



**MRC HOLDINGS LIMITED**

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

**FIRST QUARTERLY RESULTS REPORT**

**FOR THE THREE MONTHS ENDED**

**30 SEPTEMBER 2003**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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*This report, for which the directors (the “Directors”) of MRC Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively the “Group”). 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.*

## **HIGHLIGHTS**

- The unaudited consolidated turnover of the Group for the three months ended 30 September 2003 (the “Relevant Period”) decreased by approximately 27.9% over the corresponding period in 2002 to approximately HK\$1.6 million.
- The unaudited consolidated net loss attributable to shareholders (the “Shareholders”) of the Company for the Relevant Period improved by approximately 12.5% over the corresponding period in 2002 to approximately HK\$1.1 million.
- Basic loss per share (the “Share”) of the Company for the Relevant Period improved by 12.5% over the corresponding period in 2002 to approximately 0.28 cents.
- The Directors do not recommend the payment of an interim dividend for the Relevant Period.

## CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of Directors, I am pleased to present the unaudited consolidated results (the "Unaudited Consolidated Results") of the Group for the Relevant Period, together with comparative unaudited figures for the corresponding period in 2002.

### Unaudited consolidated results

		Three months ended	
		30 September	
		2003	2002
	Notes	HK\$'000	HK\$'000
Turnover	2	1,562	2,167
Cost of sales		(445)	(621)
<b>GROSS PROFIT</b>		<b>1,117</b>	<b>1,546</b>
Other revenues		61	101
Selling and marketing expenses		(269)	(475)
Administrative expenses		(1,639)	(1,908)
Other operating expenses		(469)	(659)
<b>OPERATING LOSS</b>		<b>(1,199)</b>	<b>(1,395)</b>
Finance costs		(2)	(2)
<b>LOSS BEFORE TAXATION</b>		<b>(1,201)</b>	<b>(1,397)</b>
Taxation	3	—	—
<b>LOSS AFTER TAXATION</b>		<b>(1,201)</b>	<b>(1,397)</b>
Minority interests		71	106
<b>NET LOSS ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(1,130)</b>	<b>(1,291)</b>
<b>DIVIDEND</b>		<b>—</b>	<b>—</b>
<b>LOSS PER SHARE - BASIC</b>	4	<b>0.28 cents</b>	<b>0.32 cents</b>

Notes:

#### 1. Basis of preparation and consolidation

The Unaudited Consolidated Results have been prepared in accordance with all applicable Statements of Standard Accounting Practice, issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure provision of the GEM Listing Rules. They have been prepared under the historical cost convention.

The Unaudited Consolidated Results include the results of the Group for the Relevant Period. The results of subsidiaries acquired or disposed of during the Relevant Period are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions within the Group are eliminated on consolidation.

## 2. Turnover

The Group is principally engaged in (i) the development of human resources management (“HRM”) system software for sale and leasing purpose; (ii) the resale of hardware products; (iii) the provision of maintenance services; and (iv) the organization of other human resource related services. Revenue recognized during the Relevant Period and the corresponding period in 2002 are as follows:

	Three months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
By business segments:		
Software project income	695	1,428
Render of maintenance services	769	654
Resale of hardware	—	85
Course and seminar income	29	—
Rental income of software	11	—
Software consultancy income	58	—
	<u>1,562</u>	<u>2,167</u>
By geographical segments:		
Hong Kong	1,553	1,796
PRC	9	371
	<u>1,562</u>	<u>2,167</u>

## 3. Taxation

No provision for the Hong Kong profits tax has been made for the three months ended 30 September 2002 and 2003 respectively as the companies comprising the Group did not have any assessable profits for the Relevant Period and the corresponding period in 2002.

## 4. Loss per Share

The calculation of the basic loss per Share is based on the unaudited consolidated net loss attributable to Shareholders for the Relevant Period of approximately HK\$1,130,000 (first quarter of financial year ended 30 June 2003 (“1QFY2002/03”): approximately HK\$1,291,000) and the 405,400,000 Shares in issue during the Relevant Period (1QFY2002/03: 405,400,000 Shares).

