



FlexSystem Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

**QUARTERLY RESULTS REPORT
FOR THE THREE MONTHS ENDED
30TH JUNE, 2000**

SUMMARY

- Achieved an unaudited combined net profit of approximately HK\$5,521,000 for the three months ended 30th June, 2000 and maintained a net profit margin of approximately 37%.
- Recorded unaudited combined turnover of approximately HK\$14,845,000 during the quarter, representing a growth of approximately 19% compared to that of the corresponding quarter in 1999.
- Successful entry to GEM as a listed company.

CHAIRMAN'S STATEMENT

FlexSystem Holdings Limited - profit generator and technology innovator

Since 1987, FlexSystem Holdings Limited (the "Company") has been providing its enterprise software products to commercial organizations. The Company and its subsidiaries (collectively, the "Group") have been able to provide a track record of generating profit for its shareholders. In 1999, we completed the development of our proprietary Internet enabling technology, Soma*AI, which together with our solid packaged enterprise software business effectively laid the strong foundation for the Group's ASP business. In 2000, we successfully entered into the ASP market in Hong Kong and the PRC. The ASP business has been generating solid revenue.

We believe that the Group already possesses the key elements required for developing a successful ASP business, including (i) an efficient and cost-effective proprietary Internet enabling technology, (ii) an extensive range of well-developed applications, (iii) an established and broad client base, and (iv) a long established brandname.

In July 2000, we achieved another milestone for our corporate development when the Company entered into GEM as a listed company. With our solid track record, proven products and innovative technology, we are confident that the growth of the Group and the enhancement of return to our shareholders shall continue after our listing.

On behalf of the board of directors (the "Directors") of the Company, I am pleased to present the operating results of the Group for the three months ended 30th June, 2000.

RESULTS

The unaudited combined results of the Group for the three months ended 30th June, 2000 with the unaudited comparative figures for the corresponding period in 1999 are as follows.

	<i>Note</i>	Three months ended 30th June,	
		2000 HK\$'000	1999 HK\$'000
Turnover	2	14,845	12,436
Gross profit		12,856	11,060
Profit before taxation		6,602	5,240
Taxation	3	1,081	861
Profit after taxation		5,521	4,379
Earnings per share - Basic	4	1.15 cents	0.91 cent

Notes:

1. Basis of presentation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8th May, 2000 under the Companies Law (2000 Revision) of the Cayman Islands. In preparation for the listing of the Company's shares on GEM, a group reorganization was effected whereby the Company became the holding company of the Group on 10th July, 2000. The shares of the Company (the "Shares") were listed on GEM on 24th July, 2000 (the "Listing Date").

The results of the Group have been prepared on a merger basis as if the current group structure had been in existence throughout the periods under review or since the respective dates of incorporation or establishment of the respective subsidiaries now comprising the Group, whichever is a shorter period.

All significant intra-group transactions and balances have been eliminated on combination.

2. Turnover

The Group is principally engaged in the development and sale of enterprise software products in Hong Kong, mainland China (the "PRC") and other Asian countries and commenced its ASP business in March 2000. The unaudited combined revenues for the following periods are as follows:

	Three months ended 30th June,	
	2000 HK\$'000	1999 HK\$'000
Turnover		
Sale and lease of application software	10,978	10,288
Maintenance services	3,867	2,148
	14,845	12,436

3. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits for the periods.

No provision for overseas income tax has been made in the results as the Group has no assessable profits for the 3 months ended 30th June, 2000 (1999: Nil).

4. Earnings per share

The calculation of the Group's basic earnings per share for the three months ended 30th June, 2000 is based on the Group's unaudited combined profit after taxation of approximately HK\$5,521,000 (three months ended 30th June, 1999: approximately HK\$4,379,000) and the weighted average number of approximately 480,000,000 shares (three months ended 30th June, 1999: approximately 480,000,000 shares) in issue during the respective periods. In determining the weighted average number of shares, a total of 480,000,000 share issued after the incorporation of the Company and reorganization of the Group immediately but before the issue of new shares to the public pursuant to the listing of the Company's shares were deemed to have been issued since 1st April 1999.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June, 2000 (three months ended 30th June, 1999: Nil).

COMPETING INTERESTS

During the period under review, 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.

