



FlexSystem Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2001

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 annual 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 annual report.

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

	<i>Pages</i>
Corporate Information	2
Financial Highlights	3
Chairman's Statement	4
Management Discussion and Analysis	6
Comparison of Business Objectives with Actual Business Progress	8
Biographical Information of Directors and Senior Management	13
Report of the Directors	16
Auditors' Report	24
Consolidated Profit and Loss Account	25
Consolidated Balance Sheet	26
Balance Sheet	27
Consolidated Cash Flow Statement	28
Consolidated Statement of Recognised Gains and Losses	29
Notes to the Accounts	30
Notice of Annual General Meeting	54

Corporate Information

EXECUTIVE DIRECTORS

Lok Wai Man (Chief Executive Officer)
So Yiu King
Chow Chi Ming, Daniel
Tam Wing Yuen
Leung Wai Cheung

NON-EXECUTIVE DIRECTORS

Lo Yip Tong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tse Lin Chung
Lee Kar Wai
(appointed on 27th November, 2000)
Mak Wing Kwong, David
(resigned on 27th November, 2000)

COMPANY SECRETARY

Leung Wai Cheung

QUALIFIED ACCOUNTANT

Leung Wai Cheung

COMPLIANCE OFFICER

So Yiu King

AUTHORISED REPRESENTATIVES

Lok Wai Man
So Yiu King

AUDIT COMMITTEE

Lee Kar Wai
Tse Lin Chung

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants, Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

12th Floor, North Block
Skyway House
3 Sham Mong Road
Tai Kok Tsui, Kowloon
Hong Kong

REGISTERED OFFICE

P.O. Box 2681, Zephyr House
George Town
Grand Cayman
British West Indies

COMPANY HOMEPAGE

www.flexsystem.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

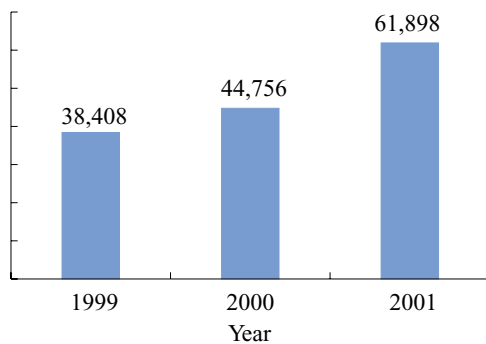
Bank of Butterfield International (Cayman) Limited
Butterfield House, Fort Street
P.O.Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

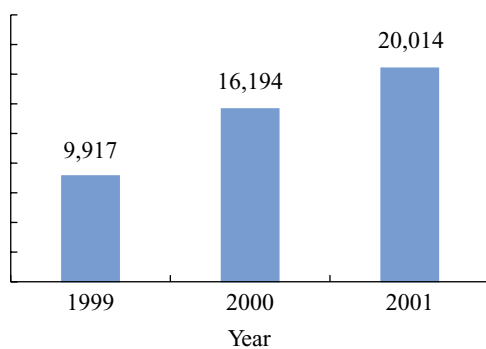
TURNOVER

(HK\$'000)



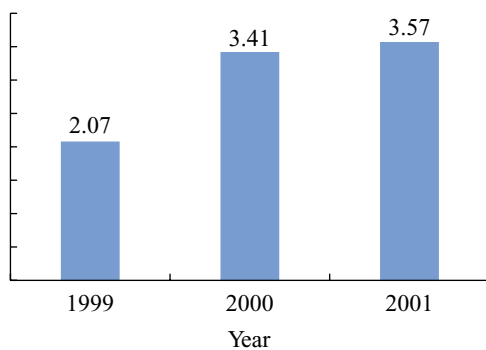
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK\$'000)



EARNINGS PER SHARE

(HK Cent)



Chairman's Statement

TO OUR SHAREHOLDERS

On behalf of the board of Directors of FlexSystem Holdings Limited (the "Company"), I am pleased to present the annual audited results of the Company and its subsidiaries (the "Group") for the financial year ended 31st March, 2001.

Our successful listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 24th July, 2000 marked the year as the most exciting year for the Group since its establishment in 1987. With over 10 years experience in the software industry, the Company is now a leading enterprise application software developer based in Greater China. We pride ourselves 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.

Despite the tough economic environment around the region in the past year, our turnover recorded a 38% increase over the previous year to reach approximately HK\$62 million while profit attributable to shareholders amounted to approximately HK\$20 million, representing an increase of 24% over the previous year.

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 continue to pursue our strategy in allocating our resources in research and development of new applications and technology with an aim to create value for our existing products and service offering.

The Group made several investments during the year, including acquisition of interests in a number of application developers. In June 2001, MRC Holdings Limited, one of the Group's investee companies, was also successfully listed on the GEM.

The board of Directors now recommends a final dividend payment of HK\$0.015 per share for the year ended 31st March, 2001 subject to approval by our shareholders at the Annual General Meeting.

OUTLOOK

Looking forward, we expect FlexSystem to continue implementing its proven business strategy which concentrates on innovating advanced technology which can provide immediate return to enterprises in terms of operational efficiency. We will continue to enhance our product offering by dedicating more resources in research and development. We intend to continue expanding our products and service portfolio by enhancing our enterprise solution suite with industry specific solutions catered to meet a variety of customer needs. To complement our business development, we will seek further growth through geographic expansion, strategic acquisition and/or collaborative alliances. The Board believe that such endeavours will enable our Group to enhance its brand presence in existing markets and also impel its growth in new markets in pursuing new exciting business opportunities.

People are always the key contributor to our Group's success. On behalf of the Board, I would like to extend my deepest appreciation to our management and staff for their dedication and commitment in the past . In addition, I would like to express my sincere thanks to our business partners for their continued support over the past years. I look forward to enjoy even closer relationships as we consolidate our business position while exploring new business opportunities.

Lok Wai Man

Chairman

Hong Kong, 27th June, 2001

Management Discussion and Analysis

FINAL RESULTS FOR THE YEAR ENDED 31ST MARCH, 2001

The board of Directors (“Board”) of FlexSystem Holdings Limited (“FlexSystem” or the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31st March, 2001, together with the comparative figures for the corresponding period in 2000, as follow:

	<i>Note</i>	For the year ended 31st March,	
		2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	61,898	44,756
Gross profit		56,127	39,079
Profit before taxation		22,090	18,954
Taxation	3	(1,903)	(2,760)
Profit after taxation		20,187	16,194
Minority interests		(173)	—
Profit attributable to shareholders		20,014	16,194
Earnings per share - Basic	4	3.57 cents	3.41 cents
Dividend per share		3 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 consolidation.

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 audited consolidated revenues for the following years are as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sale and lease of application software	45,735	33,800
Maintenance services	14,790	10,777
Resale of hardware	1,373	179
	61,898	44,756

FINAL RESULTS FOR THE YEAR ENDED 31ST MARCH, 2001 *(continued)*

3. Taxation

Hong Kong profits tax and PRC profits tax have been provided for at the rates of 16% and 15% respectively (2000: 16% and nil respectively) on the estimated assessable profits for the years.

4. Earnings per share

The calculation of the Group's basic earnings per share for the year ended 31st March, 2001 is based on the Group's audited consolidated profit attributable to shareholders of approximately HK\$20,014,000 (2000: HK\$16,194,000) and the weighted average number of 561,287,671 shares (2000: 475,500,000 shares) in issue.

There were no dilutive potential shares in issue during the year ended 31st March, 2001.

BUSINESS REVIEW

For the past 12 months, FlexSystem has acquired and/or invested in a number of application developers which has each developed their own industry specific application, namely, MRP solution for the garment industry, warehouse management solution, wholesale & logistics solution, membership and club house management solution and an educational/ e-learning solution. In addition to technology transfer, the Group will integrate the solutions developed by these companies into its own product portfolio so as to strengthen its own offerings on a vertical scale.

Apart from acquisitions, the Group also invested substantially in the research and development of new applications and technologies to create value for the existing products and services. The Group has completed the development of the new generation financial management system and the executive information system. The Group has also begun the enhancement of its enterprise resources planning system which is designed to enable a workflow functionality. The Group has begun its study and implementation of Linux onto the Group's virtual office suite. The Group has also completed a study on object database and Microsoft.net framework for its application development in the future.

