



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report 2002



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.

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Corporate Information

EXECUTIVE DIRECTORS

Lok Wai Man (Chief Executive Officer)
So Yiu King
Chow Chi Ming, Daniel
Tam Wing Yuen (resigned on 21 August, 2001)
Leung Wai Cheung

NON-EXECUTIVE DIRECTORS

Lo Yip Tong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tse Lin Chung
Lee Kar Wai

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

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 G.T
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
Shops 1712-1716
17/F., Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

BUSINESS REVIEW

This is the second fiscal year since the Group has been successfully listed its shares on GEM and the overall economic condition remains a difficult one. Although some market observers declare the global recession is coming to an end, with which business will begin to recover, the computer industry market is far from getting back on its feet and the demand of enterprise software has not improved much. In fact, the Group is being challenged with a decrease in turnover as compared with that of last year.

DEPLOYING RESOURCES IN RESEARCH AND DEVELOPMENT

Despite the decrease in turnover, the Group persists in its research and development investment, which covers many areas, including operating system study, enhancement in programming skill and new system framework researching. The Group believes that new and improved technology always leads to operation efficiency and at the same time decreasing development cost. In addition, the Group can leverage on its research and development result to expand the Group's products horizontally and vertically, as well as offer value-added services to meet the variety of customer needs. In order to provide the growth in shareholders' wealth in future, developing resources in research and development is a key success factor.

THE NON-RECURRING WRITE-OFFS IN THIS YEAR

The Group incurred a loss attributable to shareholders of approximately HK\$67 million for the year ended 31 March, 2002, mainly due to the following non-recurring write-offs and provision made.

HK\$' million

Impairment charge for goodwill previously written off to reserves	25
Impairment charge for long-term investments	12
Provision for amounts due from investee companies	13

These write-offs and provision were made as a result of the unsatisfactory performance of the investee companies. The board of Directors is projecting a continuous loss-making or unfavourable performance for these investee companies and consider prudent to make a one-time write-offs/provision for these investments and advances made. However, these write-offs and provision have not affected the liquidity position of the Group and the Group still remains a debt free capital structure.

FINAL DIVIDEND

The board of Directors recommends a final dividend payment of HK\$0.010 per share for the year ended 31 March, 2002 subject to approval by our shareholders at the Annual General Meeting.

Chairman's Statement

OUTLOOK

The computer industry is still undergoing a slow recovery as the market's IT expenditure remains stumped. The shortage in demand means a more competitive environment. In general, the market players have to go an extra mile for its customers. In short, the one who succeeds in utilising the best technology, best business know-how, best services and best price will be the one who continues to stand up in the market.

The Group continues its enterprise solutions business, with additional sales and marketing effort for its flagship accounting products and some vertical market solutions. In the near term, the Group has scheduled to launch the next generation enterprise computing solutions and decision-making tools in late 2002.

While the Group continues its overseas expedition, the Greater China region has become the focal point. Most importantly, the Group makes special effort to ensure that the regional offices are always running at optimum efficiency to pursue business opportunities with a controlled operating cost.

Finally, the Group attaches utmost importance in maintaining its competitiveness via technology advancement. The Group will invest in areas which promise satisfactory return and will benefit the Group in the long-run. The areas include enhancing products' functionalities; developing new applications; raising programming efficiency and lowering production cost.

The Group believes that new business opportunities will open up in Asia once the economy finds its way back to stability and the Group has been equipped with all the market edges at that time.

People are always the key component 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 year.