BUSINESS REVIEW AND PROSPECTS

General

For the three months ended 30th June, 2000, the Group's combined turnover was approximately HK\$14,845,000, representing a 19% increase over the same period of the previous year. The Group generated a combined net profit after taxation of approximately HK\$5,521,000, representing a net profit margin of approximately 37%.

The financial position of the Company remains healthy with a debt-free capital structure. With the net proceeds from the placement, the financial position of the Company has been further improved.

Business Development

Enterprise software

The Group provides a complete enterprise solution under the "FlexAccount" brandname. The FlexAccount products improves the efficiency of businesses in

operation. The suite of FlexAccount products are able to support various resources planning functions such as those involved in finance, human resources, distribution, retailing and manufacturing operations for companies of various sizes and participating in different industries.

During the period, the Group's enterprise software business remains the major revenue driver. This line of business achieved growth in turnover of approximately 7% as compared to the corresponding period of the previous year.

ASP Business

The Group successfully entered into the ASP business in Hong Kong and the PRC in early 2000 under the service name "FlexAccount Data Center".

The Directors consider that the Group has established a distinct market position by employing three principal business models, namely SME Data Center, Trusted Data Center and Enterprise Data Center. In May 2000, the Group secured a contract with Compaq Computer Limited for providing Enterprise Data Center services for their offices in the PRC.

With the Group's complete and proven enterprise software offering and its effective proprietary Internet enabling technology, the Group attracted a number of business partners in providing ASP services in Hong Kong and the PRC. The Group has signed letters of intent with a number of companies in Hong Kong, which include Asia Online (HK) Limited (a regional ISP), Cyberoffice Limited (a regional ASP), Corpmart.com Limited (an ASP), i-Accountant Ltd (an accounting firm), Secretaries Limited (a company providing business services, secretarial services and share registration services) and Diyixian.com Limited (a regional IP Carrier), to jointly develop ASP business. Under the arrangements with the respective partners, the Group typically agrees to provide a range of FlexAccount products, technical support and assistance in the installation of data centers, whilst the business partners are to be responsible for marketing, customer liaison and maintenance of the system and database.

Geographic Expansion

The PRC

The Directors consider the Group to be a recognised player in the PRC software market and is well positioned to capitalise on emerging market opportunities. The Internet enabled features of the Group's products match the needs of companies in the PRC, which may have scattered points of operation across the nation. In addition, given the close economic ties between Hong Kong and the PRC, a significant number of companies with cross-border operations can benefit from using the Group's ASP services.

The Group has signed several letters of intent with different market practitioners in the PRC to jointly develop and market the services of FlexAccount Data Center in the PRC. These include the following:

In March 2000, the Group signed a letter of intent with 上海海天信息系統工程有限公司 (Shanghai Haitian Information System Engineering Co., Ltd.) (“Shanghai Haitian”) and 立信科技計算機網絡公司 (Lixin Technology Computer Networking Co., Ltd.) (“Lixin Technology”) for the establishment of a Sino-foreign equity joint venture company 佛海 • 立信網絡科技(上海)有限公司 (Fuohai • Lixin Networking (Shanghai) Co., Ltd.). Lixin Technology is the IT development arm of a company providing supporting services to accounting firms in the PRC, whilst Shanghai Haitian is a division of Shanghai University. Upon establishment, this new joint venture company is expected to be 51% owned by the Group and with a joint venture term of 20 years. Subject to relevant government approval, this joint venture company will principally be engaged in the ASP business in the PRC.

In March 2000, the Group also signed a letter of intent for the establishment of a joint venture company with 常熟市經濟開發集團有限公司華美電腦軟件分公司 (Changshu Economic Development Group Huamei Computer Software Co. Ltd.). It is expected that this joint venture company will offer ASP services in Changshu. Under the arrangement, the Group will offer the services of implementing the FlexAccount Data Center as well as providing the necessary technical support, whilst the joint venture partner will be responsible for coordinating the sales and marketing efforts.

DeloitteFlex e-Business, Inc. in Taiwan

In May 2000, the Group signed a letter of intent with Deloitte & Touche Management Consulting Co., Limited in Taiwan for establishing a joint venture under the name of “DeloitteFlex e-Business, Inc.” to engage in ASP business, sales of software and provision of related services in Taiwan. Pursuant to the letter of intent, each party shall own 50% interest in the joint venture.