For its ASP business, the Group has set up seven data centers across HK, the PRC, Taiwan and Australia during the year. The business, though relatively new, has been making contribution to the Group. The Group expects to remain focused on promoting its ASP business to the enterprise sector in the future.

The Group remains focused on the development of its business in the Asia Pacific region particularly in Hong Kong, the PRC and Taiwan. At this point, the Group has a well-established PRC network and has also set up a joint venture with Taiwan's Deloitte & Touche Management Consulting Company Ltd. to promote its business in Taiwan. The Group has invested in a distribution and logistics solution developer in Singapore and assigned its product distributorship and product implementation services to a Malaysian based solution developer. The Group has commenced the localization of its products for each of these new markets with an intention that even multinational corporations with operations in different countries can use FlexSystem's solutions.

Comparison of Business Objectives with Actual Business Progress

COMPARISON OF USE OF PROCEEDS

	Amount to be used up to 31st March, 2001 as disclosed in the prospectus dated 18th July, 2000	Actual amount used up to 31st March, 2001
	<i>HK\$ million</i>	<i>HK\$ million</i>
Strategic acquisition and investment	30.0	27.9
Geographic expansion	9.0	2.6
Research and development	6.0	8.5
ASP Business	7.0	0.2
Marketing and promotional activities	3.5	2.8
	<hr/>	<hr/>
Total	55.5	42.0
	<hr/> <hr/>	<hr/> <hr/>

The under-utilization is mainly attributable to the proportion of proceeds set aside for ASP business has not been utilized as expected during the year given the unfavorable market sentiment which hindered the growth of the ASP business.

COMPARISON OF BUSINESS OBJECTIVE

Research and Development

Product Development

Objective: Develop the next generation of FlexAccount products

Actual Progress: The Group has commenced the development of the next generation of FlexAccount products, including FlexAccount NV4 and FION Ver 3.0 in March, 2001.

Objective: Enhance the functionality of FlexAccount products

Actual Progress: The Group will continue its effort on the enhancement of the products' functionality. The Group's latest project includes the embedding of a workflow function onto the FlexSystem Enterprise Solution Suite.

Objective: Develop an application solution for the stock brokerage industry

Actual Progress: Due to severe competition of the market, the Group has held up such development of a stock brokerage solution. As the Group has concluded that the initial and on-going investment on the product's sales and marketing activities will diversify the Group's resources allocation and side track the Group's enterprise solution development.

COMPARISON OF BUSINESS OBJECTIVE *(continued)*

Objective: Develop an application for membership management

Actual Progress: The Group has completed the development of a membership management application in March, 2001. The solution allows the club house/ hospitality industry to manage their members/ guests' profile, as well as provides auto-billing and accounts integration functions.

Objective: Research and explore the Linux application market

Actual Progress: After a detailed study of the Linux technology and its applications in the market, the Group has commenced the design and production of a Linux-based desktop office application. The Group has already finished the solution's prototype development and is currently in the progress of system testing. The solution is expected to be launched in the 3rd quarter of this year.

Objective: Perform localization of FlexAccount products for the Taiwanese and Japanese markets

Actual Progress: The Group has completed the localization of the financial management system for the Taiwanese markets but is still in the process of conducting feasibility studies for the Japanese market.

Objective: Perform localization of FlexAccount products for the Malaysian and Singaporean markets

Actual Progress: The Group has completed its research on the accounting requirements in Singapore and has begun the localization of its products for this market. The Group has partnered with a Malaysian based solution developer to perform product localization for the Malaysian market. The Malaysian partner has also been appointed as the regional distributor of the Group's products and has already successfully identified several potential clients and has already commenced implementation work for one of them.

Research

Objective: To research and implement new technology on FlexAccount products

Actual Progress: The Group had completed a detailed study on the Microsoft.net framework and has published a white paper on the subject matter. The findings will be used as a guidelines for the Group's future product development work.

Objective: To develop solutions to enable wireless applications on platforms such as WAP

Actual Progress: Together with its investee company in Singapore, the Group has co-developed an Internet based wireless distribution and logistics system, and a wireless stock audit management solution. The solution was launched in Singapore in the 2nd quarter in 2001 and is expected to be introduced to the Group's customers in Hong Kong and the PRC within the 3rd quarter in 2001.

COMPARISON OF BUSINESS OBJECTIVE *(continued)*

ASP Business Development

PRC

Objective: Recruit business partners in various major cities in the PRC for the business development purpose.

Actual Progress: The Group has obtained support from the IT division of the Anhui Provincial Government in the 3rd quarter of 2000 in helping the Group to promote its ASP business model to the enterprises within the region. In the 4th quarter of 2000, the Group has partnered with the logistics department of the Institute of Foreign Trade, to assemble a strong consultation team to support the Group's customers. Under the partnership, the logistics department will provide pre-sales consultation and after-sales implementation services to the Group's corporate clients in the PRC.

Objective: Set up and launch data centers in various major cities in the PRC

Actual Progress: The Group has completed the set-up and launched its ASP business in Shanghai, Beijing and Changshu. Aside from data center development, the Group is conducting a feasibility study on expansion possibilities in the southern region of the PRC.

Hong Kong

Objective: Promote ASP business by direct marketing to existing corporate users of FlexAccount Products in Hong Kong

Actual Progress: The Group will continue to promote its ASP business through direct marketing efforts, particularly towards existing corporate users of FlexSystem's products.

Objective: To recruit international accounting firms and ISPs as value-added partners

Actual Progress: The Group has formed partnership with IXTech Ltd. (a regional VPN provider) to launch its enterprise solution to the manufacturing sector in Greater China. The Group has also joined Taiwan's Deloitte & Touche Management Consulting Co Ltd. in setting up DeloitteFlex e-Business Inc. to conduct its ASP business in Taiwan.

Objective: To recruit value-added partners who are MPF providers

Actual Progress: One of the Group's investee company, MRC Holdings Ltd. is a leading human resources management solution developer. Beside investing significant amount of resources in developing the solution system, MRC Holdings Ltd. will also be responsible for the recruitment of MPF providers.

Objective: To recruit valued-added partners for its on-line stock trading service

Actual Progress: The Group has re-evaluated the on-line stock trading market and concluded that the severe competition and the high investment required to enter the market would hinder the development of its major business, the Group has thus pended its investment on the on-line stock brokerage system development. The Group will remain focused in its enterprise solution business.

COMPARISON OF BUSINESS OBJECTIVE *(continued)*

Objective: To set up call centers for its ASP clients in Hong Kong

Actual Progress: Since the Group launched its ASP business model in 2000, the trend in application hosting for SME had shifted. The result is reflected in the fact that a majority of the Group's ASP business lies in the area of enterprise data center, which does not require the support by call centers since the data center is maintained by the corporate customers themselves. Today, the Group will stay focused on the enterprise data center market and has pended the setting up of ASP client center in Hong Kong.

Other Asian markets

Objective: Expand ASP business in selected Asian markets, including Taiwan and Japan

Actual Progress: The Group is continuing its ASP business expansion in Taiwan. The Group is in progress of evaluating the prospects of setting up an additional data center in the southern part of Taiwan.

Objective: To recruit business partners in selected markets in the other Asian markets for the ASP business

Actual Progress: The Group's office in Singapore is in the progress of working out a partnership with a hospitality solution provider to launch an integrated ASP model for the Singaporean market.

Other markets outside Asia

Objective: Expand the ASP business into Australia and the US

Actual Progress: The Group's regional office in Australia was set up in the 3rd quarter of 2000 and it has commenced on the development of its ASP business for that market.

Enterprise application business

Objective: Promote FlexAccount products by direct and Internet-based marketing to the general business sector in selected Asian markets

Actual Progress: The Group will continue its marketing effort to introduce FlexSystem's products to overseas markets through its overseas office that has been set up in selected Asian countries, including the PRC, Taiwan, Singapore and Australia.

COMPARISON OF BUSINESS OBJECTIVE *(continued)*

Resources deployment

Objective: To set up research and development center in Malaysia

Actual Progress: The Group has recruited a software development company in Malaysia and has subcontracted some research and development projects to this company. The Group considered this to be a more cost-effective way to carry out research & development in the East Asian region.

