



# **FlexSystem Holdings Limited**

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

(Stock code: 8050)

## **RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH, 2006**

### **Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “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.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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

*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 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.*

## **CHAIRMAN'S STATEMENT**

### **Business Review**

The Group concluded a challenging year in 2006. The recent economic rebound created an improving market sentiment for business. However, the rising labour cost, rental price and other operation costs constituted a difficult operating environment.

### **Research and Development**

Despite the unfavourable operation conditions, the Group continues to provide the best products and services, while maintaining a healthy cost structure. It is an ongoing strategy of the Group to focus on our research and development capabilities, as we believe the technology innovation is critical to maintain our competitive advantage in the market. In the coming years, our research and development activities will be strived on software development automation technology, resulting in lower product development cost in future lower development cost can be resulted.

### **Sales and Marketing**

We will go on endeavoring to carry out different kinds of sales and marketing activities in Hong Kong. Besides, in order to reinforce our regional competitive strength, we will conduct a series of sales & marketing activities in PRC, Taiwan and Malaysia.

### **Final Dividend**

The board of Directors does not recommend a final dividend payment for the year ended 31 March, 2006.

### **Outlook**

It is anticipated that the adverse factors caused by the significant increase in running costs will continue in 2007. In facing these challenges, the Group will keep to invest our technology development, introduce high quality products and provide professional customer services to increase our profit in the coming future.

On behalf of the Board, I would like to take this opportunity to express my sincere thanks to my fellow directors and staff for their continual support and contribution.

**Lok Wai Man**  
*Chairman*

Hong Kong, 26 June 2006

## FINAL RESULTS FOR THE YEAR ENDED 31 MARCH, 2006

The board of Directors (the “Board”) of FlexSystem Holdings Limited (“FlexSystem” or the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 March, 2006, together with the comparative figures for the corresponding period in 2005, as follows:

	<i>Note</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	3	<b>71,497</b>	63,826
Cost of sales		<b>(18,130)</b>	(19,724)
Gross profit		<b>53,367</b>	44,102
Other income and gains	3	<b>1,024</b>	359
Distribution costs		<b>(15,423)</b>	(13,421)
Administrative expenses		<b>(34,157)</b>	(31,137)
Other operating expenses		<b>(2,882)</b>	(1,683)
Operating profit/(loss)	4	<b>1,929</b>	(1,780)
Share of loss of a jointly controlled entity		–	(347)
Loss on disposal of subsidiaries		<b>(48)</b>	(37)
Loss on disposal of a jointly controlled entity		–	(62)
Profit/(loss) before income tax		<b>1,881</b>	(2,226)
Income tax	5	<b>685</b>	(72)
Profit/(loss) for the year		<b><u>2,566</u></b>	<b><u>(2,298)</u></b>
Attributable to:			
Equity holders of the Company		<b>2,566</b>	(2,298)
Minority interests		–	–
		<b><u>2,566</u></b>	<b><u>(2,298)</u></b>
Earning/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year – basic and diluted	6	<b><u>0.43 cents</u></b>	<b><u>(0.38) cents</u></b>

**CONSOLIDATED BALANCE SHEET**

AS AT 31 MARCH, 2006

	<i>Note</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>3,386</b>	4,023
Intangible assets		–	–
Interest in an associated company		–	–
Investments			
– Available-for-sale financial assets		<b>1,779</b>	–
– Loans and receivables		<b>13</b>	–
– Long-term investments		–	15
– Other investments		–	1,560
		<u><b>5,178</b></u>	<u>5,598</u>
<b>Current assets</b>			
Inventories		<b>1,094</b>	1,312
Trade and other receivables	7	<b>13,984</b>	14,156
Bank balances and cash		<b>40,619</b>	39,373
		<u><b>55,697</b></u>	<u>54,841</u>
<b>Total assets</b>		<u><b>60,875</b></u>	<u>60,439</u>
<b>Less: Current liabilities</b>			
Trade and other payables	8	<b>19,790</b>	21,367
Income tax payable		<b>4,295</b>	5,063
		<u><b>24,085</b></u>	<u>26,430</u>
<b>Net current assets</b>		<u><b>31,612</b></u>	<u>28,411</u>
<b>Net assets</b>		<u><b>36,790</b></u>	<u>34,009</u>
<b>Capital and reserves</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		<b>60,000</b>	60,000
Reserves		<b>(24,052)</b>	(26,833)
		<u><b>35,948</b></u>	<u>33,167</u>
<b>Minority interests</b>		<u><b>842</b></u>	<u>842</u>
<b>Total equity</b>		<u><b>36,790</b></u>	<u>34,009</u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH, 2006

