



## **FlexSystem Holdings Limited**

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

(Stock code: 8050)

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008**

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.**

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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 30 SEPTEMBER 2008

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 30 September 2008 with the unaudited consolidated comparative figures for the corresponding period in 2007 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Notes	Three months ended 30 September		Six months ended 30 September	
		2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Revenue	2	<b>26,106</b>	24,975	<b>49,542</b>	48,669
Cost of sales		<b>(7,647)</b>	(6,325)	<b>(14,699)</b>	(12,445)
Gross profit		<b>18,459</b>	18,650	<b>34,843</b>	36,224
Other income		<b>104</b>	76	<b>188</b>	288
Distribution costs		<b>(5,417)</b>	(4,669)	<b>(9,798)</b>	(9,180)
Administrative expenses		<b>(9,357)</b>	(9,920)	<b>(18,342)</b>	(18,205)
Other operating expenses		<b>(458)</b>	(452)	<b>(648)</b>	(1,996)
Profit before income tax		<b>3,331</b>	3,685	<b>6,243</b>	7,131
Income tax	3	<b>–</b>	–	<b>–</b>	–
Profit for the period		<b>3,331</b>	3,685	<b>6,243</b>	7,131
Attributable to:					
Equity holders of the Company		<b>3,110</b>	3,685	<b>6,022</b>	7,131
Minority interests		<b>221</b>	–	<b>221</b>	–
		<b>3,331</b>	3,685	<b>6,243</b>	7,131
Earnings per share for profit attributable to The equity holders of the Company during the year – basic (in HK cents)	4	<b>0.52 cent</b>	0.61 cent	<b>1.00 cent</b>	1.19 cent
Dividends		<b>Nil</b>	Nil	<b>Nil</b>	Nil

## CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2008

	<i>Notes</i>	<b>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
<b>Non-current assets</b>			
Leasehold land and land use rights		12,267	12,425
Property, plant and equipment		12,360	13,157
Investments in associates		678	390
Investment in a jointly-controlled entity		–	–
Available-for-sale financial assets		1,144	676
Amounts due from investee companies		–	–
		<u>26,449</u>	<u>26,648</u>
<b>Current assets</b>			
Inventories		1,450	1,083
Trade and other receivables	5	18,282	18,401
Bank balances and cash		40,481	36,527
		<u>60,213</u>	<u>56,011</u>
<b>Total assets</b>		<u>86,662</u>	<u>82,659</u>
<b>Current liabilities</b>			
Trade and other payables	6	22,665	21,763
Current income tax liabilities		814	825
		<u>23,479</u>	<u>22,588</u>
<b>Net current assets</b>		<u>36,734</u>	<u>33,423</u>
<b>Total assets less current liabilities</b>		<u>63,183</u>	<u>60,071</u>
<b>Non-current liabilities</b>			
Deferred income tax liabilities		636	636
<b>Net assets</b>		<u>62,547</u>	<u>59,435</u>
<b>Capital and reserves</b>			
Share capital	7	60,000	60,000
Reserves		1,479	(1,412)
<b>Capital and reserves attributable to equity holders of the Company</b>		<u>61,479</u>	<u>58,588</u>
<b>Minority interests</b>		<u>1,068</u>	<u>847</u>
<b>Total equity</b>		<u>62,547</u>	<u>59,435</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Attributable to the equity holders of the Company								
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Available- for-sale investments reserve <i>HK\$'000</i>	Accumu- lated losses <i>HK\$'000</i>	Total reserves <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
Balance at 1 April 2007	60,000	83,955	(47,430)	(42)	(297)	(54,618)	(18,432)	634	42,202
Profit for the period	-	-	-	-	-	7,131	7,131	-	7,131
Total recognised income and expense for the period	-	-	-	-	-	7,131	7,131	-	7,131
Dividends	-	(3,000)	-	-	-	-	(3,000)	-	(3,000)
Balance at 30 September 2007	<u>60,000</u>	<u>80,955</u>	<u>(47,430)</u>	<u>(42)</u>	<u>(297)</u>	<u>(47,487)</u>	<u>(14,301)</u>	<u>634</u>	<u>46,333</u>
Balance at 1 April 2008	<b>60,000</b>	<b>80,955</b>	<b>(47,430)</b>	<b>(46)</b>	<b>(311)</b>	<b>(34,580)</b>	<b>(1,412)</b>	<b>847</b>	<b>59,435</b>
Change in fair value of available-for-sale financial assets	-	-	-	-	(131)	-	(131)	-	(131)
Total income and expense recognised directly in equity	-	-	-	-	(131)	-	(131)	-	(131)
Profit for the period	-	-	-	-	-	6,022	6,022	221	6,243
Total recognised income and expense for the period	-	-	-	-	(131)	6,022	4,479	221	6,112
Dividends	-	(3,000)	-	-	-	-	(3,000)	-	(3,000)
Balance at 30 September 2008	<u>60,000</u>	<u>77,955</u>	<u>(47,430)</u>	<u>(46)</u>	<u>(442)</u>	<u>(28,558)</u>	<u>1,479</u>	<u>1,068</u>	<u>62,547</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008*

