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**FlexSystem Holdings Limited**  
(Incorporated in the Cayman Islands with limited liability)  
(STOCK CODE: 8050)

**MAJOR TRANSACTION:  
FORMATION OF JOINT VENTURE**

On 24 October 2007, FlexSystem, a wholly owned subsidiary of the Company, entered into the legally binding Term Sheet with CDC Software pursuant to which the Joint Venture Company will be formed.

The Term Sheet and the transactions contemplated thereunder constitute a major transaction on the part of the Company under the GEM Listing Rules and are required to be made conditional on Shareholders' approval. However, as the controlling Shareholder and a Director, Mr. Lok Wai Man, who is interested in 479,298,000 Shares, representing 79.88%\* of the issued share capital of the Company, and no Shareholder is required to abstain from voting if an extraordinary general meeting were to be convened, pursuant to Rule 19.44 of the GEM Listing Rules, a written shareholder's approval in relation to the formation of the Joint Venture Company and the transaction contemplated thereunder will be obtained, and subject to the waiver to be granted by the Stock Exchange, no extraordinary general meeting will be held.

A circular, containing further information regarding, among other matters, the Term Sheet and the transactions contemplated thereunder, will be despatched to the Shareholders as soon as possible.

**TERM SHEET**

On 24 October 2007 FlexSystem, a wholly owned subsidiary of the Company, entered into the legally binding Term Sheet with CDC Software pursuant to which the Joint Venture Company will be formed.

Date: 24 October 2007

- Parties:
- (i) FlexSystem, a wholly owned subsidiary of the Company
  - (ii) CDC Software

To the best of the Directors' knowledge, information and belief having made reasonable enquiry, CDC Software and its ultimate beneficial owners are independent third parties independent of the Company and its connected persons (within the meaning of the GEM Listing Rules). To the best of the Directors' knowledge, information and belief, CDC Software is principally engaged in developing enterprise software applications and services.

### **Formation of the Joint Venture Company**

The parties to the Term Sheet agreed that the Joint Venture Company will be established in such jurisdiction as FlexSystem and CDC Software may agree after consultation with their respective tax and legal advisers and will be owned as to 50% of its equity interests by each of FlexSystem and CDC Software. The parties will share the profit of the Joint Venture Company in accordance with their shareholding.

### **Paid up capital**

The initial paid up capital of the Joint Venture Company will be US\$5,000,000 (equivalent to approximately HK\$39,000,000), of which CDC Software shall contribute US\$2,500,000 (equivalent to approximately HK\$19,500,000) in cash and FlexSystem shall contribute US\$2,500,000 (equivalent to approximately HK\$19,500,000) in cash. Each party shall contribute US\$250,000 (equivalent to approximately HK\$1,950,000) upon formation of the Joint Venture Company and shall contribute US\$250,000 (equivalent to approximately HK\$1,950,000) in each of nine additional tranches payable upon a schedule to be determined by the board of directors of the Joint Venture Company.

The Group intends to finance the capital contribution from its internal resources.

Apart from the contribution towards the initial paid up capital set out above, there is no further capital commitment that is required to be contributed by the parties pursuant to the Term Sheet at this stage. If there is any further capital commitment to be put up by the parties to the Joint Venture Company, further announcement will be made by the Company if and when appropriate in order to comply with the requirements under the GEM Listing Rules.

Upon formation, the Joint Venture Company will become a jointly controlled entity of the Group and the Group will recognise its interests in the Joint Venture Company using equity method.

## **Dividend and distribution**

The board of directors of the Joint Venture Company shall have the authority to approve distributions to the Joint Venture Company's shareholders, including the timing and size of any such distribution. Until further determined by the board of directors of the Joint Venture Company, all profits will be used by the Joint Venture Company towards product development and marketing of the Products. The Joint Venture Company's budget shall be determined by the board of directors of the Joint Venture Company on a semi-annual basis.

## **Term of the Joint Venture Company**

The Joint Venture Company shall have a perpetual existence until liquidated and dissolved upon the written agreement of CDC Software and FlexSystem. In the event of any liquidation, dissolution or winding up of the Joint Venture Company, all funds and assets of the Joint Venture Company legally available for distribution shall be distributed pro rata among the holders of the Joint Venture Company's issued share capital.

## **Restrictions on the sale and pre-emptive right**

Each of the parties to the Term Sheet may not divest, sell or transfer (except to a subsidiary, parent or affiliated entity) any of their shares of the Joint Venture Company without the prior written approval of the other parties.

In the event that either CDC Software or FlexSystem shall propose to sell any of their interest in the Joint Venture Company, the other party shall be entitled to a right of first refusal to purchase such interest.

## **Board of directors**

Pursuant to the negotiation between CDC Software and FlexSystem, the board of directors of the Joint Venture Company will comprise four directors, of which two will be nominated by CDC Software and another two will be appointed by FlexSystem.