	Attributable to equity holders of the Company								
	Reserves					Accumulated losses	Total reserves	Minority interests	Total equity
	Share capital	Share premium	Merger reserve	Exchange reserve	Available-for-sale financial assets revaluation reserve				
HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK\$'000	HK'000	HK'000	
As at 1 April, 2004									
As previously reported as equity	60,000	83,955	(47,430)	(55)	-	(61,005)	(24,535)	-	35,465
As previously separately reported as minority interests	-	-	-	-	-	-	-	842	842
As at 1 April, 2004, as restated	60,000	83,955	(47,430)	(55)	-	(61,005)	(24,535)	842	36,307
Loss for the year	-	-	-	-	-	(2,298)	(2,298)	-	(2,298)
Total income and expense for the year	-	-	-	-	-	(2,298)	(2,298)	-	(2,298)
As at 31 March, 2005	<u>60,000</u>	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>-</u>	<u>(63,303)</u>	<u>(26,833)</u>	<u>842</u>	<u>34,009</u>
As at 1 April, 2005, as per above	60,000	83,955	(47,430)	(55)	-	(63,303)	(26,833)	842	34,009
Opening adjustment for the adoption of HKAS 39	-	-	-	-	(397)	397	-	-	-
As at 1 April, 2005, as restated	<u>60,000</u>	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>(397)</u>	<u>(62,906)</u>	<u>(26,833)</u>	<u>842</u>	<u>34,009</u>
Changes in fair value of available-for-sale financial assets	-	-	-	-	204	-	204	-	204
Exchange realignment	-	-	-	11	-	-	11	-	11
Total income and expense recognised directly in equity	-	-	-	11	204	-	215	-	215
Profit for the year	-	-	-	-	-	2,566	2,566	-	2,566
Total income and expense for the year	-	-	-	11	204	2,566	2,781	-	2,781
As at 31 March, 2006	<u>60,000</u>	<u>83,955</u>	<u>(47,430)</u>	<u>(44)</u>	<u>(193)</u>	<u>(60,340)</u>	<u>(24,052)</u>	<u>842</u>	<u>36,790</u>

Notes:

## 1 Corporate information

The Company was incorporated in the Cayman Islands on 8 May, 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

In the opinion of the directors, the parent and ultimate holding company of the Group is SomaFlex Holdings Inc., which is incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services.

These financial statements are presented in Hong Kong dollars (HK\$) and all values are rounded to the nearest thousand (HK\$'000) unless otherwise stated.

## 2 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), 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 GEM of the Stock Exchange. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

### *Adoption of new/revised HKFRSs*

For the year ended 31 March, 2006, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation

## 2 Basis of preparation (Continued)

HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 31, 33, 36, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January, 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January, 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

### *HKAS 32 and HKAS 39 – Financial Instruments*

In prior years, the Group classified its investments in unlisted equity securities as long-term investments, which were held for non-trading purposes and were stated at cost less any provision for impairment losses. The investments in listed securities are classified as other investments and stated at fair value and the gains or losses arising from changes in the fair values of such securities were credited or charged to the income statement in the period in which they arose.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 required retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Upon the adoption of HKASs 32 and 39, debt securities, investments in listed securities, and investments in unlisted equity securities are classified as held-to-maturity financial assets, financial assets at fair value through profit or loss, and available-for-sale financial assets, respectively. Held-to-maturity financial assets are stated at amortised cost less impairment losses. Available-for-sale financial assets are classified at fair value, where an active market exists, with any realised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Financial assets at fair value through profit or loss are carried at fair value.

## 2 Basis of preparation (Continued)

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Trade and other receivables were previously carried at cost less impairment of receivables.