Objective: To set up new overseas sales offices, including Taiwan and Japan

Actual Progress: The Group has already set up a sales office in Taiwan through a joint venture arrangement with Taiwan's Deloitte & Touche Management Consulting Co Ltd.

Biographical Information of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Lok Wai Man, aged 41, is the founder and Chief Executive Officer of the Group. Mr. Lok is responsible for the Group's overall strategic planning and development. He has over 17 years of experience in the field of computer software industry and worked as a systems engineer in a software company in Hong Kong. Mr. Lok initiated and has been directly involved in the development of the FlexAccount products and the proprietary Internet enabling technology, Soma*AI, of the Group.

Mr. So Yiu King, aged 40, is the corporate development director of the Group. He is responsible for the finance and corporate development of the Group. He has more than 9 years of experience in accounting and finance and system development in Hong Kong. Prior to 1991, Mr. So worked for listed companies in Hong Kong as a financial controller. Mr. So is one of the founding members and also the president of IT Accountants Association in Hong Kong, an organization helping the accounting professionals to prepare for the digital challenge. Mr. So is the endorsement certificate holder in Accountancy from Hong Kong Polytechnic. He also completed a marketing management program from National University of Singapore in 1995 and a senior executive management course in Peking University in 1999. Moreover, he is the holder of Professional Diploma in Information Technology from the Hong Kong Management Association. Mr. So joined the Group in May 2000.

Mr. Chow Chi Ming, Daniel, aged 36, is the technical director of the Group. He is responsible for supervising and coordinating the research and development and technical support functions of the Group. Mr. Chow has over 15 years experience in developing large-scale tailor-made system and multi-user networking solutions. Prior to joining the Group in 1993, Mr. Chow worked for other software company and IT consulting firm. Mr. Chow is the technology consultant of IT Accountants Association in Hong Kong.

Mr. Tam Wing Yuen, aged 33, is the regional general manager for the PRC market of the Group. He joined the Group in 1992 and is responsible for the corporate development of the Group in the PRC. Mr. Tam has over 8 years experience in sales and marketing of software products. He holds a Bachelor of Science degree in Computer Studies from the University of Hong Kong. He is a part-time professor of the Shanghai Institute of Foreign Trade.

Mr. Leung Wai Cheung, aged 36, is the chief financial officer of the Group. Mr. Leung is a qualified accountant and chartered secretary with over 10 years of experience in accounting and auditing and over 3 years of experience in financial management. He graduated from Curtin University with a Bachelor of Commerce degree majoring in accounting and subsequently obtained a postgraduate Diploma in Corporate Administration and a Master of Professional Accounting from The Hong Kong Polytechnic University. He is an associate member of the Hong Kong Society of Accountants, Australian Society of Certified Practicing Accountants, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Companies Secretaries and The Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Mr. Leung joined the Group in May 2000.

DIRECTORS (continued)

Non-Executive Director

Mr. Lo Yip Tong, aged 44, is the proprietor of Y.T. Lo & Co, certified public accountants. He established his own firm, Y.T. Lo & Co, in 1991. Y.T. Lo & Co. acted as auditors for certain subsidiaries of the Company and certain companies controlled by Mr. Lok from 1992 to April, 2000. Mr. Lo has over 15 years of experience in statistical, accountancy and audit work. He is currently a member of the Hong Kong Society of Accountants, a fellow member of the Chartered Association of Certified Accountants and a certified public accountant of Hong Kong. Mr. Lo joined the Group in May 2000.

Independent Non-Executive Director

Mr. Tse Lin Chung, aged 40, is a practising solicitor. He graduated from the University of Hong Kong in 1985 with a Bachelor of Social Sciences degree. In 1988, he obtained a Bachelor of Laws degree from the University of London and in 1989, a Postgraduate Certificate in Laws from the University of Hong Kong. He was qualified as a solicitor in Hong Kong in 1991 and in England and Wales in 1992. He is the founding partner of Yip, Tse & Tang (formerly known as Yip & Tse), solicitors since 1994. Yip, Tse & Tang currently acts for the Group on certain legal matters in Hong Kong. He is the chief executive officer of Internet Solicitor.com founded in 1999 and it operates the legal information portal site of solicitor.com.hk founded in 1997. Since early 2000, he has been offering seminars on e-commerce and Internet laws to executives of e-commerce and IT fields. Mr. Tse joined the Group in May 2000.

Mr. Lee Kar Wai, aged 52, is the regional finance controller for the Asia Pacific region for CB Richard Ellis Limited. He was previously the company secretary for CB Richard Ellis Limited and a subsidiary of Dun & Bradstreet Corporation in the U.S.. He is an associate member of the Hong Kong Society of Accountants and the Australian Society of Certified Practising Accountants. He graduated with a master degree in accounting science from University of Urbana, Illinois in the U.S. and a bachelor degree in business administration (accounting) from University of Texas at Arlington in the U.S. in 1976 and 1975 respectively. Mr. Lee joined the Group in November 2000.

SENIOR MANAGEMENT

Mr. Cheung Hon Sang, Kevin, aged 36, is the general manager of the Group. He is responsible for the execution of corporate policy formulated by the board of Directors and also for corporate communications. Mr. Cheung joined the Group in 1989. He holds an Honours Diploma in Business Administration from Shue Yan College.

Mr. Wong Kar Yin, aged 37, is the senior vice president of the Group. He is responsible for its overall business development of the Group. He has over 14 years of experience in system and database consultancy. Prior to joining the Group in April, 2000, Mr. Wong worked for Sybase Hong Kong Limited, Telxon Australia Pty. Limited and the Sydney Futures Exchange Limited. He holds a Bachelor of Science degree in Computer Science from the University of Washington.

Mr. Chan Yu Ki, Terence, aged 35, is the customer support manager of the Group. He is responsible for the overall supervision and management of the Group's customer support department. Mr. Chan also helps to co-ordinate the development and implementation of new products with the Group's marketing efforts. Mr. Chan has over 9 years of experience in customer system support and holds a Diploma in Business Administration from Shue Yan College. Mr. Chan joined the Group in 1992.

Ms. Chow Ching Lan, aged 37, is the business development manager of the Group. She is responsible for defining the Group's business model by combining strategic business perspective with full features customer support and extensive technology experience. Ms. Chow is one of the founders of SKY Computers, a system integrator specialised in RDBMS and membership management system with business partners in Hong Kong, Singapore and Malaysia. Ms. Chow graduated from the University of Washington with a bachelor degree in Arts. Ms. Chow joined the Group in June 2000.

Mr. Ng Wing Kan, Bruce, aged 31, is the marketing manager of the Group. He is responsible for the overall co-ordination of the Group's marketing efforts. Mr. Ng is also in charge of liaising with potential business partners to initiate alliances. Mr. Ng had over 4 years of sales and marketing experience in the IT industry. Mr. Ng holds a bachelor degree in Economics from the University of Alberta. Mr. Ng joined the Group in 1996.

Report of the Directors

The Directors submit their first report together with the audited accounts for the year ended 31st March, 2001.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 8th May, 2000 as an exempted company with limited liability under the Companies Law (2000 Revised) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) in preparing for the listing of the shares of the Company on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired the entire issued share capital of SomaFlex International Inc. (“SomaFlex”) through a share swap and became the holding company of SomaFlex and its subsidiaries. Details of the Reorganisation are set out in the prospectus dated 18th July, 2000 issued by the Company.

The Reorganisation has been reflected in the accounts by treating the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 14 to the accounts. The Group is principally engaged in the development and sale of enterprise software in Hong Kong, Mainland China and other Asian countries.

An analysis of the Group’s turnover and contribution to operating profit for the year by principal activities and markets is as follows:

	Turnover		Contribution to profit/ (loss) from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
<i>Principal activities:</i>				
Sale of application software	45,736	33,800	16,298	18,022
Sale of hardware	1,372	179	(487)	3
Rendering of maintenance services	14,790	10,777	1,790	927
	<u>61,898</u>	<u>44,756</u>	<u>17,601</u>	<u>18,952</u>
Interest income			4,626	2
Operating profit			<u>22,227</u>	<u>18,954</u>

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS (continued)

	Turnover		Contribution to profit/ (loss) from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
<i>Principal markets:</i>				
Hong Kong	54,209	40,686	19,970	18,336
People's Republic of China (the "PRC")	5,296	4,070	(32)	868
Singapore	1,816	—	905	—
Taiwan	577	—	(762)	—
Others	—	—	(2,480)	(252)
	<u>61,898</u>	<u>44,756</u>	<u>17,601</u>	<u>18,952</u>
Interest income			<u>4,626</u>	<u>2</u>
Operating profit			<u><u>22,227</u></u>	<u><u>18,954</u></u>

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 25.

