



# **FlexSystem Holdings Limited**

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

(Stock code: 8050)

## **Results Announcement For the six months ended 30th September, 2004**

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*This announcement, for which the directors of FlexSystem Holdings Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to FlexSystem 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

The board (“Board”) of directors (“Directors”) of FlexSystem Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30th September, 2004 with the unaudited consolidated comparative figures for the corresponding period in 2003 as follows:

	<i>Note</i>	Three months ended 30th September,		Six months ended 30th September,	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	2	<u>17,668</u>	11,744	<u>31,335</u>	23,418
Gross profit		<u>13,032</u>	8,294	<u>22,850</u>	16,790
Operating profit/(loss)		<u>1,628</u>	(2,346)	<u>447</u>	(3,821)
Share of (loss) of a jointly controlled entity		<u>(100)</u>	(50)	<u>(45)</u>	(131)
Profit/(loss) before taxation		<u>1,528</u>	(2,396)	<u>402</u>	(3,952)
Taxation	3	<u>(164)</u>	–	<u>(209)</u>	(38)
Profit/(loss) after taxation		<u>1,364</u>	(2,396)	<u>193</u>	3,990
Minority interests		<u>(79)</u>	(3)	<u>(79)</u>	(7)
Profit/(loss) attributable to shareholders		<u><u>1,285</u></u>	<u>(2,399)</u>	<u><u>114</u></u>	<u>(3,997)</u>
Profit/(loss) per share – Basic	4	<u><u>0.21 cent</u></u>	<u>(0.39) cent</u>	<u><u>0.02 cent</u></u>	<u>(0.67) cent</u>
Dividend per share		<u><u>Nil</u></u>	<u>Nil</u>	<u><u>Nil</u></u>	<u>Nil</u>

## CONSOLIDATED BALANCE SHEET

		As at 30th September, 2004 <i>HK\$'000</i> (unaudited)	As at 31st March, 2004 <i>HK\$'000</i> (audited)
	<i>Note</i>		
Fixed assets		4,305	4,342
Investment in a jointly controlled entity		624	669
Investment in an associated company		–	–
Long-term investments		515	515
Other investments		1,408	1,408
		<u>6,852</u>	<u>6,934</u>
Current assets			
Inventories		1,002	947
Trade and other receivables	5	16,059	13,144
Bank balances and cash		37,415	37,320
		<u>54,476</u>	<u>51,411</u>
Current liabilities			
Trade and other payables	6	19,278	16,664
Taxation payable		5,549	5,374
		<u>24,827</u>	<u>22,038</u>
Net current assets		<u>29,649</u>	<u>29,373</u>
Total assets less current liabilities		<u>36,501</u>	<u>36,307</u>
Financed by:			
Share capital		60,000	60,000
Reserves	7	(24,421)	(24,535)
Shareholders' funds		35,579	35,465
Minority interests		922	842
		<u>36,501</u>	<u>36,307</u>

## CONSOLIDATED CASH FLOW STATEMENT

	<b>For the six months ended 30th September, 2004 HK\$'000 (unaudited)</b>	For the six months ended 30th September, 2003 HK\$'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES	<u>1,436</u>	<u>1,579</u>
INVESTING ACTIVITIES		
Interest received	40	144
Dividend received	23	24
Purchase of fixed assets	(492)	(219)
Proceeds on disposal of fixed assets	-	21
Proceeds on disposal of investment	-	3,924
Investment in an associated company	(912)	(807)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	<u>(1,341)</u>	<u>3,087</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	95	4,666
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	<u>37,320</u>	<u>35,344</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>37,415</u></u>	<u><u>40,010</u></u>

Notes:

## 1. Basis of presentation

The Company was incorporated in the Cayman Islands on 8th May, 2000 as an exempted company with limited liability under the Companies Law (2000 Revised) of the Cayman Islands. The shares of the Company (the “Shares”) are listed on GEM of the Exchange.

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Exchange. The financial statements have been prepared under the historical cost convention except that certain property and investments in securities are stated at fair value.

## 2. Turnover

The Group is principally engaged in the development, sale and lease of enterprise software products in Hong Kong, mainland China (the “PRC”) and other Asian countries. The unaudited consolidated revenue for the six months ended 30th September, 2004 with the unaudited consolidated figures for the corresponding period in 2003 are as follows:–

	Three months ended 30th September,		Six months ended 30th September,	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Business segment:–				
Sale and lease of application software	10,324	7,317	17,965	14,469
Maintenance services	5,186	4,150	10,105	8,292
Sale of hardware	2,158	277	3,265	657
	<u>17,668</u>	<u>11,744</u>	<u>31,335</u>	<u>23,418</u>
Geographical segment:–				
Hong Kong	12,783	9,289	23,571	19,040
The PRC	2,861	1,706	5,088	2,876
Others	2,024	749	2,676	1,502
	<u>17,668</u>	<u>11,744</u>	<u>31,335</u>	<u>23,418</u>

## 3. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the period. PRC income tax has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing to the enterprises in the PRC.