The effect of the above changes are summarised below. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

The adoption of HKAS 39 resulted in an decrease in opening reserves at 1 April, 2005:

Decrease in available-for-sale financial assets revaluation reserve	HK\$397,000
Decrease in accumulated losses	HK\$397,000

The details of the adjustments to the balance sheet as at 31 March, 2006 and for the year then ended are as follows:

Increase in available-for-sale financial assets	1,779,000
Increase in loans and receivables	13,000
Decrease in long-term investments	1,777,000
Decrease in other investments	15,000
Decrease in unrealised gains on other investments	204,000
Increase in available-for-sale financial assets revaluation reserve	204,000
Decrease in basic and diluted earnings per share	0.034 cents

### *HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets*

In prior years, goodwill arising on acquisitions prior to 1 April, 2001 was written off against reserves and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 April, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April, 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against reserves remains eliminated against reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.



## 2 Basis of preparation (Continued)

The Group has not applied the following new/revised HKFRSs, that have been issued but are not yet effective, to these financial statements:

HKAS 1 Amendment	Capital Disclosures ( <i>Note (a)</i> )
HKAS 21 Amendment	Net Investment on a Foreign Operation ( <i>Note (b)</i> )
HKAS 39 Amendment	The Fair Value Option ( <i>Note (b)</i> )
HKFRS 7	Financial Instruments: Disclosures ( <i>Note (a)</i> )

*Notes:*

(a) Effective for accounting periods beginning on or after 1 January, 2007

(b) Effective for accounting periods beginning on or after 1 January, 2006

The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1 January, 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position.

## 3 Turnover, other income and gains

The Group is principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services. Revenues recognised during the year are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover		
Software	45,343	36,118
Services	22,394	20,069
Other operations	3,760	7,639
	<u>71,497</u>	<u>63,826</u>
Other income and gains		
Interest income	943	162
Net unrealised holding gains on other investments	–	152
Dividend income from listed investments	81	45
	<u>1,024</u>	<u>359</u>

**4 Operating profit/(loss) is stated after charging the following:**

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Salaries, wages and other benefits	<b>33,608</b>	30,286
Contributions to defined contribution scheme	<b>1,872</b>	1,490
Total staff costs (including directors' remuneration)	<b>35,480</b>	31,776
Depreciation of owned property, plant and equipment	<b>1,152</b>	1,195
Cost of inventories	<b>3,060</b>	6,732
Operating lease rentals in respect of rented premises	<b>2,359</b>	2,311
Auditors' remuneration	<b>280</b>	260
Loss on disposal of a long-term investment	–	17
Provision for impaired receivables	<b>1,326</b>	1,224
Provision of impairment for amount due from an associate company	<b>1,107</b>	298
Provision of impairment for amounts due from investee companies	<b>849</b>	254

**5 Income tax**

Hong Kong profits tax is calculated at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit arising in Hong Kong for the year. No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profits in both current and prior years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

**6 Earning/(loss) per share**

The calculation of the basic earning/(loss) per share is based on the net profit/(loss) of the Group attributable to equity holders of the Company of approximately HK\$2,566,000 (2005: loss of HK\$2,298,000) and the weighted average number of 600,000,000 (2005: 600,000,000) ordinary shares in issue during the year.

There is no diluted earning/(loss) per share since the Company has no dilutive potential ordinary shares in existence for the years ended 31 March, 2005 and 2006.

**7 Trade and other receivables**

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Trade receivables ( <i>Note (b), (c) &amp; (d)</i> )	<b>10,306</b>	9,086
Prepayments, deposits and other receivables ( <i>Note (c)</i> )	<b>2,422</b>	3,802
Advances to staff ( <i>Note (a) &amp; (c)</i> )	<b>1,256</b>	1,268
	<b>13,984</b>	14,156