No diluted loss per Share for the three months ended 30 September 2002 and 2003 respectively had been presented as the exercise of the potential ordinary shares would result in a reduction in loss per Share.

## 5. Movement of reserves

### Group

	Share premium account <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2002	4,378	3,740	(4,502)	3,616
Loss for the period	—	—	(1,291)	(1,291)
At 30 September 2002	<u>4,378</u>	<u>3,740</u>	<u>(5,793)</u>	<u>2,325</u>
At 1 July 2003	4,378	3,740	(10,635)	(2,517)
Loss for the period	—	—	(1,130)	(1,130)
At 30 September 2003	<u>4,378</u>	<u>3,740</u>	<u>(11,765)</u>	<u>(3,647)</u>

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Relevant Period (1QFY2002/03: Nil).

## COMPETING INTEREST

During the Relevant Period, none of the directors, chief executive, management shareholders nor substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests in a business which competes with or may compete with the business of the Group.

## FINANCIAL REVIEW

The Group recorded approximately HK\$1.6 million in turnover for the Relevant Period, representing a decrease of approximately 27.9% as compared with the corresponding period in 2002. The decrease was mainly attributable to the combined effect of the severe acute respiratory syndrome (the “SARS”) outbreak in the People’s Republic of China (the “PRC”) and the Hong Kong Special Administrative Region of the PRC (“Hong Kong”) in the second quarter of 2003 which hindered the plan of enterprises in the PRC and Hong Kong from purchasing HRM software in the third quarter of 2003 and the continuous difficult economic conditions pertaining to the information technology (the “IT”) industry.

The Group posted a net loss of approximately HK\$1.1 million for the Relevant Period, representing an improvement of approximately 12.5% as compared with the corresponding period in 2002. The improvement was mainly attributable to the effect of the implementation of stringent financial control plan in the Group.

Basic loss per Share for the Relevant Period amounted to approximately 0.28 cents, representing an improvement of 12.5% as compared with the corresponding period in 2002.

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

## **BUSINESS REVIEW**

Given SARS has been effectively under control since July 2003 in the PRC and Hong Kong, the business operation of the Group has been returned to normal in the third quarter of 2003.

Reference is made to the announcements of the Company dated 15 August 2003, 5 September 2003 and 9 October 2003, the circular (the "Circular") of the company dated 5 September 2003 and the prospectus of the Company dated 23 September 2003, the Company raised funds of HK\$20.27 million, before expenses, in October 2003 by issuing 405,400,000 new shares of the Company (the "Rights Shares") 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 one Share. As stated in the Circular, the net proceeds of the Rights Issue, after deduction of expenses, are estimated to be approximately HK\$19.3 million of which the Company intends to apply approximately HK\$12.0 million for the Group's future investments and the remaining approximately HK\$7.3 million as the Group's general working capital.

## **PROSPECTS**

Now, with the economies of the PRC and Hong Kong gradually recovering, we believe that the business environment in the PRC and Hong Kong would become more positive in the near future that enterprises would devote more resources to install HRM software system but the prospects for the IT industry is still challenging due to keen competition from exiting local and overseas competitors.

The Group will continue to engage in the sale of 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 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.

## DISCLOSURE OF INTERESTS

### (a) Directors and Chief Executive

As at 30 September 2003, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

#### Long positions in Shares

##### (i) *The Company*

Name of Director	Capacity	Number of Shares (Share)	Approximate percentage of the Company's enlarged issued share capital (%)
Mr. Wang Wenliang	Interest of controlled corporation	221,720,000 (Note 1)	
	Interest of controlled corporation	405,400,000 (Note 2)	
		<hr/>	
		627,120,000	77.35