The directors have declared an interim dividend of HK\$0.015 per ordinary share, totalling HK\$9,000,000, which was paid on 7th November, 2000.

The directors recommend the payment of a final dividend of HK\$0.015 per ordinary share, totalling HK\$9,000,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

DONATIONS

No charitable and other donations were made by the Group during the year.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

Report of the Directors

SHARE OPTION SCHEME

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 March, 2001.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law (Revised) of the Cayman Islands and the Articles of Association of the Company, share premium of the Company is distributable to the shareholders. At 31st March, 2001, in the opinion of the Directors, the Company's reserves available for distribution to shareholders comprising share premium and retained profits, amounted in total to approximately HK\$101,762,000 (2000: HK\$Nil).

THREE YEAR FINANCIAL SUMMARY

The Reorganisation referred to in note 1 to the accounts has been reflected in the three year financial summary by treating the Company as having been the holding company of the Group from the earliest period presented.

	2001	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>61,898</u>	<u>44,756</u>	<u>38,408</u>
Profit attributable to shareholders	<u>20,014</u>	<u>16,194</u>	<u>9,917</u>
Total assets	144,826	23,081	12,251
Total liabilities	(30,997)	(15,770)	(10,064)
Minority interests	<u>(447)</u>	<u>—</u>	<u>—</u>
Net assets	<u>113,382</u>	<u>7,311</u>	<u>2,187</u>

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors

Lok Wai Man (Chief Executive Officer)	(appointed on 18th May, 2000)
So Yiu King	(appointed on 18th May, 2000)
Chow Chi Ming, Daniel	(appointed on 18th May, 2000)
Tam Wing Yuen	(appointed on 18th May, 2000)
Leung Wai Cheung	(appointed on 22nd May, 2000)

Non-Executive Directors

Lo Yip Tong	(appointed on 22nd May, 2000)
-------------	-------------------------------

Independent Non-Executive Directors

Tse Lin Chung	(appointed on 22nd May, 2000)
Lee Kar Wai	(appointed on 27th November, 2000)
Mak Wing Kwong, David	(appointed on 22nd May, 2000 and resigned on 27th November, 2000)

In accordance with Article 87 of the Company's Articles of Association, So Yiu King & Chow Chi Ming, Daniel will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for an initial fixed term of two years commencing from 1st July, 2000 and which will continue thereafter until terminated by three months' notice in writing served by either party on the other.

Each of the independent Non-Executive Directors was appointed for a period of two years commencing from their appointment dates.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on page 13 to 15.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company and its holding company 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 year or at any time during the year.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st March, 2001, which do not constitute connected transactions under the Rules governing the listing of securities on the GEM of the Stock Exchange (“GEM Listing Rules”) are disclosed in note 24(i) to (iii) to the accounts.

The other related party transaction, disclosed in note 24(iv), which constitutes connected transaction under the GEM Listing Rules, required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules, is as follows:

On 1st November, 2000, SomaFlex, a wholly-owned subsidiary of the Company, entered into an agreement with Mr. Lok Wai Man (“Mr. Lok”), a director and substantial shareholder of the Company. Pursuant to the agreement, SomaFlex acquired from Mr. Lok 70% equity interest in Maya Systems Consultants Pte Ltd. (“Maya”) at a cash consideration of HK\$5 million. Upon completion of the agreement, Maya became a subsidiary of the Group.

The Directors of the Company are of the opinion that all related party transactions and connected transaction were conducted based on normal commercial terms in the normal courses of the Group’s business.

DIRECTORS’ INTERESTS IN EQUITY AND EXECUTIVES’ INTEREST IN SECURITIES

At 31st March, 2001, the interests of the Directors and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI ordinance”)), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

	Number of shares		
	Personal interests	Corporate interests	Total
Mr. Lok Wai Man (<i>note 1</i>)	4,414,000	475,500,000 (<i>note 2</i>)	479,914,000
Mr. So Yiu King (<i>note 1</i>)	2,000	3,600,000 (<i>note 2</i>)	3,602,000
Mr. Chow Chi Ming, Daniel (<i>note 1</i>)	2,000	3,600,000 (<i>note 2</i>)	3,602,000
Mr. Tam Wing Yuen (<i>note 1</i>)	Nil	3,600,000 (<i>note 2</i>)	3,600,000
Mr. Leung Wai Cheung (<i>note 1</i>)	Nil	1,000,000 (<i>note 2</i>)	1,000,000

Note:

1. Mr. Lok Wai Man, being a substantial shareholder of the Company who is 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 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. 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, Mr. Tam Wing Yuen 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 SDI ordinance, to be interested in the same 475,500,000 shares held by SomaFlex Holdings Inc.. The indirect interest of the other remaining Directors are calculation of the corresponding number of shares held by SomaFlex Holdings Inc. by reference to their respective shareholding in SomaFlex Holdings Inc..

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st March, 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

	Number of shares			Percentage of issued share capital
	Personal interests	Corporate interests	Total	
SomaFlex Holdings Inc. <i>(note 1)</i>	Nil	475,500,000 <i>(note 2)</i>	475,500,000	79.25%
Mr. Lok Wai Man <i>(note 1)</i>	4,414,000	475,500,000 <i>(note 2)</i>	479,914,000	79.99%

Note:

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. .

SPONSOR'S INTERESTS

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 of the Company (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 March, 2001, had any interest 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	55%
— five largest suppliers combined	100%

Sales

— the largest customer	8%
— five largest customers combined	17%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since listed on the GEM of the Stock Exchange.

AUDIT COMMITTEE

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 Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent Non-Executive Directors, namely Mr. Tse Lin Chung and Mr. Lee Kar Wai. Three meetings were held during the current financial year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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.

SUBSEQUENT EVENTS

Details of the subsequent events of the Group are set out in note 25 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lok Wai Man

Chairman

Hong Kong, 27th June, 2001

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF FLEXSYSTEM HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 25 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27th June, 2001

Consolidated Profit and Loss Account

For the year ended 31st March, 2001

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	3	61,898	44,756
Cost of sales		(5,771)	(5,677)
Gross profit		56,127	39,079
Other revenue	3	4,626	2
Distribution costs		(11,765)	(7,468)
Administrative expenses		(19,692)	(4,081)
Other operating expenses		(7,069)	(8,578)
Operating profit	4	22,227	18,954
Finance costs	5	(10)	—
Share of loss of a jointly controlled entity		(127)	—
Profit before taxation		22,090	18,954
Taxation	6	(1,903)	(2,760)
Profit after taxation		20,187	16,194
Minority interests		(173)	—
Profit attributable to shareholders	7	20,014	16,194
Dividends	8	18,000	11,070
Earnings per share	9	3.57 cents	3.41 cents

Consolidated Balance Sheet

As at 31st March, 2001

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Intangible assets	12	8,248	1,719
Fixed assets	13	6,607	1,621
Investment in a jointly controlled entity	15	1,122	—
Long-term investments	16	9,218	1,605
Current assets			
Inventories	17	695	—
Trade and other receivables	18	35,772	17,116
Bank balances and cash		83,164	1,020
		119,631	18,136
Current liabilities			
Trade and other payables	19	14,962	9,075
Obligations under finance leases		118	—
Taxation payable		6,917	6,695
Proposed dividends	8	9,000	—
		30,997	15,770
Net current assets		88,634	2,366
Total assets less current liabilities		113,829	7,311
Financed by:			
Share capital	20	60,000	47,550
Reserves	21	53,382	(40,239)
Shareholders' funds		113,382	7,311
Minority interests		447	—
		113,829	7,311