*Notes:*

- (a) The advances to staff were unsecured, interest-free and have no fixed terms of repayment.
- (b) In view of the aforementioned and that Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.
- (c) The fair values of the Group's and Company's trade receivables, prepayments, deposits, and other receivables, and advances to staff included in the amounts at the balance sheet date approximate the corresponding carrying amounts.
- (d) 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 receivables, credit evaluations of customers are performed periodically. The following is an aging analysis of trade receivables net of provision for impairment:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 – 30 days	<b>2,965</b>	2,619
31 – 60 days	<b>1,449</b>	1,018
61 – 90 days	<b>915</b>	479
91 – 180 days	<b>1,122</b>	1,189
181 – 365 days	<b>2,975</b>	3,343
Over 365 days	<b>880</b>	438
	<b>10,306</b>	9,086

**8 Trade and other payables**

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Amounts due to investee companies ( <i>Notes (a) &amp; (b)</i> )	<b>139</b>	158
Trade payables ( <i>Notes (b) &amp; (c)</i> )	<b>548</b>	1,146
Other payables and accruals ( <i>Note (b)</i> )	<b>5,764</b>	5,413
Deferred income ( <i>Note (b)</i> )	<b>6,962</b>	5,985
Sales deposits received ( <i>Note (b)</i> )	<b>6,377</b>	8,665
	<b>19,790</b>	21,367

Notes:

- (a) The amounts due to investee companies are unsecured, interest-free and have no fixed terms of repayment.
- (b) The fair values of the Group's amounts due to investee companies, trade payables, other payables and accruals, deferred income, and sales deposits received included in the amounts at the balance sheet date approximate the corresponding carrying amounts.
- (c) Aging analysis of trade payables is as follows:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 – 30 days	<b>481</b>	456
31 – 60 days	<b>36</b>	677
61 – 90 days	–	1
91 – 180 days	<b>3</b>	1
181 – 365 days	<b>15</b>	–
Over 365 days	<b>13</b>	11
	<hr/> <b>548</b> <hr/>	<hr/> 1,146 <hr/>

## 9 Segment information

### *Primary reporting format – business segments*

The Group is organised into two main business segments:

- Software – sale of enterprise software
- Services – rendering of maintenance services

Other operations of the Group mainly comprise sale of hardware products.

There are no sales or other transactions between the business segments.

### *Secondary reporting format – geographical segments*

The Group's business segments mainly operate in Hong Kong, the People's Republic of China (the "PRC") and other Asia Pacific countries.

There are no sales or other transactions between the geographical segments.

## 9 Segment information (Continued)

Primary reporting format – business segments

	<b>Software</b>	<b>Services</b>	<b>Other</b>	<b>Group</b>
	<b>2006</b>	<b>2006</b>	<b>operations</b>	<b>2006</b>
<b>Income statement</b>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>45,343</u>	<u>22,394</u>	<u>3,760</u>	<u>71,497</u>
Segment results	<u>1,509</u>	<u>4,313</u>	<u>(993)</u>	4,829
Unallocated corporate expenses				<u>(2,900)</u>
Operating profit				1,929
Loss on disposal of subsidiaries				<u>(48)</u>
Profit before income tax				1,881
Income tax				<u>685</u>
Profit for the year				<u>2,566</u>
<b>Balance sheet</b>				
Segment assets	–	–	1,094	1,094
Unallocated corporate assets				<u>59,781</u>
Total assets				<u>60,875</u>
Segment liabilities	6,377	6,962	–	13,339
Unallocated corporate liabilities				<u>10,746</u>
Total liabilities				<u>24,085</u>

## 9 Segment information (Continued)

Primary reporting format – business segments (Continued)

	Software 2005 HK\$'000	Services 2005 HK\$'000	Other operations 2005 HK\$'000	Group 2005 HK\$'000
<b>Income statement</b>				
Turnover	<u>36,118</u>	<u>20,069</u>	<u>7,639</u>	<u>63,826</u>
Segment results	<u>139</u>	<u>2,983</u>	<u>(2,333)</u>	789
Unallocated corporate expenses				<u>(2,569)</u>
Operating loss				(1,780)
Share of loss of a jointly controlled entity	(347)	–	–	(347)
Loss on disposal of subsidiaries				(37)
Loss on disposal of a jointly controlled entity				<u>(62)</u>
Loss before income tax				(2,226)
Income tax				<u>(72)</u>
Loss for the year				<u>(2,298)</u>
<b>Balance sheet</b>				
Segment assets	–	–	1,312	1,312
Unallocated corporate assets				<u>59,127</u>
Total assets				<u>60,439</u>
Segment liabilities	8,665	5,984	–	14,649
Unallocated corporate liabilities				<u>11,781</u>
Total liabilities				<u>26,430</u>

