Society of Accountants, the Group translates the results of foreign enterprises at the average exchange rate for the year. However, the translation of the profit and loss of these foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

(ii) Employee benefits

With effect from 1st January, 2002, the Group has adopted a new accounting policy as set out in note 4(r) to provide for liabilities in respect of the annual leave and long service leave of its staff in order to comply with SSAP 34 "Employee Benefits" issued by the Hong Kong Society of Accountants.

As a result of the new accounting policy, the Group's loss for the year has been increased by HK\$137,000 (2002: HK\$197,000) and the net assets as at the year end have been decreased by HK\$879,000 (2002: HK\$742,000). The effect of adopting the new accounting policy relating to prior years has been adjusted to the opening balances of accumulated losses and certain comparative information has been restated accordingly.

13. 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\$262,000 for the year. (2002: HK\$261,000)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes ("CPSs") operated by respective local municipal government. These subsidiaries are required to contribute 14 per cent to 24 per cent of their covered payroll to the CPSs to fund their benefits. The only obligation of the Group with respect to the CPSs is to pay the ongoing required contributions under the CPSs. Contributions under the CPSs are charged to the profit and loss account as they become payable in accordance with the rules of the CPSs.

14. 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:

	2003 HK\$'000	(Restated) 2002 HK\$'000
Fees	–	–
Other emoluments:		
– Basic salaries, allowances, and benefits in kind	1,799	2,191
– Contributions to pension scheme for directors of the Company	24	30
	1,823	2,221

For the year ended 30th June, 2003, 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, 2003 of approximately HK\$889,000 (2002: HK\$1,237,000), HK\$660,000 (2002: HK\$668,000), and HK\$177,000 (2002: HK\$195,000) respectively.

Included in the emolument of HK\$668,000 paid to an executive director in last year, HK\$579,000 was capitalized as research and development cost. None of the directors' emoluments was capitalized during the year as set out in note 15.

The independent non-executive directors received individual emoluments for the year ended 30th June, 2003 of approximately HK\$45,000 (2002: HK\$60,000) and HK\$45,000 (2002: HK\$60,000) respectively.

There has been no arrangement under which a director has waived or agreed to waive any emoluments for the year ended 30th June, 2003 (2002: 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.

All of the 8,988,000 share options of the Company granted in last year to the directors were cancelled after the year end date and the Company proposed to terminate the existing share option scheme as set out in note 30.

During the year, no emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five highest paid employees during the year included two (2002: two) Directors, details of whose remuneration are set out in note 14a to the accounts. Details of the remuneration of the remaining three (2001: three) highest paid, non-director employees during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, allowances, and benefits in kind	1,285	1,296
Bonus	26	55
Pension scheme contributions	22	18
	1,333	1,369

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

Emolument bands	Number of individuals	
	2003	2002
HK\$		
Nil to 1,000,000	3	3

All of the 5,994,000 share options of the Company granted in last year to the three highest paid individuals were cancelled after the year end date and the Company proposed to terminate the existing share option schemes as set out in note 30.

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.

15. INTANGIBLE ASSETS

	Group	
	2003 HK\$'000	2002 HK\$'000
Deferred development costs		
Cost:		
At 1st July	1,969	1,391
Additions	–	1,342
Write-off	–	(764)
	1,969	1,969
At 30th June	1,969	1,969
Accumulated amortisation:		
At 1st July	656	510
Write-off	–	(764)
Amortisation for the year	657	910
	1,313	656
At 30th June	1,313	656
Net book value:		
At 30th June	656	1,313

Development costs capitalized include expenses incurred by the Group in the development of certain new software products. During the year ended 30th June, 2003, total expenditures on research and development amounted to HK\$1,198,000 (2002: HK\$1,698,000) of which none (2002: HK\$1,342,000) was capitalized. Last year, the directors considered that one of the software product capitalized might not be able to demonstrate that the product met the criteria for recognition and therefore the costs were written off from intangible assets. At the end of this year, the Directors are of the opinion that there is no indication of impairment on the carrying value of the intangible assets.

The amortization charge for the year is included in "other operating expenses" in the consolidated profit and loss account.