	<b>Six months ended 30 September 2008 <i>HK\$'000</i> (unaudited)</b>	Six months ended 30 September 2007 <i>HK\$'000</i> (unaudited)
<b>Net cash generated from operating activities</b>	<u>7,822</u>	<u>9,370</u>
<b>Net cash used in investing activities</b>	<u>(868)</u>	<u>(581)</u>
<b>Net cash used in financing activities</b>	<u>(3,000)</u>	<u>(3,000)</u>
Net increase in cash and cash equivalents	<b>3,954</b>	5,789
<b>Cash and cash equivalents at beginning of the period</b>	<b>36,527</b>	21,098
Effect of foreign exchange rate change, net	<u>—</u>	<u>—</u>
<b>Cash and cash equivalents at the end of the period</b>	<u><b>40,481</b></u>	<u><b>26,887</b></u>
<b>Analysis of balances of cash and cash equivalents</b>		
<b>Bank balances and cash</b>	<u><b>40,481</b></u>	<u><b>26,887</b></u>

Notes :

## 1. Basis of presentation

The unaudited financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards (“HKFRS”), which is a collective term of Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations (“Int”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Chapter 18 of GEM Listing Rules. The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group’s audited financial statements set out in the annual report for the year ended 31 March 2008 except as follows. The unaudited condensed financial statements have been prepared under the historical cost basis, as explained in the accounting policies set out in the annual report for the year ended 31 March 2008.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group:

- HK(IFRIC) – Int 11, ‘HKFRS 2 – Group and treasury share transactions’ (effective from 1 March 2007). HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent’s shares) should be accounted for as equity-settled or cash settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. As the Group does not have any share-based transactions involving treasury shares, HK(IFRIC) – Int 11 is not relevant to the Group’s operations.
- HK(IFRIC) – Int 12, ‘Service concession arrangements’ (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. As none of the Group’s companies provide public sector services, HK(IFRIC) – Int 12 is not relevant to the Group’s operations.
- HK(IFRIC) – Int 14, ‘HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’ (effective from 1 January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. As the Group operates only a defined contribution scheme, HK(IFRIC) – Int 14 is not relevant to the Group’s operations.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8, ‘Operating segments’ (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, ‘Disclosures about segments of an enterprise and related information’. The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision maker.
- HKAS 23 (Amendment), ‘Borrowing costs’ (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. As the Group does not have any borrowings, HKAS 23 (Amendment) does not have any impact to the Group.
- HKFRS 2 (Amendment), ‘Share-based payment’, effective for annual periods beginning on or after 1 January 2009, Management is assessing the impact of changes to vesting conditions and cancellations on the Group’s Post IPO share Option Scheme.
- HKFRS 3 (Amendment), ‘Business combinations and consequential amendments to HKAS 27, ‘Consolidated and separate financial statements’, HKAS 28, ‘Investments in associates’ and HKAS 31, ‘Interests in joint ventures’, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group.
- HKAS 1 (Amendment), ‘Presentation of financial statements’, effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.
- HKAS 32 (Amendment), ‘Financial instruments: presentation’, and consequential amendments to HKAS 1, ‘Presentation of financial statements’, effective for annual periods beginning on or after 1 January 2009. Management is in the process of assessing the impact of this amendment.
- HK(IFRIC) – Int 13, ‘Customer loyalty programmes’ (effective from 1 July 2008). HK(IFRIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. As none of the Group’s companies operate any loyalty programmes, HK(IFRIC) – Int 13 is not relevant to the Group’s operations.