## 9 Segment information (Continued)

Secondary reporting format – geographical segments

	<b>Hong Kong</b>	<b>PRC</b>	<b>Others</b>	<b>Group</b>
	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>
<b>Income statement</b>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>53,960</u>	<u>9,401</u>	<u>8,136</u>	<u>71,497</u>
Segment results	<u>5,343</u>	<u>1,145</u>	<u>(1,659)</u>	<u>4,829</u>
Unallocated corporate expenses				<u>(2,900)</u>
Operating profit				<u>1,929</u>
<b>Balance sheet</b>				
Segment assets	<u>49,657</u>	<u>6,161</u>	<u>5,057</u>	<u>60,875</u>
	Hong Kong	PRC	Others	Group
	2005	2005	2005	2005
<b>Income statement</b>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>48,988</u>	<u>8,723</u>	<u>6,115</u>	<u>63,826</u>
Segment results	<u>(76)</u>	<u>1,814</u>	<u>(949)</u>	<u>789</u>
Unallocated corporate expenses				<u>(2,569)</u>
Operating loss				<u>(1,780)</u>
<b>Balance sheet</b>				
Segment assets	<u>42,793</u>	<u>6,599</u>	<u>11,047</u>	<u>60,439</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

During the year 31 March, 2006, turnover of approximately 71 million and profit attributable to shareholders of approximately HK\$2.5 million were recorded. The increase in turnover of 12% as compared with the previous year was principally due to the contribution from the increment of turnover.

## **FINANCIAL RESOURCES AND LIQUIDITY**

As at 31 March, 2006, the shareholders' funds of the Group amounted to approximately HK\$37 million. Current assets were approximately HK\$56 million, mainly comprising bank balances and cash of approximately HK\$41 million, inventories of approximately HK\$1 million and trade and other receivables of approximately HK\$14 million. Current liabilities were approximately HK\$24 million, mainly comprising trade and other payables of approximately HK\$20 million and taxation payable of approximately HK\$4 million. The net asset value per share was HK\$0.06. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 31 March, 2006, 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 2.3:1 (As at 31st March, 2005: 2.1:1), reflecting the adequacy of financial resources.

## **EXPOSURE TO EXCHANGE RATE FLUCTUATION**

During the year ended 31 March, 2006, 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 currency. 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 AND DISPOSAL**

During the year ended 31 March, 2006, the Group disposed of its entire equity interests in Flexsunland Century Software Limited and Beijing Flexdigisuper Software Co., Ltd. The results of the subsidiaries disposed of in the year ended 31 March, 2006 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

The gain and loss on the disposals of the said subsidiaries have been dealt with in the consolidated income statement.

Save as disclosed above, there was no other material acquisitions or disposal of subsidiaries and affiliated companies for the year ended 31 March, 2006.

## **CAPITAL COMMITMENTS**

As at 31 March, 2006, the Group had operating lease commitments in respect of rented office premises of approximately HK\$3.5 million (2005: HK\$5 million). As at 31 March, 2006 and 2005, the Group had no significant capital commitment and has no future plans for material investment.

## **CONTINGENT LIABILITIES**

As at 31 March, 2006, and 2005, the Group had no material contingent liabilities.



## **CHARGES ON THE GROUP'S ASSETS**

As at 31 March, 2006 and 2005, the Group had no charges on the Group's assets.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 March, 2006, the Group had 263 employees (2005: 237). The total remuneration to employees, including that to the directors, for the year ended 31 March, 2006 amounted to approximately HK\$35.5 million (2005: HK\$31.8 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 and Singapore.

## **SEGMENTAL INFORMATION**

### **Business segments**

During the year under review, the turnover of maintenance services has increased by approximately 11.6% as the number of customers have increased as compared with that for the previous year. Moreover, the turnover of software sales has also increased by approximately 25.5% 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 (2005: 77%). 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 slightly increased by approximately 7.8% to approximately HK\$9.4 million as compared with the previous year as our Group also deploys more sales efforts on the PRC market.