Lok Wai Man

Chairman

Hong Kong, 25 June, 2002

Management Discussion and Analysis

FINANCIAL REVIEW

During the year ended 31 March, 2002, turnover of approximately HK\$56 million and the loss attributable to shareholders of approximately HK\$67 million was recorded. The decrease in turnover of 9.2% as compared with the corresponding period last year was principally due to the economic conditions pertaining to the IT industry. Our group still maintains a non gearing capital structure.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 March, 2002, the shareholders' funds of the Group amounted to approximately HK\$66 million. Current assets amounted to approximately HK\$72 million, of which approximately HK\$50.8 million were cash and bank deposits and approximately HK\$21.6 million were debtors, deposits, prepayments and inventory. Its current liabilities amounted to approximately HK\$20 million, mainly comprise of creditors, accruals and deposits received and taxation payable amounted to approximately HK\$13 million and HK\$7 million respectively. The net asset value per share was HK\$0.11. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 31 March, 2002, the Group did not have any borrowings and long-term debts. The liquidity ratio of the Group, represented by a ratio of current assets over current liabilities, was 3.7:1 (2001: 5.4:1), reflecting the adequacy of financial resources.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year ended 31 March, 2002, the Group experienced only immaterial exchange rate fluctuations as most of the Group's monetary assets and liabilities were denominated in Hong Kong Dollars and the Group conducted its business transactions principally in this type of currency. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 March, 2002, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 31 March, 2002, the Group had no material investment.

CAPITAL COMMITMENTS

As at the two years ended 31 March, 2002, the Group had no future plans for material investment.

CONTINGENT LIABILITIES

As at the two years ended 31 March, 2002, the Group had no material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 31 March, 2002, the Group had no charges on the Group's assets.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March, 2002, the Group had 212 employees. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include share option scheme, contributions to statutory mandatory provident fund scheme and medical scheme to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

BUSINESS DEVELOPMENT

This is the second fiscal year since the Group's shares are listed on GEM and the overall economic condition remains a difficult one. Although some market observers declare the global recession is coming to an end, the IT market is far from getting back on its feet and the demand of enterprise solutions has not improved to a significant extent.

Under such market conditions, the Group is also affected with a decrease in sales revenue. The Group regards this as being one of the obstacles that one inevitably run into as the local commercial sector reduces IT spending along with the economic downturn over an extended period of time. In view of this, the Group has implemented different measures to monitor and control its operation cost. Nonetheless, the Group continues to deploy resources in R&D, which will bring promising return in the long run.

The Group has re-assessed its Asian Pacific business strategy to cope with the economic hardship. Geographically, the Group has put more weight on its primary markets, namely Hong Kong, the PRC and Taiwan, where the Group has a well-established market position. Overseas operations have been restructured and consolidated accordingly to provide regional sales and support in a more cost effective manner. In term of product offering, the Group's flagship product — FlexAccount Financial Management Suite — will continue being highlighted, which helps the Group to fortify its market share and maintain a steady income.

Despite a decrease in turnover, the Group persists in its R&D investment, which covers many areas, including operating system study, enhancement in programming skill and researching new system framework. The Group believes that new and improved technology always lead to operation efficiency and at the same time lowering development overhead. In addition, the Group is leveraging on its R&D result to expand the Group's products horizontally and vertically, and to offer value-added services to meet the variety of customer needs.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Comparison of use of proceeds

	Amount to be used up to 31 March, 2002 as disclosed in the prospectus dated 18 July, 2000	Actual amount used
<i>(in HK\$ million)</i>		
Strategic acquisition and investment	30.0	30.0
Geographic expansion	19.0	13.8
Research and development	18.0	13.2
ASP Business	17.0	2.5
Marketing and promotional activities	7.5	5.7
	<hr/>	<hr/>
Total	91.5	65.2
	<hr/> <hr/>	<hr/> <hr/>

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

The unused proceeds have been placed into bank accounts of the Group maintained in the licensed banks in Hong Kong.

Comparison of Business Objectives with Actual Business Progress

RESEARCH AND DEVELOPMENT

Product Development

Objective: Develop the next generation FlexAccount products

Actual: Development of the next generation FlexAccount products, including FlexAccount Ver 10 and FION Ver 3.0 is on schedule, and have been scheduled to be launched in late 2002.

Objective: Enhance the functionality such as data mining, reporting, user's interactive of FlexAccount products

Actual: The Group continues enhancing FlexSystem Solutions' functionality. The Group's latest product enhancement includes the embedding of a data visualization and decision-making tool onto its Enterprise Solution Suite.