Lok Wai Man
Director

Leung Wai Cheung
Director

Balance Sheet

As at 31st March, 2001

	<i>Note</i>	2001 <i>HKS'000</i>
Investments in subsidiaries	14	136,963
Current assets		
Other receivables	18	1,957
Bank balances and cash		32,650
		<hr/>
		34,607
Current liabilities		
Other payables	19	808
Proposed dividends	8	9,000
		<hr/>
		9,808
		<hr/>
Net current assets		24,799
		<hr/>
Total assets less current liabilities		161,762
		<hr/>
Financed by:		
Share capital	20	60,000
Reserves	21	101,762
		<hr/>
Shareholders' funds		161,762
		<hr/>

Lok Wai Man
Director

Leung Wai Cheung
Director

Consolidated Cash Flow Statement

For the year ended 31st March, 2001

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net cash (outflow)/ inflow from operating activities	22(a)	(4,809)	15,778
Returns on investments and servicing of finance			
Interest received		4,626	2
Interest paid		(10)	—
Dividends paid		(9,000)	(11,070)
Net cash outflow from returns on investments and servicing of finance		(4,384)	(11,068)
Taxation			
Hong Kong profits tax paid		(1,770)	(78)
Overseas taxation paid		(73)	—
Total taxation paid		(1,843)	(78)
Investing activities			
Purchase of fixed assets		(5,691)	(204)
Sale of fixed assets		500	—
Payment for deferred development expenditures		(8,501)	(2,579)
Purchase of subsidiaries	22(d) & (e)	(20,580)	—
Purchase of a jointly controlled entity		(1,249)	—
Purchase of investments		(600)	(1,455)
Loan to an investee company		(2,000)	—
Net cash outflow from investing activities		(38,121)	(4,238)
Net cash (outflow)/ inflow before financing		(49,157)	394
Financing	22(b)		
Issue of ordinary shares, net of issuing expenses		131,322	—
Capital element of finance lease payments		(21)	—
Net cash inflow from financing		131,301	—
Increase in cash and cash equivalents		82,144	394
Cash and cash equivalents at 1st April		1,020	626
Cash and cash equivalents at 31st March		83,164	1,020
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		83,164	1,020

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st March, 2001

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Revaluation surplus on the leasehold property in the People's Republic of China	21	44	—
Exchange differences arising on translation of overseas subsidiaries	21	(25)	—
Net gains not recognised in the consolidated profit and loss account		19	—
Profit for the year	21	20,014	16,194
Total recognised gains		20,033	16,194
Goodwill eliminated directly against reserves	21	(7,284)	—
		(7,251)	16,194

Notes to the Accounts

1 GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) The Company was incorporated in the Cayman Islands on 8th May, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands.
- (b) Pursuant to a group reorganisation (“Reorganisation”), which was completed on 10th July, 2000, to rationalise the Group’s structure in preparation for a listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired the entire issued share capital of SomaFlex International Inc. (“SomaFlex”) through a share swap and became the holding company of SomaFlex and its subsidiaries.
- (c) The shares of the Company were listed on GEM of the Stock Exchange on 24th July, 2000.
- (d) The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice (“SSAP”) 2.127 “Accounting for group reconstructions”. The consolidated accounts of the Group for the year ended 31st March, 2001, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The accounts have been prepared under the historical convention as modified by the revaluation of the leasehold property, in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

No balance sheet of the Company as at 31st March, 2000 is presented in the accounts as the Company was not incorporated on that date.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Apart from the Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) **Consolidation** *(continued)*

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power of the issued share capital or controls the composition of the board of directors.

(b) **Jointly controlled entity**

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity.

(c) **Goodwill**

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and the jointly controlled entity acquired and is taken to reserves in the year of acquisition.

(d) **Investments**

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account. Income from investment securities is recognised when the right to receive the income is established.

(e) **Property, plant and equipment**

Leasehold properties are stated at valuation, being fair value at the date of revaluation, less subsequent accumulated depreciation. Fair value is determined by the directors based on independent valuations. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Leasehold improvements are stated at cost less accumulated depreciation. Depreciation of leasehold properties and improvements is calculated to write off their cost on a straight-line basis over the unexpired period of lease or their expected useful lives to the Group, whichever is shorter. The principal annual rate used for leasehold properties and improvements is 20%.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of fixed assets is calculated to write off their cost on a reducing balance basis over their expected useful lives to the Group. The principal annual rate used for each of the categories of fixed assets is as follows:

Plant and machinery	20%
Furniture and fixtures	20%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(f) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in current liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) **Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) **Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(i) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(j) **Revenue recognition**

Revenue from the sale of application software and hardware is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Maintenance service income is recognised over the life of the agreement on a straight-line basis. The unearned portion of the maintenance service income received is stated as deferred income in the balance sheet.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(k) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in-first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Retirement benefit costs

Before 1st December, 2000, the Hong Kong subsidiaries of the Group contributed to a defined contribution retirement schemes as defined in the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") available to all employees. The Group's contributions to the ORSO Scheme are expensed as incurred and, where applicable, are reduced by contributions forfeited by the employees who leave the scheme prior to vesting fully in the contributions.

Apart from the ORSO Scheme, the Group also contributes to other retirement schemes. The contributions are expensed as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(m) Intangible assets - research and development costs

Research and development costs are expensed as incurred, except where the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than three years to reflect the pattern in which the related economic benefits are recognised.

3 TURNOVER AND REVENUE

The Group is principally engaged in the development and sale of software and hardware products and the provision of maintenance services. Revenue recognised during the year is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover		
Sale of application software	45,735	33,800
Sale of hardware	1,373	179
Rendering of maintenance services	14,790	10,777
	<u>61,898</u>	<u>44,756</u>
Other revenue		
Interest income	4,626	2
	<u>66,524</u>	<u>44,758</u>

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Crediting		
Recovery of bad debts previously written-off	76	—
Charging		
Depreciation:		
Owned fixed assets	879	297
Leased fixed assets	33	—
Total staff costs (including the directors' emoluments)	26,380	18,870
Less amount capitalised as intangible assets	(8,501)	(2,579)
	<u>17,879</u>	<u>16,291</u>
Cost of inventories	86	—
Operating leases in respect of land and buildings	2,546	1,170
Retirement benefit costs (<i>Note 10</i>)	796	575
Auditors' remuneration	688	200
Research and development costs	4,348	1,622
Amortisation of deferred development costs (<i>Note 12</i>)	1,972	860
Loss on disposal of fixed assets	163	—
Provision for doubtful debts	799	953

5 FINANCE COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank overdrafts	9	—
Interest element of finance leases	1	—
	<u>10</u>	<u>—</u>

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. PRC income tax has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing to the enterprise in PRC.

The amount of taxation charged to the consolidated profit and loss account represents:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	1,734	2,774
PRC income tax	73	—
Under-provision in prior years	96	—
10% 1997/1998 tax rebate	—	(14)
	<hr/>	<hr/>
	<u>1,903</u>	<u>2,760</u>

There was no material unprovided deferred taxation for the year.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$890,000 (2000: HK\$Nil).

8 DIVIDENDS

An interim dividend of HK\$9,000,000 (HK1.5 cents per share) was paid during the year. The directors proposed to pay a final dividend of HK\$9,000,000 (HK1.5 cents per share) at the Annual General Meeting.

Dividends amounting to HK\$11,070,000 were paid by certain subsidiaries of the Group to its then shareholders prior to the Group's reorganisation for the year ended 31st March, 2000. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of the report.

9 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of HK\$20,014,000 (2000:HK\$16,194,000) and the weighted average of 561,287,671 (2000: 475,500,000 deemed to be issued at 31st March, 2000) ordinary shares in issue during the year. In determining the number of shares in issue, a total of 475,500,000 shares issued on establishment of the Company and on the Reorganisation of the Group as referred to in note 20 to the accounts were deemed to have been in issue since 1st April, 1999.

There is no diluted earnings per share since the Company has no dilutive potential ordinary shares.

10 RETIREMENT SCHEME

The Group contributed to a defined contribution retirement scheme for its employees in Hong Kong during the year. Contributions to the scheme by the Group are calculated at 5% of the employees' basic salaries.

The retirement benefit costs charged to the profit and loss account represent contributions payable by the Group to provident fund scheme.

Before 1st December, 2000, the Group's Hong Kong employees are members of the ORSO Scheme available to all employees. All contributions are made by the Group at 5% of the employee's basic salary. Where an employee leaves the scheme before the employer's contribution has fully vested, such forfeited contributions may be used by the employer to reduce its existing level of contributions. Forfeited contributions totalling HK\$61,000 were utilised during the year. The assets of the scheme are held separately from those of the Group in an independently administered fund. The ORSO Scheme was terminated at the end of November, 2000.