16. FIXED ASSETS

	Group			
	Leasehold improvements <i>HK\$'000</i>	Equipment and computer software <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1st July, 2002	295	1,385	361	2,041
Additions	65	94	2	161
	<u>360</u>	<u>1,479</u>	<u>363</u>	<u>2,202</u>
At 30th June, 2003				
Accumulated depreciation:				
At 1st July, 2002	197	687	167	1,051
Charge for the year	125	391	71	587
	<u>322</u>	<u>1,078</u>	<u>238</u>	<u>1,638</u>
At 30th June, 2003				
Net book value:				
At 30th June, 2003	<u>38</u>	<u>401</u>	<u>125</u>	<u>564</u>
At 30th June, 2002	<u>98</u>	<u>698</u>	<u>194</u>	<u>990</u>

The directors are of the opinion that there is no indication of impairment on the carrying value of fixed assets as of 30th June, 2003.

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Due from:				
An ex-shareholder (Note 20a)	21	123	–	–
Affiliated companies (Note 20a)	147	274	–	–
A former ultimate holding company (Note 20b)	4	–	–	–
Officers (Note 20c)	62	155	–	–
Trade receivables	1,060	2,390	–	–
Prepayments and deposits	364	286	93	–
Other receivables (Note 18)	1,000	6	–	6
	2,658	3,234	93	6
Less: Provision for bad and doubtful debts	(729)	(769)	–	–
	1,929	2,465	93	6

Notes:

- (a) The amounts due from an ex-shareholder, affiliated companies and a former ultimate holding company are unsecured, interest free and have no fixed terms of repayment.
- (b) Included in prepayments and deposits is an amount of HK\$75,283 (2002: HK\$Nil) in respect of rental deposits which are expected to be recovered after one year.

17. TRADE AND OTHER RECEIVABLES (continued)

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

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 month	356	1,515	–	–
Over 1 month but within 3 months	357	119	–	–
Over 3 months but within 6 months	57	320	–	–
Over 6 months	290	436	–	–
	1,060	2,390	–	–
Less: Provision for bad and doubtful debts	(729)	(769)	–	–
	331	1,621	–	–

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.

Trade receivables are expected to be recovered within one year.

18. OTHER RECEIVABLES – DEPOSIT FOR INVESTMENT

	2003	2002
	HK\$'000	HK\$'000
Reach Human Resources Limited – 50% deposit on investment cost	1,000	–

On 24th July, 2002, Manpower Resource Computing Limited, (“MRCL”) a subsidiary of the Company, Reach Human Resources Limited and Mr. Yang Xi Hong entered into a 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 with the subscription price in the amount of HK\$2,000,000 payable in cash. On the same date, MRCL paid HK\$1,000,000 as deposit and partial payment of the Subscription Price.

18. OTHER RECEIVABLES – DEPOSIT FOR INVESTMENT *(continued)*

With reference to the announcement dated 23rd October, 2002 and 20th November, 2002, MRCL has agreed to extend the time for the fulfillment or satisfaction of the conditions of the Subscription Agreement to 21st November, 2002 and 31st December, 2002 respectively.

Since the conditions of the Subscription Agreement have not been fully satisfied by the Long Stop Date, the Subscription Agreement has therefore ceased and been terminated effective from 31st December, 2002 and Reach Human shall forthwith return the deposit in the amount of HK\$1,000,000 to MRCL without interest.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Investments at cost:		
Unlisted shares	10	10
Amount due from a subsidiary	6,375	4,330
Less: Provision for amount due from a subsidiary	(6,375)	(4,330)
	10	10
	10	10

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

19. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the subsidiaries at 30th June, 2003:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Effective interest held
<i>Subsidiary held directly</i>				
Cyber Dynamic Enterprise Limited*	British Virgin Islands	Investment holding in Hong Kong	10,310.90 ordinary shares of US\$1 each	100%
<i>Subsidiaries held indirectly</i>				
Manpower Resource Computing Limited	Hong Kong	Development and distribution of human resource management software system and provision for maintenance and consultancy services in Hong Kong	1,300,000 ordinary shares of HK\$1 each	100%
Manpower Resource Computing (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 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 and consultancy services in the PRC	Registered capital US\$200,000	69.99%

* Not audited by Fan, Mitchell & Co.

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

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

a) Amount due from an ex-shareholder/affiliated companies

	Balance at		Maximum amount outstanding
	2003	2002	during the year
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FlexSystem Limited	21	123	211
FlexSystem (Shanghai) Company Limited	–	172	172
DeloitteFlex e-Business Inc.	–	19	19
Qualidux Industrial Co. Ltd.	<u>147</u>	<u>83</u>	<u>199</u>

FlexSystem Limited is an ex-shareholder of the Company and is a subsidiary of FlexSystem Holdings Limited. Mr. Lok Wai Man, the director of FlexSystem Holdings Limited is also a director of Manpower Resource Computing (China) Limited, a subsidiary of the Company.