Objective: Develop application for the catering and hotel industry

Actual: After detail studies of the catering and hotel industry within the region and evaluating the return on investment against the development cost, the Group has concluded that the return would be less than desirable and has held up the development plan for the time being and until the market sector of this industry has been recovered.

Objective: Develop application to handle time billing and job costing

Actual: The Group starts to evaluate the development of this system at an initial stage.

Objective: Develop Linux application for FlexAccount products

Actual: The Group has conducted a preliminary study regarding the Linux based business application market and concluded that the market is not yet ready for this product. The Group will have the development plan pending for the time being and until the market sector of this industry has been recovered.

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

Actual: The Group had restructured its operations in Malaysia and Singapore, its subsidiaries in Singapore and Malaysia acts as the representative offices within the region, to provide sales, localization and support services to the customers. The localisation of the product had been completed.

Comparison of Business Objectives with Actual Business Progress

Research

Objective: To research and implement new technology, such as component based business logic program, on FlexAccount products

Actual: New technologies including Microsoft.net framework are used to build a workflow solution and a web-based ERP suite. The new technology enhances the performance of FlexSystem products, while significantly reduces the development cost.

Objective: Develop solutions to enable wireless application on platforms such as WAP

Actual: The Internet based wireless distribution and logistics system, and a wireless stock audit management solution have been completed and launched in this year. The Group conducts feasibility studies on the new wireless application system on the education software.

Objective: To develop new Internet enabling technologies for deployment on the next generation of Soma*AI

Actual: The Group is working on a new version of its Soma*AI. The final product will be an ultra-thin client framework with the most advance server memory cache management algorithm and it is expected that the development will be completed by the end of this year.

Objective: To enhance the functionality of FlexAccount Data Center

Actual: The company has invested intensively on new application framework, such as an ultra-thin client technology that enhances the application servers' performance and scalability.

Objective: To research and implement new technology such as multi-lingual Internet Application Browsers, high speed Internet communication algorithm and high speed data encrypting algorithm for ASP business

Actual: The Group is working on its ultra-thin client technology and will utilize this new technology on its ASP business as the application server will be running more effectively.

Objective: To develop the next generation of Soma*AI

Actual: To perform the development of the next generation of Soma*AI at an initial stage.

Comparison of Business Objectives with Actual Business Progress

ASP BUSINESS

PRC

Objective: Recruit business partners in various major cities in the PRC for the ASP business

Actual: The Group has restructured its PRC business and has put additional efforts on direct sales and marketing activities. The Group has suspended recruiting business partner at this stage as it is difficult to successfully recruit more business partners.

Objective: Set-up and establish 5-10 call centres for its ASP clients in the PRC

Actual: Since a majority of the ASP business are conducted in the Enterprise Data Center Model, and maintained by the corporate customers themselves, the Group has slowed down the plan of setting up call centres at this stage and will be resumed until the setting up of call centers is feasible.

Hong Kong

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

Actual: The Group will continue the sales and marketing activities relating to the FlexAccount Enterprise Server Edition to FlexSystem's existing corporate users via direct sales approaches.

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

Actual: The Group has restructured its ASP business and has put more emphasis on direct sales and marketing activities. The Group has ceased recruiting business partner at this stage and will be resumed until the market sentiment is being recovered.

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

Actual: The Group will continue its joint effort with MRC Holdings Ltd. (Stock Code: 8070) to develop and market the next generation human resources management/ MPF solution.

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

Actual: In view of the severe competition, the Group has suspended its investment on the on-line stock brokerage system development, thus ceased recruiting business partner at this stage and will resumed until the on-line stock trading system is profitable.

Other Asia Pacific markets

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

Actual: The Group has restructured its ASP business and has put more emphasis on the solution sales business. The Group has put relatively less resources on its ASP business in Taiwan and Japan.

Objective: To recruit business partners in Japan for the ASP business

Actual: The Group is looking for the recruitment of business partners in Japan and did not succeed at this stage and will continue until the market sector has been recovered.