##### *Notes:*

1. These Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). As at 30 September 2003, the issued share capital of Hezhong was beneficially owned as to 52% by Mr. Wang Wenliang, as to 12% by Mr. Hao Yu, as to 12% by Mr. Li Weisong, as to 12% by Mr. Yang Jianguo and as to the remaining 12% by Mr. Li Zifeng. Therefore, Mr. Wang Wenliang was deemed to be interested in these Shares.
2. On 15 August 2003, the Company and Hezhong entered into the underwriting agreement pursuant to which Hezhong irrevocably undertook to accept its entitlement of 221,720,000 Rights Shares in full under the Rights Issue and undertook 183,680,000 Rights Shares. As at 30 September 2003, an aggregate of 405,400,000 Rights Shares as mentioned before are subject to such arrangement. Therefore, Hezhong was deemed to be interested in these Shares. As the issued share capital of Hezhong was beneficially owned as to 52% by Mr. Wang Wenliang as at 30 September 2003, Mr. Wang Wenliang was also deemed to be interested in these Shares.



(ii) *Hezhong*

Name of Directors	Capacity	Number of ordinary share in Hezhong (Share)	Percentage of Hezhong's issued share capital (%)
Mr. Wang Wenliang	Beneficial	26,000	52
Mr. Hao Yu	Beneficial	6,000	12
Mr. Li Weisong	Beneficial	6,000	12
Mr. Yang Jianguo	Beneficial	6,000	12
Mr. Li Zifeng	Beneficial	6,000	12

Save as disclosed herein, as at 30 September 2003, none of the Directors nor the chief executive of the Company had or was deemed to have 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) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

**(b) Substantial Shareholders and Other Persons**

So far as is known to the Directors, as at 30 September 2003, the following person (other than the Directors or the chief executive of the Company) had, or was deemed to have, interests and short positions in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO:

**Long positions in Shares**

Name	Capacity	Number of Shares (Share)	Approximate percentage of the Company's enlarged issued share capital (%)
Hezhong	Beneficial	221,720,000	
	Beneficial	405,400,000 (Note 1)	
		627,120,000	77.35

*Note 1:* On 15 August 2003, the Company and Hezhong entered into the underwriting agreement pursuant to which Hezhong irrevocably undertook to accept its entitlement of 221,720,000 Rights Shares in full under the Rights Issue and undertook 183,680,000 Rights Shares. As at 30 September 2003, an aggregate of 405,400,000 Rights Shares as mentioned before are subject to such arrangement. Therefore, Hezhong was deemed to be interested in these Shares.

Save as disclosed above, as at 30 September 2003, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

## SHARE OPTION SCHEME

A summary of the movement during the period from 1 July 2003 to 30 September 2003 in the number of share options granted under the share option scheme (the "Old Share Option Scheme") adopted by the Company on 21 May 2001 is as follows:

Exercise price per Share HK\$	Exercise period	At 1 July 2003	Number of share options granted under the Old Share Option Scheme ('000)				At 30 September 2003
			Granted during the Relevant Period	Exercised during the Relevant Period	Lapsed during the Relevant Period	Cancelled during the Relevant Period	
0.16	8 March 2002 to 7 March 2012	31,440	—	—	—	(31,440)	—

Pursuant to the ordinary resolution passed at the annual general meeting ("2003 AGM") of the Company held on 24 October 2003, the Old Share Option Scheme was terminated.

Pursuant to another ordinary resolution passed at the 2003 AGM and the letter dated 24 October 2003 from the Stock Exchange in relation to the Stock Exchange granting the approval for the listing of and permission to deal in any Shares to be issued by the Company pursuant to the exercise of share options granted in accordance with the terms and conditions of the new share option scheme (the "New Share Option Scheme"), the New Share Option Scheme was approved and adopted in substitution for the Old Share Option Scheme on 24 October 2003. The purpose of the New Share Option Scheme is to enable the Company to grant share option to any full time employee of the Group or any person in order to reward and provide incentives to its employees and other persons who have contributed or will contribute to the Group. The New Share Option Scheme, unless otherwise cancelled or amended, will continue in force for the period commencing from 24 October 2003 and expiring at the close of business on the tenth anniversary thereof.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Relevant Period.

By Order of the Board  
**Wang Wenliang**  
*Chairman*

Hong Kong, 7 November 2003