



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

**QUARTERLY RESULTS REPORT
FOR THE NINE MONTHS ENDED
31ST DECEMBER, 2000**

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

HIGHLIGHTS

For the nine months ended 31st December, 2000:

- Turnover increased to approximately HK\$45.8 million.
- Gross profit margin was approximately 85%.
- Net profit increased by approximately 29% to approximately HK\$14.3 million (as compared to the corresponding period in the previous year).
- Continued business expansion, product enhancement, strategic alliances and acquisitions
- Obtained support from the IT division of the Anhui Provincial Government for promoting FlexSystem's ASP business in the Anhui province
- Outlook for the last quarter remains positive

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31ST DECEMBER, 2000

The board of Directors ("Board") of FlexSystem Holdings Limited ("FlexSystem" or the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three and nine months ended 31st December, 2000, together with the unaudited comparative figures for the corresponding periods in 1999, as follow:

	<i>Note</i>	Three months ended 31st December,		Nine months ended 31st December,	
		2000	1999	2000	1999
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	21,262	9,304	45,760	31,990
Gross profit		16,442	7,289	38,652	27,546
Profit before taxation		6,063	3,120	16,323	13,130
Taxation	3	811	214	2,000	2,061
Profit after taxation		5,252	2,906	14,323	11,069
Earnings per share					
- Basic	4	0.88 cent	0.61 cent	2.51 cents	2.31 cents
Dividend per share		nil	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		Nine months ended	
	31st December, 2000	1999	31st December, 2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale and lease of application software	17,904	7,591	36,855	26,499
Maintenance services	2,783	1,565	8,205	5,291
Resale of hardware	575	148	700	200
	<u>21,262</u>	<u>9,304</u>	<u>45,760</u>	<u>31,990</u>

3. Taxation

Hong Kong profits tax and PRC profits tax have been provided at the rates of 16% and 15% respectively (1999: 16% and nil respectively) on the estimated assessable profits for the periods.

4. Earnings per share

The calculation of the Group's basic earnings per share for the three months and nine months ended 31st December, 2000 is based on the Group's unaudited consolidated profit after taxation of approximately HK\$5,252,000 and HK\$14,323,000 respectively and the weighted average number of 600,000,000 shares and 570,000,000 shares in issue respectively.

The calculation of the Group's basic earnings per share for the three months and nine months ended 31st December, 1999 is based on the Group's unaudited consolidated profit after taxation of approximately HK\$2,906,000 and HK\$11,069,000 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 31st December, 1999 and 2000.

OUR MISSION

FlexSystem — SIMPLY THE BEST

FlexSystem prides itself as SIMPLY THE BEST in the enterprise application software market in Hong Kong and the PRC.

Our mission is simple yet ambitious. We aim at maximizing shareholders' return via offering the best enterprise software products and related services and innovating tomorrow's technology today.

COMPANY PROFILE

FlexSystem is a leading enterprise application software developer based in Greater China. We provide a comprehensive range of enterprise software and related services, from system customization to system support — simply offering one-stop solution for our clients. Approximately one-fifth of the companies listed on the Stock Exchange of Hong Kong use FlexSystem's enterprise software products. With our established presence in Hong Kong and the PRC, we are actively expanding into other markets in the Asia Pacific region. We have recently established an office in Singapore and a joint venture company in Taiwan. Additional offices are expected to be set up across the region.

BUSINESS REVIEW AND PROSPECTS

General

Despite a slow-down in the economy and business activities around the region, our Group has performed satisfactorily and has been able to sustain continuous growth in its business and profits. For the nine months ended 31st December, 2000, our Group's unaudited consolidated turnover and net profit after taxation amounted to approximately HK\$45,760,000 and HK\$14,323,000 respectively, representing an increase of approximately 43% and 29% respectively over the corresponding period in the previous year. The financial position of our Group remained healthy with a debt-free capital structure.

The sustained growth in our turnover and profits demonstrates that our Group has effectively implemented its business strategy in the right direction. Moving forward, we shall persist in pursuing further growth by developing proprietary enterprise software and state-of-the-art technology to deliver our services in accordance with the demands and needs of our clients.

