



# **FlexSystem Holdings Limited**

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

**INTERIM RESULTS REPORT  
FOR THE SIX MONTHS ENDED  
30TH SEPTEMBER, 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.

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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.

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

## **SUMMARY**

- Net profit increased by approximately 11.1% to approximately HK\$9.1 million.
- Turnover increased by approximately 8.0% to approximately HK\$24.5 million.
- Net profit margin maintained at approximately 37.0%.
- Acquired two software companies which develop distinctive enterprise software products.
- Commenced development of a new series of multimedia education software.
- Payment of an interim dividend of HK\$0.015 per share recommended by the Directors.

## **CHAIRMAN'S STATEMENT**

### **FlexSystem Holdings Limited - Profit Generator and Technology Innovator**

Since 1987, FlexSystem Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") have been providing its enterprise software products to commercial organizations and have continuously been able to provide a profitable track record for its shareholders. In 2000, we successfully entered into the ASP market in Hong Kong and the PRC using our proprietary Internet enabling technology, Soma\*AI, together with our packaged enterprise software. Our 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 September and October 2000 respectively, we have acquired two software companies which are engaged in developing enterprise software providing functions in relation to club-house management and godown management which are new additions to our existing products portfolio.

Moreover, we are now developing a new line of multimedia education software and expect the development to be completed in early November 2000. We expect the PRC market for the education software to be huge and that the new software products would bring solid revenue to the Group in the forthcoming years.

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 six months ended 30th September, 2000.

## RESULTS

The unaudited consolidated results of the Group for the three months and six months ended 30th September, 2000 respectively, together with the unaudited comparative figures for the corresponding periods in 1999, are as follows:

		<b>Three months ended 30th September,</b>		<b>Six months ended 30th September,</b>	
	<i>Note</i>	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	9,653	10,250	24,498	22,686
Gross profit		9,354	9,197	22,210	20,257
Profit before taxation		3,658	4,769	10,260	10,009
Taxation	3	108	986	1,189	1,847
Profit after taxation		3,350	3,783	9,071	8,162
Earnings per share					
- Basic	4	0.68 cent	0.79 cent	1.74 cents	1.70 cents
Dividend per share		1.50 cents	Nil	1.50 cents	Nil

### 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 consolidated revenues for the following periods are as follows:

	Three months ended		Six months ended	
	30th September, 2000	1999	30th September, 2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale and lease of				
application software	7,973	8,620	18,951	18,908
Maintenance services	1,555	1,578	5,422	3,726
Resale of hardware	125	52	125	52
	<u>9,653</u>	<u>10,250</u>	<u>24,498</u>	<u>22,686</u>

## 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 six months ended 30th September, 2000 (1999: Nil).

## 4. Earnings per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30th September, 2000 is based on the Group's unaudited consolidated profit after taxation of approximately HK\$3,550,000 and HK\$9,071,000 respectively and the weighted average number of approximately 520,000,000 shares in issue.

The calculation of the Group's basic earnings per share for the three months and six months ended 30th September, 1999 is based on the Group's unaudited consolidated profit after taxation of approximately HK\$3,783,000 and HK\$8,162,000 respectively and the total number of 480,000,000 shares in issue and issuable immediately before the new issue and placing of the Company's shares immediately prior to the Listing Date.

There were no dilutive potential shares in issue during the periods ended 30th September, 1999 and 2000.

## **INTERIM DIVIDENDS**

The Directors recommend the payment of an interim dividend of HK\$0.015 per share for the six months ended 30th September, 2000 (six months ended 30th September, 1999: Nil). The dividend will be payable on Tuesday, 7th November, 2000 to shareholders whose names appear on the Register of Members of the Company at the close of business on Monday, 6th November, 2000.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed between Friday, 3rd November, 2000 and Monday, 6th November, 2000, during which period no transfer of shares will be effected. To rank for the aforesaid interim dividend, all completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrars, HKSCC Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong for registration not later than 4:00 p.m. on Thursday, 2nd November, 2000.

## **COMPETING INTERESTS**

During the period under review, none of the directors or the 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 six months ended 30th September, 2000, the Group's consolidated turnover was approximately HK\$24,498,000, representing an approximate 8.0% increase over the same period in the previous year. The Group generated a consolidated net profit after taxation of approximately HK\$9,071,000, representing a net profit margin of approximately 37.0%.