#### 4. Earnings/(Loss) per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30th September, 2004 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$1,285,000 and HK\$114,000 respectively, and 600,000,000 Shares in issue during the period.

The calculation of the Group's basic loss per share for the three months and six months ended 30th September 2003 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$2,399,000 and HK\$3,997,000 respectively, and 600,000,000 Shares in issue.

#### 5. Trade and other receivables

	<b>As at 30th September, 2004</b>	As at 31st March, 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Debtors, deposits and prepayments comprise:		
Trade debtors	<b>10,849</b>	7,903
Other debtors, deposits and prepayments	<b>5,210</b>	5,241
	<b>16,059</b>	13,144

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically. The following is an aging analysis of trade debtors net of provision or bad and doubtful debts.

	<b>30th September, 2004</b>	31st March, 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	<b>3,717</b>	2,369
31-60 days	<b>1,715</b>	963
61-90 days	<b>649</b>	663
91-180 days	<b>1,243</b>	58
181-365 days	<b>2,869</b>	2,982
Over 365 days	<b>656</b>	868
	<b>10,849</b>	7,903

## 6. Creditors, accruals and deposits

	As at 30th September, 2004 <i>HK\$'000</i>	As at 31st March, 2004 <i>HK\$'000</i>
Creditors, accruals and deposits comprise:-		
Trade creditors	994	887
Other creditors, deferred income and deposits	18,284	15,777
	<u>19,278</u>	<u>16,664</u>

The following is an aging analysis of trade creditors:-

	30th September, 2004 <i>HK\$'000</i>	31st March, 2004 <i>HK\$'000</i>
0-30 days	850	581
31-60 days	62	40
61-90 days	1	-
91-180 days	-	220
181-365 days	47	35
Over 365 days	34	11
	<u>994</u>	<u>887</u>

## 7. RESERVES

	Group				
	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st April, 2003	83,955	(47,430)	(55)	(53,983)	(17,513)
Loss attributable to shareholders for the year	-	-	-	(7,022)	(7,022)
As at 31st March, 2004 (Audited)	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>(61,005)</u>	<u>(24,535)</u>
As at 1st April, 2004	83,955	(47,430)	(55)	(61,005)	(24,535)
Profit attributable to shareholders for the period	-	-	-	114	114
As at 30th September, 2004	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>(60,891)</u>	<u>(24,421)</u>

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2004 (six months ended 30th September, 2003: Nil).

## **BUSINESS REVIEW AND PROSPECTS**

### **Financial review**

During the period ended 30th September, 2004, turnover increased by approximately 34% to approximately HK\$31 million as compared with the corresponding period last period. Moreover, the Group also recorded profit attributable to shareholders amounted to approximately HK\$114,000 due to the recovery of the IT sector.

### **Business review and Outlook**

The Group put additional sales and marketing effort for the ERP application software. Moreover, the Group continues deploying resources in research and development in ERP application software to enrich the Group's application suite.

During the period, the Group launched a new ERP application software-V10 in the market and has concluded some sale contracts of the new product.

Looking ahead, we are confident that the operating results of the Group will continue in the upward trend in the ensuing quarters.

### **Financial resources and liquidity**

As at 30th September, 2004, the shareholders' funds of the Group amounted to approximately HK\$36 million. Current assets amounted to approximately HK\$54 million, of which approximately HK\$37 million were cash and bank deposits and approximately HK\$17 million were debtors, deposits, prepayments and inventory. Its current liabilities amounted to approximately HK\$25 million, mainly comprise of creditors, accruals and deposits received and taxation payable amounted to approximately HK\$19 million and HK\$6 million respectively. The net asset value per share was approximately HK\$0.06. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 30th September, 2004, the Group did not have any borrowings and long-term debts. The liquidity ratio of the Group, represented by a ratio of current assets over current liabilities, was 2.2:1 (As at 31st March, 2004: 2.3:1), reflecting the adequacy of financial resources.



## **Exposure to exchange rate fluctuations**

During the period ended 30th September, 2004, the Group experienced only immaterial exchange rate 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 six months ended 30th September, 2004, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 30th September, 2004, the Group had no material investment.

## **Capital commitments**

As at 30th September, 2004, the Group had no future plans for material investment.

## **Contingent liabilities**

As at 30th September, 2004, the Group had no material contingent liabilities.

## **Charges on the Group's assets**

As at 30th September, 2004, the Group had no charges on the Group's assets.

## **Capital structure**

The Group remains a debt free capital structure and will utilise internal funding for its business operations and development. The Group will also consider external funding when the cost of internal funding exceeds the cost of external funding.