Our earlier efforts, which have been mostly concentrated in the Greater China region, have displayed encouraging results. Given the immense potential of the market in the Greater China region, we will continue to dedicate resources to further strengthen our presence in this region without neglecting the potential demand of our products and services in other markets in the Asia Pacific region. We expect our offering to have an equally strong demand from enterprises around Asia and we plan to gradually set up operations and expand our business in this region in the near future.

The following is the review of the Group's business developments during the three month period ended 31st December, 2000:

Software offering

During the period under review, sale of our enterprise software products remained to be a major profit generator for the Group. For the nine months ended 31st December, 2000, the turnover derived from sale of these software products accounted for approximately 81% of the total turnover.

As part of our ongoing strategy, we continued to dedicate resources in the research and development of new applications and software based on a client-oriented approach. To date, we are in the final stage of developing the fourth generation of products within our portfolio. We have embodied applications to enable reporting in the PDF format and has commenced development of Linux application and applications based on the Microsoft.net framework for our products. We have also completed the development of FlexAccount ME (formerly named FlexAccount NV3) and are developing new Internet-enabled solutions with applications catered for wholesale distribution, point-of-sale and membership management.

Further to our existing enterprise software offering, we have substantially completed the development of a multimedia education software and intend to launch the product in the PRC market by the end of the first quarter of 2001.

Two enterprise software products developed by two newly acquired investee companies have been fully integrated into our product portfolio. One of them is a logistics management software developed by our Singapore-based investee company. This software is designed for internet-based direct distribution systems and has been installed by clients in Singapore and Malaysia. The other product is a garment software developed by our other Hong Kong-based investee company. Both investee companies were acquired by the Group in November 2000. The two software products not only enriched our offering, but also widened our revenue base.

ASP business

Since the launch of the FlexAccount Data Centre in March 2000, our ASP business has been making positive contribution to the Group's revenue. Our ASP services have been widely adopted in Hong Kong and the PRC and has also received the support from provincial government departments in the PRC. We have set up six FlexAccount Data Centers so far and we expect several other to be established in the coming year.

Up to the date of this report, we have implemented and will continue to implement our strategy of providing efficient and secured ASP services with our proprietary Soma*AI technology to clients at competitive prices, both on our own and with strategic partners. During the period under review, we continue to negotiate actively with business partners with a view to offering our ASP services to enterprises around Asia. In December 2000, we have formed a joint venture with IXTech Ltd. (a VPN provider) to collaborate in marketing ASP services specifically to enterprises in the manufacturing sector in the Greater China Region. Furthermore, with the establishment of our joint venture company with Deloitte & Touche Management Consulting Co., Ltd. in Taiwan, we expect our ASP business in that market to pick up quickly in the coming months.

Geographic expansion

The PRC

After years of investment, FlexSystem has become a recognised player in the PRC software market. We continue to view the PRC as a core market for our future growth strategy. To further enhance the marketability of FlexAccount's software products, we recently applied for the ISO 9001 accreditation for the software products in the PRC.

For our ASP business, we have set up a new FlexAccount Data Center in Beijing in December 2000, and expect that other new data centers will be continuously set up across the PRC in the coming year.

The Group continued to negotiate with business partners to form collaborative arrangements to further expand and promote its business in the PRC. In December, the Group obtained support from the IT division of the Anhui Provincial Government to jointly promote FlexSystem's ASP services to enterprises in the province.

Taiwan

In November 2000, the Group entered into a formal cooperative agreement with Deloitte & Touche Management Consulting Co. Ltd. to set up DeloitteFlex e-Business Inc., a joint venture company to engage in developing the ASP business, sales of FlexSystem's enterprise software products and provision of related services in Taiwan. Up to the date of the announcement, we have been carrying out marketing programmes for our ASP services in the market and have successfully concluded several contracts.

The Group completed the localization of the FlexAccount products for the Taiwanese market and has successfully launched these products to Taiwanese business enterprises. The software has also been integrated as part of the offerings of the new FlexAccount Data Center which we have set up in Taipei in December 2000.