## **FINAL DIVIDEND**

The Directors do not recommend the payment of a final dividend for the year ended 31 March, 2006 (2005: Nil).

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 March, 2006, the interests and short positions of the directors and 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 by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Name of director /chief executive	Personal interests	Number of shares		Percentage of issued share capital
		Corporate interests	Total	
Mr. Lok Wai Man (Note 1)	3,798,000	475,500,000 (Note 2)	479,298,000	79.88%
Mr. So Yiu King (Note 1)	2,000	3,600,000 (Note 2)	3,602,000	0.60%
Mr. Chow Chi Ming, Daniel (Note 1)	2,000	3,600,000 (Note 2)	3,602,000	0.60%
Mr. Leung Wai Cheung (Note 1)	Nil	1,000,000 (Note 2)	1,000,000	0.17%

### Notes:

- 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.
- 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 and 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 shareholdings in SomaFlex Holdings Inc..

No share options were granted by the Company and no debt securities were issued by the Company at any time during the year ended 31 March, 2006.

Save as disclosed above, as at 31 March, 2006, none of the directors or their respective associates and the chief executive of the Company 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 by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March, 2006, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company 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:

	Number of shares			% 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, as to 0.76% by Mr. So Yiu King, as to 0.76% by Mr. Chow Chi Ming, Daniel and as to 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 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..

Save as disclosed above, as at 31 March, 2006, 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 by the Company 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.

## SHARE OPTIONS

Pursuant to the share option scheme for employees which was adopted on 15 July, 2000, the directors of the Company may at their discretion, invite any full-time employees of the Group, including executive directors of any companies in the Group to take up options to subscribe for ordinary shares in the Company. It is believed that the share option scheme will assist the Group in its recruitment and retention of high calibre computer professionals, executives and employees.

Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant. The subscription price of a share in respect of any particular option granted under the share option scheme shall be such price as the board of directors of the Company shall determine save that such price will not be less than the higher of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

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 employee shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares for the time being issued or issuable under the share option scheme.

An option may be exercised in accordance with the terms of the share option scheme at any time during a period of three years commencing on the expiry of six months after the date of acceptance of the option and expiring on the last day of the three-year period or the tenth anniversary of the date of adoption of the share option scheme, whichever is earlier.

The share option scheme will remain in force for a period of 10 years from the date of adoption of such scheme, or unless terminated earlier by resolution of the board of directors of the Company or by shareholders' resolution, after which period or resolution no further options will be granted but the provisions of the share option scheme shall remain in full force and effect in all other respects.

No share options were granted by the Company or outstanding at any time during the years ended 31 March, 2005 and 2006.

## **MANAGEMENT SHAREHOLDERS**

Save for the Directors and substantial shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 March, 2006 were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March, 2006.

## **COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less than exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 March, 2006. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and the required standard of dealings throughout the year ended 31 March, 2006.

## **CORPORATE GOVERNANCE**

The Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules for the year under review, except for the deviations as disclosed in this announcement. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the twelve months ended 31 March 2006.

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separated.

The Company has achieved a high compliance level with the exception of the separation of Mr. Lok Wai Man serving the dual role of Chairman and Chief Executive Officer.

This exception was discussed and the dual role was approved by the Board based on the following reasons:

- In view of the Company size, it is not justified in separating the role of chairman and chief executive officer.,
- The Company has in place internal controls to provide check and balance on the functions.

## **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 Institute of Certified Public 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 Mr. Mak Wing Kwong, David. The audited financial statements for the year ended 31 March, 2006 have been reviewed by the audit committee.

The audit committee has met four times to discuss and review the Company's annual report and accounts, interim and quarterly reports during the year ended 31 March, 2006, and provide advice and comments to the board of directors.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the year ended 31 March, 2006, none of the directors or the initial management shareholders or substantial shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

By Order of the Board  
**Lok Wai Man**  
*Chairman*

Hong Kong, 26 June, 2006

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

*This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the day of its posting and on the Company's website.*