## **Segmental information**

### *Business segment*

During the period under review, the turnover of maintenance services has increased by approximately 22% as the number of customers have increased as compared with the previous period. Moreover, the turnover of software sale has also increased by approximately 24% as the market sentiment of the software industry has recovered.

## *Geographical segments*

The major contribution of turnover is still from Hong Kong. Turnover from the Hong Kong segment represented approximately 75% of the total turnover (2003: 81%). The high percentage of the Hong Kong segment is mainly due to the fact that the Group deploys more resources on the local market.

In the PRC, the turnover has increased by approximately 77% as compared with the previous period as our Group also deploys more sales efforts on the PRC market.

## **Employees and remuneration policies**

As at 30th September, 2004, the Group had 234 employees (2003: 220) and the total remuneration for the period was approximately HK\$14 million (2003: HK\$10 million). 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.

## **DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTEREST IN SECURITIES**

As at 30th September, 2004, the interests and short position of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of 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 of Hong Kong Limited (the "Exchange") pursuant to Rules 5.46 of the GEM Listing Rules, were as follows:

	Number of shares		Total
	Personal interests	Corporate interests	
Mr. Lok Wai Man ( <i>Note 1</i> )	3,798,000	475,500,000 ( <i>Note 2</i> )	479,298,000
Mr. So Yiu King ( <i>Note 1</i> )	2,000	3,600,000 ( <i>Note 2</i> )	3,602,000
Mr. Chow Chi Ming, Daniel ( <i>Note 1</i> )	2,000	3,600,000 ( <i>Note 2</i> )	3,602,000
Mr. Leung Wai Cheung ( <i>Note 1</i> )	Nil	1,000,000 ( <i>Note 2</i> )	1,000,000

*Notes:*

1. Mr. Lok Wai Man, being a substantial shareholder of the Company entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company, is regarded as an initial management shareholder (as defined in the GEM Listing Rules) of the Company. Mr. So Yiu King and Mr. Chow Chi Ming, Daniel are executive directors of the Company and Mr. Leung Wai Cheung is the executive of the Company and are also considered to be initial management shareholders of the Company.
2. The 475,500,000 shares were held by SomaFlex Holdings Inc., a private company beneficially owned by Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel and Mr. Leung Wai Cheung. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holdings Inc., he is deemed, by virtue of the SFO, to be interested in the same 475,500,000 shares held by SomaFlex Holdings Inc.. The indirect interest of the other remaining Directors are the corresponding number of shares held by SomaFlex Holdings Inc. by reference to their respective shareholding in SomaFlex Holdings Inc..

Save as disclosed above, as at 30th September, 2004, none of the directors or their associates as well as the chief executive of the Group had any interests or short positions in the shares and underlying shares of the Company or 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 Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 of the GEM Listing Rules.

#### **OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY**

Pursuant to the share option scheme for employees which was adopted on 15th July, 2000, the Directors may at their discretion grant options to full-time employees and executive directors of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the share option scheme. The maximum number of ordinary shares in respect of which options may be granted under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time.

No share options were granted by the Company during the period ended 30th September, 2004.

#### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company has not redeemed any of its Shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2004, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interests in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

	Number of shares			Percentage of issued share Capital
	Personal interests	Corporate interests	Total	
SomaFlex Holdings Inc. ( <i>Note 1</i> )	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man ( <i>Note 2</i> )	3,798,000	475,500,000	479,298,000	79.88%

*Notes:*

1. SomaFlex Holdings Inc. is beneficially owned as to 98.27% by Mr. Lok Wai Man, 0.76% by Mr. So Yiu King, 0.76% by Mr. Chow Chi Ming, Daniel and 0.21% by Mr. Leung Wai Cheung.
2. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holding Inc., he is deemed, by virtue of the SFO, to be interested in the same 475,500,000 shares held by SomaFlex Holdings Inc..

Save as disclosed above, as at 30th September, 2004, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## CORPORATE GOVERNANCE

During the six months ended 30th September, 2004, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures.

## AUDIT COMMITTEE

The audit committee has been established since May 2000. The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted with reference to “A Guide for The Formation of an Audit Committee” published by the Hong Kong Society of Accountants.

The principal duties of the audit committee include the review and supervision of the Company’s financial reporting process and internal controls. The audit committee comprises three independent non-executive directors, namely Mr. Tse Lin Chung, Mr. Lee Kar Wai and Mak Wing Kwong, David. The unaudited consolidated results of the Group for the six months ended 30th September, 2004 have been reviewed by the committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

By order of the Board

**Lok Wai Man**

*Chairman*

Hong Kong, 12th November, 2004

*As at the date of this announcement, the board of directors of the Company comprises Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel as executive directors and Mr. Tse Lin Chung, Mr. Lee Kar Wai and Mak Wing Kwong, David as independent non-executive directors.*

*This announcement will remain on the GEM website on the “Latest Company Announcement” page for at least 7 days from the day of its posting and on the Company’s website.*