## 2. Revenue and segment information

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 30 September 2008 with the unaudited consolidated figures for the corresponding period in 2007 are as follows:–

	Three months ended		Six months ended	
	30 September		30 September	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Revenue:–</b>				
Software	15,480	14,492	29,044	28,972
Services	8,293	7,841	16,242	14,761
Other operations	2,333	2,642	4,256	4,936
	<u>26,106</u>	<u>24,975</u>	<u>49,542</u>	<u>48,669</u>

### (a) Primary reporting format – business segments

As at 30 September 2008, the Group is organised into two main business segments:

- Software – sale of enterprise software; and
- Services – provision of maintenance services.

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

The segment results for the six months ended 30 September 2008 are as follows:

	Software	Services	Other	Unallocated	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	operations <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	<u>29,044</u>	<u>16,242</u>	<u>4,256</u>	<u>–</u>	<u>49,542</u>
Segment results	2,646	5,781	(524)	(1,660)	6,243
Income tax ( <i>Note 3</i> )					–
Profit for the period					<u>6,243</u>



The segment results for the six months ended 30 September 2007 are as follows:

	Software <i>HK\$'000</i> (unaudited)	Services <i>HK\$'000</i> (unaudited)	Other operations <i>HK\$'000</i> (unaudited)	Unallocated <i>HK\$'000</i> (unaudited)	Group <i>HK\$'000</i> (unaudited)
Revenue	<u>28,972</u>	<u>14,761</u>	<u>4,936</u>	<u>–</u>	<u>48,669</u>
Segment results	10,012	4,802	(4,718)	(2,965)	7,131
Income tax ( <i>Note 3</i> )					<u>–</u>
Profit for the period					<u>7,731</u>

**(b) Secondary reporting format – geographical segments**

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

	Six months ended 30 September 2008 <i>HK\$'000</i> (unaudited)	Six months ended 30 September 2007 <i>HK\$'000</i> (unaudited)
<b>Revenue:–</b>		
Hong Kong	40,502	40,362
PRC	4,907	4,535
Other countries	<u>4,133</u>	<u>3,772</u>
	<u>49,542</u>	<u>48,669</u>

Revenue is allocated based on the country in which the customer is located.

**3. Taxation**

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) 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 per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30 September 2008 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$3,110,000 and HK\$6,022,000 respectively, and 600,000,000 Shares in issue during the period.

The calculation of the Group's basic earnings per share for the three months and six months ended 30 September 2007 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$3,685,000 and HK\$7,131,000 respectively, and 600,000,000 Shares in issue.

#### 5. Trade and other receivables

	<b>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
Trade receivables	14,972	15,134
Prepayments, deposits and other receivables	2,351	2,286
Advances to staff	959	981
	<u>18,282</u>	<u>18,401</u>

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>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
0-30 days	4,428	5,103
31-60 days	1,419	2,229
61-90 days	1,172	1,259
91-180 days	2,782	2,253
181-365 days	3,327	3,414
Over 365 days	1,844	876
	<u>14,972</u>	<u>15,134</u>

## 6. Trade and other payables

	<b>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
Trade payables	1,458	1,503
Other payables and accruals	7,041	5,589
Amount due to investee companies	54	55
Deferred income	8,657	8,551
Sales deposits received	5,455	6,065
	<u>22,665</u>	<u>21,763</u>

The following is an aging analysis of trade payable:–

	<b>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
0-30 days	1,229	812
31-60 days	137	639
61-90 days	–	–
91-180 days	41	–
181-365 days	–	39
Over 365 days	51	13
	<u>1,458</u>	<u>1,503</u>

## 7. Share capital

	<b>Company 2008 HK\$'000</b>	2008 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
600,000,000 ordinary shares of HK\$0.10 each	<u>60,000</u>	<u>60,000</u>

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2008 (six months ended 30 September 2007: Nil).

## **BUSINESS REVIEW AND PROSPECTS**

### **Financial review**

During the period ended 30 September 2008, turnover increased by approximately 2% to approximately HK\$49.5 million as compared with the corresponding period last period. Moreover, the Group also recorded profit attributable to shareholders amounted to approximately HK\$6,022,000.