SomaFlex International Inc. is a subsidiary of FlexSystem Holdings Limited and the shareholder of Manpower Resource Computing (China) Limited, a subsidiary of the Company.

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

DeloitteFlex e-Business Inc. is a jointly controlled entity of FlexSystem Holdings Limited.

A former 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.

b) Amount due from a former ultimate holding company

	Balance at		Maximum amount outstanding
	2003	2002	during the year
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
High Peak Development Limited	<u>4</u>	–	<u>4</u>

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

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

c) Loans to officers

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

	Balance at		Maximum amount
	2003	2002	outstanding
	HK\$'000	HK\$'000	during the year
			HK\$'000
Alex Ng Tin Lok	<u>62</u>	<u>86</u>	<u>86</u>

The amount due is interest free and unsecured. The loan amounting to HK\$100,000 was granted by the directors on 4th December, 2001. It 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 amount has been fully settled during the year.

The total amount of loans to officers expected to be recovered after more than one year is HK\$38,000 (2002: HK\$112,000).

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	<u>444</u>	<u>5,188</u>	<u>279</u>	<u>4,247</u>

22. BANK OVERDRAFTS

At 30th June, 2003, the unsecured bank overdrafts were repayable as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year or on demand	<u>–</u>	<u>161</u>	<u>–</u>	<u>–</u>

23. OTHER PAYABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Due to:				
A related party	–	21	–	–
Directors	63	–	23	–
Other payables and accruals	974	961	602	241
Deferred income	1,004	1,085	–	–
Provision for annual leave payment (2002: restated)	307	182	–	–
	2,348	2,249	625	241

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

At 30th June, 2003, amounts of approximately HK\$125,000 (2002: 88,000) and HK\$129,000 (2002: HK\$88,000) included in the provision for annual leave payment are being entitled by the executive directors.

At 30th June, 2003, amount of approximately HK\$10,000 (2002: Nil) included in the provision for annual leave payment is being entitled by one of the five highest paid individuals.

24. PROVISION FOR LONG SERVICE PAYMENT

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

24. PROVISION FOR LONG SERVICE PAYMENT *(continued)*

The amount recognized in the balance sheet is as follows:

	Group	
	2003 HK\$'000	2002 <i>HK\$'000</i>
At 1st July	560	448
Additional provision in the year	12	112
At 30th June	572	560

At 30th June, 2003, amounts of approximately HK\$202,000 (2002: HK\$199,000) and HK\$176,000 (2002: HK\$173,000) included in the provision for long service payment are being entitled by the executive directors. Details of directors' emoluments information are set out in note 14(a).

At 30th June, 2003, amount of approximately HK\$88,000 (2002: HK\$85,000) included in the provision for long service payment is being entitled by one of the five highest paid individuals. Details of senior management emoluments information are set out in note 14(b).

25. SHARE CAPITAL

	2003 HK\$'000	2002 <i>HK\$'000</i>
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 share option scheme of the Company provides that the directors of the Company may offer to any employees (including executive directors) of the Company or any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme. However, no options were granted during the year and all outstanding options at the balance sheet date were cancelled after the year end date.

25. **SHARE CAPITAL** (continued)

Share option scheme (continued)

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:

Exercise price per share HK\$	Exercise period	Number of ordinary shares under option ('000)					At 30th June, 2003
		At 1st July, 2002	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	
0.16	8th March, 2002 to 7th March, 2012	35,424	-	-	(3,984)	-	(31,440)

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.

An ordinary resolution will be proposed at the annual general meeting of the Company to be held on 24th October, 2003 to terminate the Existing Share Option Scheme and to adopt a new share option scheme (the "New Share Option Scheme"). Details of which are set out in the circular of the Company dated 30th September, 2003 despatched to the shareholders of the Company together with this annual report on 30th September, 2003.