The financial position of the Company remains healthy with a debt-free capital structure.

### **Business Development**

#### *Enterprise software*

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

The development of a new version of FlexAccount NV3 has been completed. It is expected to be launched to the market by the end of this year.

During the six months ended 30th September, 2000, the turnover derived from the sales of enterprise software amounted to approximately HK\$19.0 million, representing approximately 77.4% of the total turnover for the period.

### **ASP Business**

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

With the Group's complete and proven enterprise software offering and its effective proprietary Internet enabling technology, the Group has 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, including 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), Diyixian.com Limited (a regional IP carrier) and IXTech (a VPN provider), to jointly develop ASP business. Under the respective partnership arrangement, 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*

In May 2000, the Group secured a contract with Compaq Computer Limited for providing ASP services through the Enterprise Data Center for their offices in 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 practitioners include 上海海天信息系統工程有限公司 (Shanghai Haitian Information System Engineering Co., Ltd.) ("Shanghai Haitian"), 立信科技計算機網絡公司 (Lixin Technology Computer Networking Co., Ltd.) ("Lixin Technology") and 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.).

In September 2000, we have set up branch offices in Beijing, Guangzhou and Changshu to expand our sales and marketing services in the PRC. A strategic alliance has been formed with Compaq Computer Limited who will involve in the co-marketing of the data center and to promote our ASP services to their customers.

## *Taiwan*

The Group is finalising the arrangement with Deloitte & Touche Management Consulting Co., Limited in Taiwan for establishing a joint venture to engage in the ASP business, sales of software and provision of related services in Taiwan. Each party is intended to own a 50% interest in the joint venture.

A branch office has been set up and performing a localization of the FlexAccount products in Taiwan. It will be expected to complete around this year.

### **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.

In September, 2000, a new development center was set up in Malaysia.

## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

### **Business objectives as stated in the Prospectus dated 18th July, 2000**

<b>Principal Area</b>	<b>Business Plans</b>	<b>Actual business progress/Change in business objective</b>
<b>Research and Development</b>		
<b>Product development</b>	<ul style="list-style-type: none"><li>- Continuing to develop the next generation of FlexAccount product</li><li>- Continuing to enhance the functionality of FlexAccount products</li><li>- Continuing to develop application solution for the stock broking industry</li></ul>	<ul style="list-style-type: none"><li>- Development of a new version of FlexAccount NV3 completed and it will be launched to the market by the end of 2000.</li><li>- New features providing enhanced analysis and control function have been added and will be available in FlexAccount NV3.</li><li>- In the final stage of development and is expected to be completed within this year</li></ul>



Principal Area	Business Plans	Actual business progress/Change in business objective
<b>Product development</b>	<ul style="list-style-type: none"> <li>- Commencing to perform localization of FlexAccount products for the Taiwanese and Japanese markets</li> </ul>	<ul style="list-style-type: none"> <li>- To participate in the PC Expo 2000 and Fukuoka Venture Market in Japan in October 2000 to initiate our company's presentation in the Japanese market.</li> <li>- Localization of FlexAccount products for the Taiwanese's market has reached the final stage of development, after having attained approximately 80% of completion.</li> </ul>
<b>Research</b>	<ul style="list-style-type: none"> <li>- Continuing to conduct research and implement new technology, such as component - based business logic program, on FlexAccount products</li> <li>- Continuing to develop solutions to enable wireless applications on platforms such as WAP</li> </ul>	<ul style="list-style-type: none"> <li>- Studying of the microsoft.net framework and the introduction of a new programming framework which will effectively reduce the programming cost by 20 - 50%.</li> <li>- In the final stage of development of WAP-enabled solutions.</li> </ul>
<b>ASP Business <i>In the PRC</i></b>	<ul style="list-style-type: none"> <li>- Continuing to recruit business partners in various major cities in the PRC for the ASP business</li> <li>- Continuing to set up and launch data centers in various major cities in the PRC including Guangzhou, Beijing and Shenzhen</li> </ul>	<ul style="list-style-type: none"> <li>- Formed strategic alliance with Compaq Computer who will involve in the co-marketing of the ASP services.</li> <li>- New data centers have been set up in Shanghai, Changshu and Hefei.</li> </ul>