### **Business review and Outlook**

Comparing with the overall economic environment in local and global market, the Group's business is relatively stable. The deteriorating business climate and diminishing IT expenditure has made the Group under great pressure for the growth of sales revenue. Despite of these unfavorable conditions, the Group continues to allocate resources into its technology research and development to enrich its product portfolio with more business applications. With its breakthrough technology, the Group will complete the development of new product suite which to be launched in the coming year, offering a new series of top-notch enterprise management solutions to customers.

### **Financial resources and liquidity**

As at 30 September 2008, the shareholders' funds of the Group amounted to approximately HK\$62 million. Current assets amounted to approximately HK\$60 million, of which approximately HK\$40 million were cash and bank deposits and approximately HK\$20 million were debtors, deposits, prepayments and inventory. Its current liabilities amounted to approximately HK\$23 million, mainly comprise of creditors, accruals and deposits received and taxation payable amounted to approximately HK\$22.6 million and HK\$0.8 million respectively. The net asset value per share was approximately HK\$0.104. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 30 September 2008, 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 2.6:1 (As at 31 March 2007: 2.5:1), reflecting the adequacy of financial resources.

### **Exposure to exchange rate fluctuations**

During the period ended 30 September 2008, 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**

In May 2008, the Group acquired 30% interest in I-Global Systems Limited which is engaged in distribution of computer programming and provision of computer maintenance in Hong Kong.

Save as disclosed above, there is no other material acquisitions or disposal of subsidiaries and affiliated companies for the period ended 30 September 2008.

## **Capital commitments**

As at 30 September 2008, the Group had no future plans for material investment.

## **Contingent liabilities**

As at 30 September 2008, the Group had no material contingent liabilities.

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

As at 30 September 2008, 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 10% as the number of customers have increased as compared with the previous period. Moreover, the turnover of software sale has also increased by approximately 0.25%.

### *Geographical segments*

The major contribution of turnover is still from Hong Kong. Turnover from the Hong Kong segment represented approximately 82% of the total turnover (2007: 83%). 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 8% as compared with the previous period.

## Employees and remuneration policies

As at 30 September 2008, the Group had 284 employees (2007: 269) and the total remuneration for the period was approximately HK\$20.4 million (2007: HK\$20 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 30 September 2008, 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:

### Long positions in the shares of the company

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

#### 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 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 30 September 2008.

Save as disclosed above, as at 30 September 2008, 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.

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

Pursuant to the share option scheme for employees which was adopted on 15 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 30 September 2008.

#### **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.

#### **DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, 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:

### Long positions in the shares of the company

	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 30 September 2008, 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.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 period ended 30 September 2008. 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 period ended 30 September 2008.



## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

The company has complied with the code provisions as set out in the Code on Corporate Governance Practice contained in Appendix 15 of the GEM Listing Rules through the period under review, except that:

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.

The 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.

Mr. Lok Wai Man is primarily responsible for leadership of the Company and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with other Executive Directors and senior management of each business unit.

Thus, the Company considers that this structure will not impair the balance of power and authority between the board and the management of the Company.

## **REMUNERATION COMMITTEE**

The remuneration committee was established in November 2005.

The Company adopted that a remuneration committee be established with specific written terms of reference which deal clearly with its authority and duties. The terms of reference will follow the requirement of Code Provision B.1.3.

The composition of the remuneration committee include Chairman, Mr. Lok Wai Man and two independent non-executive directors, Mr. Tse Lin Chung and Mr. Lee Kar Wai.

The remuneration committee meets annually, or on an as needed basis, to review the recommendation from the Chief Executive Officer on the compensation and incentive scheme to be provided to Senior Management.

## **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 Mr. Mak Wing Kwong, David. The unaudited consolidated results of the Group for the six months ended 30 September 2008 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.

## **DIRECTORS’ INTERESTS IN COMPETING BUSINESS**

During the period ended 30 September 2008, 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.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SHARES**

Neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company’s listed shares during the year ended 30 September 2008.

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

Hong Kong, 11 November 2008

*As at the date hereof, the executive directors of the Company are Mr. Lok Wai Man, Mr. So Yiu King, 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.*