26. RESERVES

Group	Share premium HK\$'000	Merger reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st July, 2001				
As previously reported	5,881	3,740	3,011	12,632
Prior years' adjustment arising from changes in accounting policy for employee benefits (note 12)	—	—	(545)	(545)
As restated	5,881	3,740	2,466	12,087
Additional expenses incurred in connection with the issue of shares (note (b))	(489)	—	—	(489)
Loss for the year (as restated)	—	—	(7,710)	(7,710)
Interim dividend paid in the current year	(1,014)	—	—	(1,014)
At 30th June, 2002	<u>4,378</u>	<u>3,740</u>	<u>(5,244)</u>	<u>2,874</u>
At 1st July, 2002				
As previously reported	4,378	3,740	(4,502)	3,616
Prior years' adjustment arising from changes in accounting policy for employee benefits (note 12)	—	—	(742)	(742)
As restated	4,378	3,740	(5,244)	2,874
Loss for the year	—	—	(5,391)	(5,391)
At 30th June, 2003	<u>4,378</u>	<u>3,740</u>	<u>(10,635)</u>	<u>(2,517)</u>
Company	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	
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	<u>4,378</u>	<u>(4,410)</u>	<u>(32)</u>	
At 1st July, 2002	4,378	(4,410)	(32)	
Loss for the year	—	(4,265)	(4,265)	
At 30th June, 2003	<u>4,378</u>	<u>(8,675)</u>	<u>(4,297)</u>	

26. RESERVES (continued)

Notes:

- (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 Group reorganization completed on 21st May, 2001 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.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of changes in financing during the year

	Share capital including share premium		Merger reserve on consolidation		Minority interests	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st July	8,432	9,935	3,740	3,740	(379)	–
Minority interests in share of loss	–	–	–	–	(485)	(1,009)
Minority share of net assets of subsidiaries	–	–	–	–	–	630
Share issue expenses	–	(489)	–	–	–	–
Dividend	–	(1,014)	–	–	–	–
At 30th June	8,432	8,432	3,740	3,740	(864)	(379)

(b) Purchase of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
– Cash	–	2,275
– Minority interests	–	(630)
	–	1,645
Satisfied by:		
– Cash	–	1,645

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	–	(1,645)
Cash acquired	–	2,275
	<hr/>	<hr/>
Net cash inflow in respect of the purchase of subsidiaries	–	630
	<hr/>	<hr/>

28. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Lessor

The Group leases a HRM software package to customers under operating leases. The leases typically run for three years.

At 30th June, 2003, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	24	41
After one year but within five years	24	48
	<hr/>	<hr/>
	48	89
	<hr/>	<hr/>

(b) Lessee

The Group leases a number of properties for office premises and staff quarter 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.

At 30th June, 2003, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	267	574
After one year but within five years	241	25
	<hr/>	<hr/>
	508	599
	<hr/>	<hr/>

28. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) **Capital commitments**

	Group	
	2003 HK\$'000	2002 <i>HK\$'000</i>
Capital expenditure contracted, but not provided for	<u>–</u>	<u>591</u>

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

(d) At the year ended 30th June, 2003 and 2002, the Group had no contingent liabilities.

29. 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:

	<i>Note</i>	Amount	
		2003 HK\$'000	2002 <i>HK\$'000</i>
Sales to an ex-shareholder, FlexSystem Limited	i	100	423
Sales to FlexSystem (Shanghai) Co. Ltd., a fellow subsidiary of FlexSystem Limited	i	–	37
Software consultancy income from FlexSystem (Shanghai) Co. Ltd., a fellow subsidiary of FlexSystem Limited	i	34	–
Maintenance income from an ex-shareholder, FlexSystem Limited	i	8	29
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	180	240
Rental expenses paid to a director, Mr. Lau Yuk Cheong	iv	99	132
Repairs and maintenance fee paid to an ex-shareholder FlexSystem Limited	v	–	23
Accounting fee paid to an ex-shareholder, FlexSystem Limited	vi	–	20
Purchases from an ex-shareholder, FlexSystem Limited	vii	–	91
Seminar expense paid to an ex-shareholder, FlexSystem Limited	viii	–	3
Booth rental income received from an ex-shareholder, FlexSystem Limited	ix	–	7
Sundry income received from i-Global Solutions Limited	x	–	16
Sub-letting income received from i-Global Solutions Limited	x	–	27
Sales to Qualidux Industrial Co. Ltd.	xi	97	150
Maintenance income from Qualidux Industrial Co. Ltd.	xi	28	21
Sundry income from Qualidux Industrial Co. Ltd.	xi	–	12
Outsource fee income from Lighthouse Services Limited	xii	19	–

29. 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.

Software consultancy income from FlexSystem (Shanghai) Company Limited were conducted on normal commercial terms.

- (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 and by extending the rental period up to 31st March, 2003 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 the year ended 30th June, 2001. The tenancy agreements were 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 and by extending the rental period up to 31st March, 2003 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 the year ended 30th June, 2001. The tenancy agreements were on normal commercial terms.