Commencing 1st December, 2000, the Group joined the Mandatory Provident Fund. Contributions are made at 5% of an employee's gross salary or HK\$1,000, whichever is lower.

The PRC subsidiary of the Company has participated in an employees' retirement scheme implemented by the Shanghai Municipal Government. Contributions are made to the scheme based on 28.5% (2000: 31.5%) of the applicable basic payroll costs.

The Singapore subsidiary of the Company has participated in the Central Provident Fund. Contributions are made at 32% of an employee's ordinary wages.

The Group has no other obligations other than the above-mentioned contributions.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	120	—
Other emoluments:		
Basic salaries, allowances, and benefits in kind	3,482	1,000
Contributions to pension scheme for directors of the Company	39	—
	<u>3,641</u>	<u>1,000</u>

For the year ended 31st March, 2000, the emoluments were paid and payable to the directors by the Company in respect of their services rendered for managing the subsidiaries.

The Executive Directors received individual emoluments for the year ended 31st March, 2001 of approximately HK\$1,560,000 (2000: HK\$920,000), HK\$540,000 (2000: HK\$Nil), HK\$539,500 (2000: HK\$80,000), HK\$520,000 (2000: HK\$Nil), and HK\$322,000 (2000: HK\$Nil) respectively.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Directors' remuneration (continued)

One Non-Executive Director received a director's fee of HK\$50,000 (2000: HK\$Nil) for the year ended 31st March, 2001. Two independent Non-Executive Directors who are also members of the Audit Committee of the Company received directors' fee of HK\$50,000 and HK\$20,000 respectively (2000: HK\$Nil) for the year ended 31st March, 2001. All Non-Executive Directors and Independent Non-Executive Directors did not receive any other emoluments.

There has been no arrangement under which a director has waived or agreed to waived any emoluments for the year ended 31st March, 2001 (2000: HK\$Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one Director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2000: four) individuals during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, allowances, and benefits in kind	2,617	2,318
Pension scheme contributions	78	70
	<u>2,695</u>	<u>2,388</u>

The number of employees whose emoluments fell within the following bands is as follows:

Emolument bands	Number of individuals	
	2001	2000
HK\$nil - HK\$1,000,000	<u>4</u>	<u>4</u>

12 INTANGIBLE ASSETS

Deferred development costs

	Group	
	2001 HK\$'000	2000 HK\$'000
At 1st April	1,719	—
Additions	8,501	2,579
Amortisation for the year	<u>(1,972)</u>	<u>(860)</u>
Net book value at 31st March	<u>8,248</u>	<u>1,719</u>

13 FIXED ASSETS

	Group					Total HK\$'000
	Leasehold property in the PRC HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	
	Cost or valuation:					
At 1st April, 2000	349	536	596	2,025	320	3,826
Additions	—	2,248	1,860	1,518	153	5,779
Acquisition of subsidiaries	—	404	716	1,389	110	2,619
Revaluation	44	—	—	—	—	44
Disposals	—	(707)	(417)	(1,537)	—	(2,661)
	<u>393</u>	<u>2,481</u>	<u>2,755</u>	<u>3,395</u>	<u>583</u>	<u>9,607</u>
At 31st March, 2001	393	2,481	2,755	3,395	583	9,607
Accumulated depreciation:						
At 1st April, 2000	41	242	477	1,289	156	2,205
Charge for the year	17	69	469	290	67	912
Acquisition of subsidiaries	—	200	509	1,139	33	1,881
Disposals	—	(424)	(416)	(1,158)	—	(1,998)
	<u>58</u>	<u>87</u>	<u>1,039</u>	<u>1,560</u>	<u>256</u>	<u>3,000</u>
At 31st March, 2001	58	87	1,039	1,560	256	3,000
Net book value:						
At 31st March, 2001	<u>335</u>	<u>2,394</u>	<u>1,716</u>	<u>1,835</u>	<u>327</u>	<u>6,607</u>
At 31st March, 2000	<u>308</u>	<u>294</u>	<u>119</u>	<u>736</u>	<u>164</u>	<u>1,621</u>
The analysis of the cost or valuation of the above assets are as follows:						
At 31st March, 2001						
At cost	—	2,481	2,755	3,395	583	9,214
At valuation	393	—	—	—	—	393
	<u>393</u>	<u>2,481</u>	<u>2,755</u>	<u>3,395</u>	<u>583</u>	<u>9,607</u>
At 31st March, 2000						
At cost	<u>349</u>	<u>536</u>	<u>596</u>	<u>2,025</u>	<u>320</u>	<u>3,826</u>

At 31st March, 2001, the net book value of fixed assets held by the Group under finance leases amounted to HK\$140,000 (2000: HK\$Nil).

The leasehold property in the PRC was revalued by an independent valuer, DTZ Debenham Tie Leung Limited, as at 31st May, 2000.

The carrying amount of the property would have been HK\$292,000 (2000: HK\$308,000) had it been stated at cost less accumulated depreciation.

14 INVESTMENTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Investments at cost:		
Unlisted shares	47,550	—
Amounts due from subsidiaries	89,413	—
	136,963	—

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms for repayment.

The following is a list of the subsidiaries at 31st March, 2001:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Effective interest held
<i>Subsidiary held directly</i>				
SomaFlex International Inc.	British Virgin Islands	Investment holding in Hong Kong	1 ordinary shares of US\$1 each	100%
<i>Subsidiaries held indirectly</i>				
FlexSystem Limited	Hong Kong	Development and distribution of FlexAccount products in Hong Kong	120,000 ordinary shares of HK\$1 each	100%
FlexSystem (Shanghai) Co. Ltd.	PRC	Development and distribution of FlexAccount products in PRC	Registered capital of US\$400,000	100%
FlexPro Limited	Hong Kong	Development and distribution of software system for manufacturing industry in Hong Kong	2 ordinary shares of HK\$1 each	100%

14 INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the subsidiaries at 31st March, 2001 (continued):

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Effective interest held
<i>Subsidiaries held indirectly (continued)</i>				
FlexSystem Software Limited	Macau	Research and development in Macau	Registered capital of MOP30,000	100%
Norray Professional Computer Limited	Hong Kong	Sales of computer equipment, computer programming, and provision of computer maintenance and tuition services in Hong Kong	200,000 ordinary shares of HK\$1 each	70%
Starwise International Computers Limited	Hong Kong	Provision of computer programming and supporting services and sales of computer equipment in Hong Kong	1,050,000 ordinary shares of HK\$1 each	100%
FlexEducation Technology Limited	Hong Kong	Development of educational software in Hong Kong	100 ordinary shares of HK\$1 each	100%
Soma Software Services Limited	Hong Kong	Provision of ASP services in Hong Kong	100 ordinary shares of HK\$1 each	100%
Millenium Magic Sdn Bhd	Malaysia	Distribution of computer software products and technology in Malaysia	2 ordinary shares of RM1 each	100%
Danfaith Limited	British Virgin Islands	Dormant	1 ordinary share of US\$1 each	100%
Mega Wise Consultants Limited	Hong Kong	Sales of computer equipment, computer programming, and provision of computer maintenance and consultation services in Hong Kong	10,000 ordinary shares of HK\$1 each	100%

14 INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the subsidiaries at 31st March, 2001 (continued):

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Effective interest held
<i>Subsidiaries held indirectly (continued)</i>				
FlexSystem Limited, Taiwan Branch	Taiwan	Sales of computer equipment, computer programming, and provision of computer maintenance and consultation services in Taiwan	Registered capital of NT\$2,500,000	100%
FlexInvestment Limited	Hong Kong	Dormant	100 ordinary shares of HK\$1 each	51%
Maya Systems Consultants Pte Limited	Singapore	Distribution of FlexAccount products in Singapore	500,000 ordinary shares of S\$1 each	70%
Net-Accounting Services Limited	Hong Kong	Provision of accounting services in Hong Kong	100 ordinary shares of HK\$1 each	90%
FlexManagement Limited	Hong Kong	Tenancy holder	2 ordinary shares of HK\$1 each	100%
FlexSystem (Australia) Pty Limited	Australia	Distribution of FlexAccount products in Australia	Registered capital of AU\$2	100%
FineStar Pacific Limited	Hong Kong	Investment holding	10,000 ordinary shares of HK\$1 each	51%
Master Regal Limited	Hong Kong	Investment holding	100 ordinary shares of HK\$1 each	60%