<b>Principal Area</b>	<b>Business Plans</b>	<b>Actual business progress/Change in business objective</b>
<i>In Hong Kong</i>	<ul style="list-style-type: none"> <li>- Continuing to promote ASP business by direct marketing to existing corporate users of FlexAccount products in Hong Kong</li> <li>- Commencing to recruit international accounting firms and ISPs as Value - added partners</li> </ul>	<ul style="list-style-type: none"> <li>- Launched a direct marketing program in cooperation with 10 accounting firms.</li> <li>- Established strategic partnerships with Diyixian (a regional IP carrier) and IXTech (a VPN provider) to offer our enterprise software to their customers.</li> </ul>
<i>In other Asian Markets</i>	<ul style="list-style-type: none"> <li>- Commencing to expand the ASP business in selected Asian market, including Taiwan and Japan</li> <li>- Commencing to recruit business partners in selected markets in the other Asian markets for the ASP business</li> </ul>	<ul style="list-style-type: none"> <li>- In the process of negotiating with potential business partners to expand its ASP business in Taiwan.</li> <li>- Negotiating with potential strategic partners for expansion to the Malaysian market.</li> </ul>
<b>Resources Deployment</b>	<ul style="list-style-type: none"> <li>- Continuing to set up research and development center in Malaysia</li> <li>- Commencing to set up new overseas sales offices</li> </ul>	<ul style="list-style-type: none"> <li>- Recruited more than 5 staff members for the research and development team in Malaysia.</li> <li>- A branch office has been established in Taiwan with 6 staff members performing sales and marketing activities.</li> </ul>

## COMPARISON OF USE OF PROCEEDS

Up to 30th September, 2000, the Group had utilized about HK\$12.2 million of the placing proceeds. This represents approximately 48.0% of the HK\$ 25.5 million designated for uses as stated in the prospectus for the period. The under-utilization is mainly attributable to the proportion of placing proceeds in the amount of HK\$20 million set aside for strategic acquisition and investment which has not been utilized as expected up to 30 September 2000. The actual amount used for such purposes was approximately HK\$8.25 million.

The remaining proceeds has mostly been used in accordance to the schedule as provided in the prospectus dated 18th July, 2000 for the development of the Group's ASP business, research and development activities and geographic expansion.

### 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 the Directors, chief executive and their respective associates, as at 30th September, 2000, 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 held			Percentage of issued share capital
	Personal interests	Corporate interests	Total	
SomaFlex Holdings Inc. (Note 1)	—	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (Note 2)	408,000	475,500,000	475,908,000	79.32%

### 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' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

### Shares in the Company:

As at 30th September, 2000, the interests of the Directors and Chief Executives 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 or as otherwise notified to the Company and the Exchange pursuant to minimum standards of dealing by Directors as refer to in rule 5.40 were as follows:

Name	Number of Shares held		
	Personal interests	Corporate interests	Total
Mr. Lok Wai Man ( <i>Note 1</i> )	408,000	475,500,000 (Note2)	475,908,000
Mr. So Yiu King ( <i>Note 1</i> )	2,000	3,600,000 (Note2)	3,602,000
Mr. Chow Chi Ming, Daniel ( <i>Note 1</i> )	2,000	3,600,000 (Note2)	3,602,000
Mr. Tam Wing Yuen ( <i>Note 1</i> )	Nil	3,600,000 (Note2)	3,600,000
Mr. Leung Wai Cheung ( <i>Note 1</i> )	Nil	1,000,000 (Note2)	1,000,000

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 SomaFlex Holdings Inc., 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 30th September, 2000, none of the Directors, chief executive of the Company or their associates had any interests in or rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

### Options to subscribe for shares in the Company:

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

No share options were granted by the Company during the period from the Listing Date to 30th September, 2000.

## **MANAGEMENT SHAREHOLDERS**

Save for the Directors, management shareholders and substantial shareholders as herein disclosed, the Directors are not aware of any persons who as at 30th September, 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 during the period from the Listing Date to 30th September, 2000.

## **INTEREST OF SPONSOR**

Vickers Ballas Capital Limited (the "Sponsor") has entered into a sponsorship agreement with the Company whereby, for a fee, the Sponsor 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.

As updated and notified by the Sponsor, as at 30th September, 2000, one of its fellow subsidiaries, Vickers Ballas Hong Kong Limited, beneficially held 19,834,000 Shares (approximately 3.3% of the issued share capital) in the Company.

Saved as disclosed above, neither the Sponsor nor its directors or employees or associates, as at 30th September, 2000, had 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, 20th October, 2000