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

Actual: The Group has restructured its Asia Pacific market, and put focus on the Greater China region and will adopt a more direct sales and marketing approach. The Group has suspended all recruitment of business partner activities in the area and will be resumed until the business sector in Asian market is recovered.

ENTERPRISE APPLICATION BUSINESS

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

Actual: The Group will continue its direct marketing and Internet-based marketing approach to introduce FlexSystem products to the overseas markets through the regional offices.

Objective: To launch and promote new generation of the FlexAccount Financial Management System and FION

Actual: The development of a new generation FlexAccount Financial Management System and FION is almost finished and the Group has begun its market evaluation and positioning. The Group has scheduled the launch of the products in late 2002.

Objective: To launch and promote the localised version of FlexAccount products in Japan

Actual: The Group is still in the process of conducting feasibility studies for the Japanese Market as the market is still not recovered.

Comparison of Business Objectives with Actual Business Progress

RESOURCES DEPLOYMENT

Objective: To expand research and development team:

PRC	20 staff
Macau	10 staff
Malaysia	10 staff

Actual: In view of the cost effectiveness of its operation, the Group has devoted resources to the R&D team base in Macau and PRC, whose primary task is to assist the Hong Kong R&D team to develop new product with great market value. The development staff in PRC, Hong Kong and Macau have been increased to 24, 45 and 7 respectively. In view of the cost and benefit analysis, the Group slow-downs the development term in Malaysia.

The Directors consider that there is no disclosure considered necessary for the purpose of Rule 17.25. The Directors are of the view that though there are certain adjustments to the business plan of the Group in light of the market conditions, the Group's core business has not been changed and the focused line of business of the Group remains as the development and sale of enterprise software products in Hong Kong, the PRC and other Asian countries, as stated in the prospectus.

Biographical Information of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Lok Wai Man, aged 42, 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 41, 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 37, 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. Leung Wai Cheung, aged 37, 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.

Biographical Information of Directors and Senior Management

DIRECTORS *(continued)*

Non-Executive Director

Mr. Lo Yip Tong, aged 45, 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 41, 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 53, is the financial operation director for Kanghong Digital Image (HK) Ltd.. He was previously the company secretary and regional finance controller 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 37, 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 38, is the senior vice president of the Group. He is responsible for its overall business development & ASP business 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, Terrence, aged 36, 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 38, 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 32, 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 report together with the audited accounts for the year ended 31 March, 2002.

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, the People's Republic of China and other Asia Pacific countries.

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

	Turnover		Contribution to (loss)/profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<i>Principal activities:</i>				
Software	35,758	45,735	(9,862)	14,193
Services	18,024	14,790	2,643	6,980
Other operations	2,416	1,373	(895)	68
	<u>56,198</u>	<u>61,898</u>	<u>(8,114)</u>	<u>21,241</u>
Other expenses			(8,756)	(3,640)
Interest income			1,974	4,626
Dividend income			299	—
Operating (loss)/profit			<u>(14,597)</u>	<u>22,227</u>
	Turnover		Contribution to (loss)/profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<i>Principal markets:</i>				
Hong Kong	47,092	54,209	(1,748)	22,336
People's Republic of China (the "PRC")	7,183	5,296	(3,053)	325
Others	1,923	2,393	(3,313)	(1,420)
	<u>56,198</u>	<u>61,898</u>	<u>(8,114)</u>	<u>21,241</u>
Other expenses			(8,756)	(3,640)
Interest income			1,974	4,626
Dividend income			299	—
Operating (loss)/profit			<u>(14,597)</u>	<u>22,227</u>

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 24.

The Directors have declared an interim dividend of HK\$0.010 per ordinary share, totalling HK\$6,000,000, which was paid on 12 November, 2001.

The Directors recommend the payment of a final dividend of HK\$0.010 per ordinary share, totalling HK\$6,000,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

DONATIONS

No charitable and other donations is made by the Group during the year. (2001: nil)

FIXED ASSETS

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

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law (2000 Revised) of the Cayman Islands and the Articles of Association of the Company, share premium of the Company is distributable to the shareholders. At 31 March, 2002, 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\$94,455,000 (2001 restated: HK\$110,762,000).