Japan

The Group has been invited to participate in the World PC EXPO 2000 to be held in Japan in October 2000. The exhibition is considered to be the largest IT trade show to be held in Asia this year. The Directors believe that this event will accelerate the Group’s entry into the Japanese market. The localisation of the Group’s enterprise software package are being implemented to fine-tune the functionality according to the Japanese market’s standards. The Group is also identifying suitable Japanese business partners with appropriate clientele in order to accelerate its expansion into Japan.

Research and development

The Group strives to enhance its technical capabilities through investment in research and development. The Group’s strategy is to foster its own research and development team and to devote resources in areas with high growth potential which can provide the Group with substantial profit contribution. The Group is also looking for suitable technology-based companies as acquisition or investment candidates. Personnel in the Group’s three research centers in Hong Kong, Shanghai and Macau continued to contribute diligently to the research and development of the Group’s enterprise software products and Internet enabling technology.

Outlook

We expect the remaining quarters of this financial year to be promising in terms of revenue and business development.

SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed herein in respect of Directors, chief executive and their respective associates, as at 24th July, 2000 (being the Listing Date), according to the register required to be kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) the following company and person interested in 10% or more of the Company’s issued share capital:

Name	Number of shares	Percentage of issued share capital
SomaFlex Holdings Inc. (<i>Note 1</i>)	475,500,000 Shares	79.25%
Mr. Lok Wai Man (<i>Note 2</i>)	475,500,000 Shares	79.25%

Notes:

1. SomaFlex Holdings Inc. is beneficially owned as to 97.51% by Mr. Lok Wai Man, 0.76% by Mr. So Yiu King, 0.76% by Mr. Chow Chi Ming, Daniel, 0.76% by Mr. Tam Wing Yuen 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 Holdings Inc., he is deemed, by virtue of the SDI Ordinance, to be interested in the same 475,500,000 Shares held by SomaFlex Holdings Inc.

DIRECTORS’ INTERESTS IN SECURITIES

At 24th July, 2000 (being the Listing Date), the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of the SDI Ordinance), recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Name	Personal interests	Corporate interests
Mr. Lok Wai Man (<i>Note 1</i>)	Nil	475,500,000 (<i>Note2</i>)
Mr. So Yiu King (<i>Note 2</i>)	Nil	3,600,000 (<i>Note2</i>)
Mr. Chow Chi Ming, Daniel (<i>Note 1</i>)	Nil	3,600,000 (<i>Note2</i>)
Mr. Tam Wing Yuen (<i>Note 1</i>)	Nil	3,600,000 (<i>Note2</i>)
Mr. Leung Wai Cheung (<i>Note 1</i>)	Nil	1,000,000 (<i>Note2</i>)

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 are regarded as initial management shareholders (as defined in the GEM Listing Rules) of the Company. Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung are executive directors of the Company and are also considered to be initial management shareholders of the Company.

2. These shares were held by a private company beneficially owned by Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung.

Save as disclosed above, as at 24th July, 2000 (being the Listing Date), none of the Directors, chief executive of the Company or their associates had any interests in or rights to subscribe for any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the three months ended 30th June, 2000 was the Company or its subsidiaries a party to any arrangement to enable the Directors and chief executives (including their spouses or children under 18 years of age) of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

MANAGEMENT SHAREHOLDERS

Save for the Directors and substantial shareholders as herein disclosed, the Directors are not aware of any persons who as at 30th June, 2000 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

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries on 24th July, 2000 (being the Listing Date).

INTEREST OF SPONSOR

Vickers Ballas Capital Limited has entered into a sponsorship agreement with the Company whereby, for a fee, Vickers Ballas Capital Limited will act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period from 24th July, 2000 to 31st March, 2003.

To the knowledge of Vickers Ballas Capital Limited, its directors, employees and associates, at 24th, July, 2000 (being the Listing Date), it did not have any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

By Order of the Board
Lok Wai Man
Chairman

Hong Kong, 14th August, 2000

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 quarterly results report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this quarterly results report.

This quarterly results report, 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 quarterly results reports 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 quarterly results report misleading; and (3) all opinions expressed in this quarterly results report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.