At each meeting of shareholders for the election of directors, each of CDC Software and FlexSystem shall be entitled to elect two (2). The initial directors of the Joint Venture Company shall be Mr. Peter Yip ("Mr. Yip"), Mr. Sean Yu, and Mr. Adam Lok ("Mr. Lok"), the Chairman of the Group. Mr. Yip shall act as the chairman of the Joint Venture Company and Mr. Lok shall act as the managing director of the Joint Venture Company. The fourth director of the Joint Venture Company will be determined by FlexSystem at a later stage.

## **Business of the Joint Venture Company**

The Joint Venture Company will be principally engaged in the development of software as a service products for basic accounting and payroll service to customers in the Greater China region with a view to expand globally in stages. The Products are targeted mainly at mid-market customers.

## **License Agreements**

Pursuant to the Term Sheet, the parties shall each enter into license agreements with the Joint Venture Company, which may constitute notifiable transactions and/or connected transactions on the part of the Company under the GEM Listing Rules. Further announcement will be made by the Company if and when appropriate in order to comply with the relevant GEM Listing Rules in relation to the license agreements.

### **Conditions of the Term Sheet:**

The Term Sheet is conditional upon:

- (1) execution by the parties of the license agreements, a shareholders' agreement and other related agreements;
- (2) the approval of the board of directors of CDC Software on behalf of itself and its affiliates, as applicable; and
- (3) such other conditions as are customary for transactions of the type contemplated under the Term Sheet; and
- (4) if necessary, approval of the Shareholders of the Company in an extraordinary general meeting to approve the Term Sheet and the transaction contemplated thereunder.

## **REASONS FOR THE FORMATION OF THE JOINT VENTURE COMPANY**

The Group is principally engaged in development and sale of software products and provision of application software services.

The Group has always been actively in seeking opportunities for expanding and enhancing its business. The Directors believe that the entering into of the Term Sheet provides a good opportunity for the Group to boost its competitiveness in the development of software products in the Greater China region.

The Directors, including the independent non-executive Directors, consider that the terms of the Term Sheet are entered into upon normal commercial terms following arm's length negotiations among the parties thereto and that the terms of the Term Sheet are fair and reasonable and are interests of the Company and the Shareholders as a whole.

## **GEM LISTING RULES IMPLICATIONS**

The Term Sheet and the transactions contemplated thereunder constitute a major transaction on the part of the Company under the GEM Listing Rules and are required to be made conditional on Shareholders' approval. However, as the controlling Shareholder and a Director, Mr. Lok Wai Man, who is interested in 479,298,000 Shares, representing 79.88%\* of the issued share capital of the Company, and no Shareholder

is required to abstain from voting if an extraordinary general meeting were to be convened, pursuant to Rule 19.44 of the GEM Listing Rules, a written shareholder's approval in relation to the formation of the Joint Venture Company and the transaction contemplated thereunder will be obtained, and subject to the waiver to be granted by the Stock Exchange, no extraordinary general meeting will be held.

\* As the Shares commenced trading on GEM on 24 July 2000 (i.e. before 1 October 2001) and the market capitalisation of the Company as at the time of the listing did not exceed HK\$1,000 million, the minimum prescribed percentage of Shares in the hands of public is 20% in accordance with note 2 to Rule 11.23 (1) of the GEM Listing Rules.

A circular containing, among other matters, details of the Term Sheet and the transactions contemplated thereunder will be dispatched to the Shareholders as soon as practicable in compliance with the GEM Listing Rules.

## **DEFINITIONS**

Unless the context otherwise requires, the following expressions have the following meanings in this announcement.

“Board”	the board of Directors
“CDC Software”	CDC Software Corporation, a company incorporated in Cayman Islands and a wholly owned subsidiary of CDC Corporation, a company incorporated in Cayman Islands listed on NASDAQ
“Company”	FlexSystem Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose issued shares are listed on GEM
“Derivative Works”	has the meaning ascribed thereto in the paragraph headed “License Agreements” above
“Directors”	the directors of the Company
“FlexSystem”	FlexSystem Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People's Republic of China

“Joint Venture Company”	the joint venture company to be established by CDC Software and FlexSystem
“Products”	the software as a service products to be developed by the Joint Venture Company
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Term Sheet”	the legally binding term sheet dated 24 October 2007 and entered into between CDC Software and FlexSystem with respect to the formation of the Joint Venture Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

By Order of the Board  
**FlexSystem Holdings Limited**  
**Lok Wai Man**  
*Chairman*

Hong Kong, 25 October 2007

*In this announcement, for illustration purpose, exchange rate between US\$ and HK\$ is US\$1 = HK\$7.8.*

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

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this 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.*

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least 7 days from the date of its publication*