15 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of net assets	<u>1,122</u>	<u>—</u>

The following are the details of the jointly controlled entity at 31st March, 2001:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Interest held
DeloitteFlex e-Business	Taiwan	Development and distribution of FlexAccount products in Taiwan	Registered capital of NT\$10,000,000	50%

16 LONG-TERM INVESTMENTS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Equity securities - unlisted shares, at cost (<i>note a</i>)	1,650	1,605
Amount due from investee companies (<i>note b</i>)	7,568	—
	<u>9,218</u>	<u>1,605</u>

(a) The following is a list of investments at 31st March, 2001:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Interest held
Manpower Resource Computing Limited* ("MRC") (<i>note 25</i>)	Hong Kong	Development and distribution of payroll and human resources management system in Hong Kong	400,000 ordinary sharers of HK\$1 each	30.8%
Globe ASP Limited*	Hong Kong	Development of educational software in Hong Kong	100,000 ordinary shares of HK\$1 each	50%
Globe-IT Education Limited*	Hong Kong	Development of educational software in Hong Kong	10,000 ordinary shares of HK\$1 each	50%
FlexLink Limited*	Hong Kong	Development of educational software in Hong Kong	100,000 ordinary shares of HK\$1 each	50%
Soma Consulting Services Limited	Hong Kong	Software consulting business in Hong Kong	100 ordinary shares of HK\$1 each	15%
OM Software Development Limited	Hong Kong	Development of software in Hong Kong	100 ordinary shares of HK\$1 each	15%
Nex Concept Limited	Hong Kong	Marketing activity in Hong Kong	100 ordinary shares of HK\$1 each	15%

* Notwithstanding that the Company holds an interest in each of these investments in excess of 20%, the Company has no representation on their respective boards of directors and consequently the Directors are of opinion that the Company has no significant influence and the investments should not be accounted for as associated companies.

16 LONG-TERM INVESTMENTS *(continued)*

- (b) The amounts due from investee companies are unsecured, interest-free and with no fixed terms of repayment, in which HK\$2,000,000 was capitalised as the consideration of the shares of MRC in May 2001 (note 25).

17 INVENTORIES

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Merchandise	695	—

18 TRADE AND OTHER RECEIVABLES

	Group		Company
	2001	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Due from:			
Related companies	559	2,871	—
A director	70	5,469	—
Trade receivables	23,387	6,965	—
Prepayments and deposits	7,179	1,811	—
Advances to staff	2,001	—	—
Other receivables	2,576	—	1,957
	35,772	17,116	1,957

The amounts due from related companies and a director represent expenses paid on their behalf and are unsecured and interest free. The related companies are beneficially owned by the substantial shareholder of the Company.

19 TRADE AND OTHER PAYABLES

	Group		Company
	2001	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Due to:			
Investee companies	191	—	—
Directors	426	—	120
Trade payables	1,198	—	—
Other payables	3,109	—	—
Accruals	2,040	1,418	688
Deferred income	5,291	3,940	—
Sales deposits received	2,707	3,717	—
	<u>14,962</u>	<u>9,075</u>	<u>808</u>

The amounts due to investee companies and the directors represent expenses paid on behalf of the Group and are unsecured and interest-free.

20 SHARE CAPITAL

	2001
	HK\$'000
Authorised:	
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>
Issued and fully paid:	
600,000,000 ordinary shares of HK\$0.10 each	<u>60,000</u>

- (a) The Company was incorporated on 8th May, 2000 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each.
- (b) In preparation for the listing of the Company's shares on the Stock Exchange, the following changes in the Company's authorised and issued share capital took place:
- 1 share was allocated and issued to Codan Trust Company (Cayman) Limited as the subscriber and transferred to SomaFlex Holdings Inc. on 18th May, 2000 in consideration of HK\$0.10;
 - on 10th July, 2000, the authorised share capital of the Company was increased from HK\$380,000 to HK\$200,000,000 by the creation of an additional 1,996,200,000 new shares of HK\$0.10 each;
 - as consideration for the acquisition by the Company of the entire issued capital of SomaFlex on 10th July, 2000, currently an intermediate holding company of the Group, an aggregate of 475,499,999 shares of the Company were issued, credited as fully paid to the then shareholders of SomaFlex; and

20 SHARE CAPITAL *(continued)*

- (iv) as partial settlement of the management and advisory fee to Deloitte & Touche Corporate Finance Limited as the co-sponsor to the placing and listing of Company's shares on the GEM of the Stock Exchange, 4,500,000 shares of HK\$0.10 each of the Company were allotted and issued on 10th July, 2000 to Vandome Investments Limited, which was nominated by Deloitte & Touche Corporate Finance Limited. These shares were credited as fully paid.
- (c) On 24th July, 2000, an additional 120,000,000 shares of HK\$0.10 each were issued by way of placing at price of HK\$1.23 per share to public for cash consideration of HK\$147,600,000 and traded on the GEM of the Stock Exchange.
- (d) The share capital presented in the consolidated balance sheet as at 31st March, 2000 represents the share capital of the Company, arising on incorporation and from the share swap transaction described in notes (b) (i) and (b) (iii) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in note 1(d). The difference between the nominal value of these shares and the nominal value of shares of the subsidiaries acquired pursuant to the Reconstruction is accounted for as merger reserve as at 1st April, 1999 (note 21).

21 RESERVES

	Group					Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000	Revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	
At 1st April, 1999 (Note 20(d))	—	(47,430)	—	—	2,067	(45,363)
Profit for the year	—	—	—	—	16,194	16,194
Dividends to the then shareholders (Note 8)	—	—	—	—	(11,070)	(11,070)
At 31st March, 2000	<u>—</u>	<u>(47,430)</u>	<u>—</u>	<u>—</u>	<u>7,191</u>	<u>(40,239)</u>
Company and subsidiaries						
At 31st March, 2000	<u>—</u>	<u>(47,430)</u>	<u>—</u>	<u>—</u>	<u>7,191</u>	<u>(40,239)</u>
At 1st April, 2000	—	(47,430)	—	—	7,191	(40,239)
Premium on issue of shares (Note 20(c))	135,600	—	—	—	—	135,600
Share issue expenses	(16,728)	—	—	—	—	(16,728)
Surplus on revaluation	—	—	44	—	—	44
Goodwill arising on consolidation	(27,284)	—	—	—	—	(27,284)
Exchange differences	—	—	—	(25)	—	(25)
Dividends (Note 8)	(18,000)	—	—	—	—	(18,000)
Profit for the year	—	—	—	—	20,014	20,014
At 31st March, 2001	<u>73,588</u>	<u>(47,430)</u>	<u>44</u>	<u>(25)</u>	<u>27,205</u>	<u>53,382</u>
Company and subsidiaries	73,588	(47,430)	44	(25)	27,332	53,509
Jointly controlled entity	—	—	—	—	(127)	(127)
At 31st March, 2001	<u>73,588</u>	<u>(47,430)</u>	<u>44</u>	<u>(25)</u>	<u>27,205</u>	<u>53,382</u>

The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the Reorganisation as set out in note 1 to the accounts and the nominal value of the share capital of the Company issued in exchange thereof.