Other markets in Asia Pacific

Beyond Greater China, we have also begun to expand to other markets in the Asia Pacific region. In November 2000, FlexSystem set up SomaFlex (Singapore) Pte. Ltd. in Singapore. At this stage, this office is mainly dedicated to research and development including developing Linux application for FlexSystem's products. Sales and marketing functions will be gradually added to this office which will be our spearhead for penetrating other Southeast Asian markets.

After our participation in the PC EXPO 2000 and in the Fukuoka Venture Market in Japan in October 2000, we have commenced feasibility studies on the Japanese market. The Group expects to establish a new branch office in Japan in the near future.

Research and development

We are persistently dedicating resources in research and development of new applications and technology which will create value for our existing product and service offering. For instance, part of our efforts has focussed on the study of object database development for future generations of FlexAccount products.

In addition to our three existing research and development teams, a new team was formed in our newly established Singapore office in October. Up to this moment, this team has mainly provided support to our research team in Hong Kong in developing Linux application and applications based on the Microsoft.net framework for our software products. We expect this Singapore-based team to contribute to our Group's research and development capabilities in the long run.

In November, we acquired two software companies which, in addition to the two software products they have already developed, we expect would create synergy for our ongoing research and development efforts. The Group will continue to look for other suitable technology-based companies as acquisition or investment candidates. While nothing concrete has been concluded so far, the Company will make an appropriate announcement of the progress of such establishments or acquisitions as and when necessary, in compliance with the requirements of the GEM Listing Rules.

OUTLOOK

Looking forward, we expect FlexSystem to continue implementing its proven business strategy which concentrates on innovating technology which can provide immediate return to enterprises in terms of operational efficiency. We will continue to enhance our product offering by dedicating resources in research and development. To complement our business development, we will seek further growth through geographic expansion, strategic acquisition and collaborative alliances.

We expect that our efforts will help in strengthening our market position while driving up our value to both clients and shareholders. We shall use our best endeavours to maintain our profitability and we believe that we will continue to deliver good performance in the remaining quarter of the year and in the years ahead.

APPRECIATION

On behalf of the Board, I would like to extend our sincere appreciation to the management and employees of FlexSystem for their commitment and contribution to the Group.

INTERIM DIVIDEND

On 20th October, 2000, the Group declared an interim dividend for the six months ended 30th September, 2000 of HK\$0.015 for each Share to its shareholders registered as of 6th November, 2000. Save for the above, the Directors do not recommend any payment of dividend for the nine months ended 31st December, 2000 (nine months ended 31st December, 1999: Nil).

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.

SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed herein in respect of the Directors, chief executive and their respective associates, as at 31st December, 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		Total	Percentage of issued share capital
	Personal interests	Corporate interests		
SomaFlex Holdings Inc. (Note 1)	—	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (Note 2)	4,414,000	475,500,000	479,914,000	79.99%

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 31st December, 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		Total
	Personal interests	Corporate interests	
Mr. Lok Wai Man (Note 1)	4,414,000	475,500,000 (Note2)	479,914,000
Mr. So Yiu King (Note 1)	2,000	3,600,000 (Note2)	3,602,000
Mr. Chow Chi Ming, Daniel (Note 1)	2,000	3,600,000 (Note2)	3,602,000
Mr. Tam Wing Yuen (Note 1)	Nil	3,600,000 (Note2)	3,600,000
Mr. Leung Wai Cheung (Note 1)	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 31st December, 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 31st December, 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 31st December, 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 31st December, 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 remaining period up to 31st March, 2003.

As updated and notified by the Sponsor, one of its fellow subsidiaries, Vickers Ballas Hong Kong Limited, and one of the directors of the Sponsor beneficially held 19,834,000 Shares (approximately 3.3% of the issued share capital) and 220,000 Shares respectively in the Company.

Saved as disclosed above, neither the Sponsor nor its directors or employees or associates, as at 31st December, 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, 12th February, 2001