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

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

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

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

29. RELATED PARTY TRANSACTIONS *(continued)*

Notes: (continued)

- (ix) The Group received booth rental income from FlexSystem Limited on normal commercial terms.
- (x) 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.
- (xi) A former 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.
- (xii) A former independent non-executive director, Mr. Chan Kin Wai is a director and shareholder of Lighthouse Services Limited. The transaction was 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.

30. POST BALANCE SHEET EVENTS

- a) Subsequent to the balance sheet date, the Company proposed to raise HK\$20.27 million before expenses by issuing one rights share for every existing share held on 23rd September, 2003 "Record Date" at a subscription price of HK\$0.05 per rights share. The net proceeds from the rights issue are intended to be used for future investment and for general working capital of the Group.
- b) An ordinary resolution will be proposed at the annual general meeting of the Company to be held on 24th October, 2003 to terminate the Existing Share Option Scheme and to adopt a new share option scheme (the "New Share Option Scheme"). Details of which are set out in the circular of the Company dated 30th September, 2003 despatched to the shareholders of the Company together with this annual report on 30th September, 2003.

31. COMPARATIVE AMOUNTS

As explained in note 3 to the accounts, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the accounts have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 26th September, 2003.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of MRC Holdings Limited (the “Company”) will be held at Suite 3016, 30/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong on Friday, 24th October, 2003 at 10:00 a.m. for the following purposes:

1. to receive and consider the audited consolidated financial statements and the reports of the directors (the “Directors”) of the Company and the auditors for the year ended 30th June, 2003;
2. to re-elect Directors and to authorise the board (the “Board”) of Directors to fix the remuneration of the Directors;
3. to re-appoint the auditors (the “Auditors”) of the Company and to authorise the Board to fix the remuneration of the Auditors;

and, as special business, to consider and, if thought fit, to pass the following resolutions (the “Resolution(s)”) as ordinary Resolutions:

4. **“THAT:**
 - (a) subject to paragraph (c) below, pursuant to the Rules (the “GEM Listing Rules”) Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the exercise by the Directors during the Relevant Period (as defined in paragraph (d) below) 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 defined in paragraph (d) below);
 - (ii) the exercise of any options granted under the share option scheme of the Company;
 - (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 (“Articles”) of the Company in force from time to time;

NOTICE OF
ANNUAL GENERAL MEETING (CONT'D)

- (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 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this 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, the Companies Law (Law 3 of 1961, as consolidated and revised) (the “Companies Law”) of Cayman Islands, or any other applicable law of Cayman Islands to be held; and
- (iii) the passing of an ordinary Resolution by the shareholders (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 defined in paragraph (c) below) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission (“SFC”) and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the SFC, 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;

NOTICE OF
ANNUAL GENERAL MEETING (CONT'D)

- (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% 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, 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 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 numbered 4 above in respect of the share capital of the Company referred to in subparagraph (bb) of paragraph (c) of such Resolution."
7. "THAT the existing share option scheme (the "Existing Share Option Scheme") of the Company adopted pursuant to a resolution of the Company passed on 21st May, 2001 be and is hereby terminated provided that any options granted under the Existing Share Option Scheme prior to the passing of this Resolution shall not, in any way, be affected or prejudiced and all such options shall continue to be valid and exercisable in accordance with the Existing Share Option Scheme."
8. "THAT conditional upon the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, any Shares which may be issued pursuant to the exercise of the options to be granted under the new share option scheme (the "New Share Option Scheme"), the New Share Option Scheme be and is hereby approved and adopted in substitution for the Existing Share Option Scheme; the Directors be and are hereby authorised to grant options to subscribe for the Shares thereunder and to allot and issue Shares pursuant to the exercise of any options which may be granted under the New Share Option Scheme; and that the Directors be and are hereby authorized to do such things and acts as the Directors consider necessary and appropriate to effect the same."

By Order of the Board
Daniel Lui
Company Secretary

Hong Kong, 30th September, 2003

NOTICE OF
ANNUAL GENERAL MEETING (CONT'D)

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:*

Offices 01–02, 9th Floor
Tung Wai Commercial Building
109-111 Gloucester Road and
22-26 Fleming Road
Wanchai, Hong Kong

Notes:

1. A member of the Company 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. To be valid, the form of proxy and the power of attorney (if any) 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 branch share registrar of the Company in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and in any event not later than 48 hours before the time of the meeting or any adjourned meeting. 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 GEM 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.