21 RESERVES (continued)

	Share premium	Company Retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Premium on issuance of new shares	135,600	—	135,600
Share issue expenses	(16,728)	—	(16,728)
Dividends (Note 8)	(18,000)	—	(18,000)
Profit for the year	—	890	890
	<u>100,872</u>	<u>890</u>	<u>101,762</u>

22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit	22,227	18,954
Depreciation	912	297
Amortisation of deferred development costs	1,972	860
Interest income	(4,626)	(2)
Loss on disposal of fixed assets	163	—
Decrease /(increase) in amount due from a director	5,399	(966)
Decrease /(increase) in amounts due from related companies	2,312	(665)
Increase in amounts due from investee companies	(5,568)	—
Increase in inventories	(66)	—
Increase in trade and other receivables	(24,255)	(1,803)
Increase /(decrease) in trade and other payables, accruals, deferred income and sales deposits received	1,732	(897)
Increase in amounts due to investee companies	191	—
Decrease in amounts due to directors	(5,202)	—
Net cash (outflow) / inflow from operating activities	<u>(4,809)</u>	<u>15,778</u>

22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including				Loans and obligations	
	share premium		Minority interests		under finance leases	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April	47,550	47,550	—	—	—	—
Issue of ordinary shares	148,050	—	—	—	—	—
Share issue expenses	(16,728)	—	—	—	—	—
Goodwill written off	(27,284)	—	—	—	—	—
Dividends	(18,000)	—	—	—	—	—
Minority interests in share of profits and exchange reserves	—	—	173	—	—	—
Minority share of net assets of subsidiaries	—	—	274	—	—	—
Loans and obligations under finance leases of subsidiaries acquired	—	—	—	—	51	—
Inception of finance leases	—	—	—	—	88	—
Payment of capital element of finance leases	—	—	—	—	(21)	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st March	<u>133,588</u>	<u>47,550</u>	<u>447</u>	<u>—</u>	<u>118</u>	<u>—</u>

(c) Major non-cash transactions

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$88,000 (2000:HK\$Nil).

22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Purchase of subsidiaries

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets acquired		
Fixed assets	738	—
Inventories	629	—
Trade and other receivables	2,137	—
Bank balances and cash	4,288	—
Amounts due to directors	(5,628)	—
Trade and other payables	(1,038)	—
Obligations under finance leases	(51)	—
Taxation payables	(162)	—
Minority interests	(274)	—
	<hr/>	<hr/>
	639	—
Goodwill set off against share premium account	27,284	—
	<hr/>	<hr/>
	27,923	—
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by		
Investment cost (<i>note i</i>)	555	—
Consideration payable	2,500	—
Cash	24,868	—
	<hr/>	<hr/>
	27,923	—
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (i) During the year, the Group acquired an additional interests of 70% of an associated company, which then became a wholly owned subsidiary at the year ended 31st March, 2001.
- (ii) The subsidiaries acquired during the year contributed HK\$3,958,000 (2000:HK\$Nil) to the Group's net operating cash outflow, paid HK\$Nil (2000: HK\$Nil) in respect of the net returns on investments and servicing of finance, tax refund of HK\$1,000 (2000: HK\$Nil) and paid HK\$148,000 (2000:HK\$Nil) for investing activities.

22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Analysis of the net outflow in respect of the purchase of subsidiaries:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash consideration	24,868	—
Bank balances and cash in hand acquired	(4,288)	—
	<hr/>	<hr/>
Net cash outflow in respect of the purchase of subsidiaries	20,580	—
	<hr/> <hr/>	<hr/> <hr/>

23 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments under operating leases

(i) At 31st March, 2001, the Group had commitments to make payments in the next twelve months under operating leases which expire as follows:

	Group	
	2001 Land and buildings <i>HK\$'000</i>	2000 Land and buildings <i>HK\$'000</i>
Within one year	3,748	170
In the second to fifth year inclusive	3,704	—
	<hr/>	<hr/>
	7,452	170
	<hr/> <hr/>	<hr/> <hr/>

(ii) The monthly license fee payable under the license agreement made for the remaining and unexpired term is HK\$Nil (2000: HK\$82,000).

(b) At 31st March, 2001, the Company had no capital commitment and commitment under operating leases.

(c) At 31st March, 2001, the Group had no contingent liabilities.

24 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in this report, the following significant related party transactions have been entered into by the Group during the year:

		Group	
		2001	2000
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Sales to FlexCorp Limited	(i)	—	4,347
Property rental, management fees and related expenses paid to Oriental Palace Limited (“Oriental Palace”)	(ii)	—	817
Software royalty expenses paid to MRC	(iii)	528	—
Commission paid to Globe ASP Limited	(iii)	171	—
Purchase of subsidiary from a director and a substantial shareholder of the Company	(iv)	<u>5,000</u>	<u>—</u>

- (i) Mr. Lok Wai Man and Mr. So Yiu King, both directors and shareholders of the Company, each has a 45% interest in FlexCorp Limited. The sales made to FlexCorp Limited are conducted in normal course of business at prices and terms comparable with those charged to and contracted with independent third party customers of the Group.
- (ii) A license agreement granting the Group the exclusive rights and occupation in relation to the offices of the Group in Hong Kong was made on 7th July, 2000 between FlexSystem Limited and Oriental Palace. The license agreement is for the remaining and unexpired term of the respective tenancy agreements between Oriental Palace as tenant and an independent third party as landlord in relation to the offices mentioned above. Mr. Lok Wai Man and Mr. So Yiu King, directors and shareholders of the Company, each has a 50% interest in Oriental Palace. The rental, management fees and related expenses reimbursed to Oriental Palace are the same as that charged by the landlord of the premises to Oriental Palace.
- (iii) The Group held 30.8% interest in MRC and 50% interest in Globe ASP Ltd respectively. The transactions are conducted in normal course of business at prices and terms comparable with those charged to and contracted with independent third party customers of the Group.
- (iv) On 1st November, 2000, SomaFlex entered into an agreement with Mr. Lok Wai Man, a director and substantial shareholder of the Company, to acquire 70% equity interest in Maya Systems Consultants Pte Ltd. (“Maya”) at HK\$5 million. The consideration paid represents 70% of the net asset value of Maya at the date of agreement. Upon the completion of the agreement, Maya became a subsidiary of the Group.

25 SUBSEQUENT EVENTS

The Group acquired additional shares of MRC, upon its listing on the GEM of the Stock Exchange in June 2001. The considerations of the shares was HK\$2,000,000 which was satisfied by capitalising a loan owed to the Group. The Group held 29.9% interests of MRC after the completion of the placing of shares, by MRC in June 2001.

26 ULTIMATE HOLDING COMPANY

The directors regard SomaFlex Holdings Inc., a company incorporated in the British Virgin Islands, as being the ultimate holding company.

27 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 27th June, 2001.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Members of FlexSystem Holdings Limited (“the Company”) will be held at 12/F., North Block, Skyway House, No. 3 Sham Mong Road, Tai Kok Tsui, Kowloon, Hong Kong on Wednesday, 25th July, 2001 at 4:00 p.m. for the following purposes:-

- 1 To receive and consider the audited consolidated financial statements and the reports of the Directors and the Auditors for the financial year ended 31st March, 2001;
- 2 To declare a final dividend;
- 3 To re-elect Directors;
- 4 To re-appoint Auditors and to authorise the Directors to fix their remuneration;
- 5 To consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:-

THAT:

- (a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the grant or exercise of options under any share option scheme adopted by the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants or securities of the Company which carry rights to subscribe for are convertible into shares of the Company, shall not exceed the aggregate of:
 - (i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
 - (ii) (if the Directors are so authorised by a separate ordinary resolution of the shareholders or the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution)

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purpose of this Resolution:-

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:-

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, or any other applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.

“Right Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, and jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company).

6 THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the date of the passing of the Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;

Notice of Annual General Meeting

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, or any other applicable law of Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.

7 **THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution No. 5 set out in the notice convening this meeting in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.

By Order of the Board
LEUNG Wai Cheung
Company Secretary

Hong Kong, 27th June, 2001

Registered office:

P.O. Box 2681

Zephyr House

George Town

Grand Cayman

British West Indies

Head office and principal place of business:-

12/F., North Block

Skyway House

No. 3 Sham Mong Road

Tai Kok Tsui

Kowloon

Hong Kong

Notes:

- (a) The Register of Members will be closed from Friday, 20th July, 2001 to Wednesday, 25th July, 2001 (both days inclusive), during which period no transfer of shares can be registered.
- (b) All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not later than 4:00 p.m. on Thursday, 19th July, 2001.
- (c) A Member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a Member of the Company.
- (d) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's principal office at 12/F., North Block, Skyway House, No. 3 Sham Mong Road, Tai Kok Tsui, Kowloon, Hong Kong not less than 48 hours before the time for holding the Meeting.
- (e) An explanatory statement containing further details regarding Resolutions 5 to 7 above will be sent to shareholders together with the 2001 Annual Report.