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group of the past four financial years is set out below.

	2002	2001	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>56,198</u>	<u>61,898</u>	<u>44,756</u>	<u>38,408</u>
(Loss)/profit attributable to shareholders	<u>(66,724)</u>	<u>20,014</u>	<u>16,194</u>	<u>9,917</u>
Total assets	86,960	144,826	23,081	12,251
Total liabilities	(19,812)	(21,997)	(15,770)	(10,064)
Minority interests	<u>(1,197)</u>	<u>(447)</u>	<u>—</u>	<u>—</u>
Net assets	<u>65,951</u>	<u>122,382</u>	<u>7,311</u>	<u>2,187</u>

Report of the Directors

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.

OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

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

No share options were granted by the Company during the year ended 31 March, 2002.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors

Lok Wai Man (Chief Executive Officer)

So Yiu King

Chow Chi Ming, Daniel

Tam Wing Yuen

(resigned on 21 August, 2001)

Leung Wai Cheung

Non-Executive Directors

Lo Yip Tong

Independent Non-Executive Directors

Tse Lin Chung

Lee Kar Wai

In accordance with Article 87 of the Company's Articles of Association, So Yiu King and 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 1 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 on their appointment date.

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, its subsidiaries or 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 31 March, 2002, which do not constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") are disclosed in note 26 to the accounts.

The Directors of the Company are of the opinion that all related party transactions 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 31 March, 2002, the interests of the Directors and Chief Executives 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:

	Personal interests	Number of shares Corporate interests	Total
Mr. Lok Wai Man (<i>note 1</i>)	3,414,000	475,500,000 (<i>note 2</i>)	478,914,000
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. Leung Wai Cheung (<i>note 1</i>)	Nil	1,000,000 (<i>note 2</i>)	1,000,000

Notes:

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 Ching Ming, Daniel, 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. ("SHI"), a private company beneficially owned by Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, and Mr. Leung Wai Cheung. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holdings Inc., he is deemed, by virtue of the 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..

Save as disclosed above, as at 31 March, 2002, none of the Directors, chief executive of the Company or their associates had any interests in, or had been granted, or exercised, any rights to subscribe for any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 March, 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

	<u>Number of shares</u>			Percentage of issued share capital
	<u>Personal interests</u>	<u>Corporate interests</u>	<u>Total</u>	
SHI (note 1)	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (note 2)	3,414,000	475,500,000	478,914,000	79.82%

Notes:

1. SHI is beneficially owned as to 98.27% by Mr. Lok Wai Man, 0.76 % by Mr. So Yiu King, 0.76% by Mr. Chow Chi Ming, Daniel, and 0.21% by Mr. Leung Wai Cheung.
2. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holding Inc., he is deemed, by virtue of the SDI Ordinance, to be interested in the same 475,500,000 shares held by SomaFlex Holding Inc..

SPONSOR'S INTERESTS

DBS Asia Capital Limited (the "Sponsor") has been appointed as the continuing sponsor to the Company. Pursuant to the appointment, 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 31 March, 2003.

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

Saved as disclosed above, neither the Sponsor nor its Directors or employees or associates, as at 31 March, 2002, 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.

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	30%
— five largest suppliers combined	74%

Sales

— the largest customer	2%
— five largest customers combined	8%

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 of Hong Kong Limited.

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year 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.

Report of the Directors

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, 25 June, 2002



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 24 to 61 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 of the Group as at 31 March, 2002 and of the loss 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, 25 June, 2002

Consolidated Profit and Loss Account

For the year ended 31 March, 2002

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	3	56,198	61,898
Cost of sales		(9,853)	(5,771)
Gross profit		46,345	56,127
Other revenues	3	2,273	4,626
Distribution costs		(11,806)	(11,765)
Administrative expenses		(35,153)	(19,692)
Other operating expenses		(16,256)	(7,069)
Operating (loss)/profit	4	(14,597)	22,227
Finance costs	5	(17)	(10)
Impairment charge for goodwill previously written off to reserves	23	(25,367)	—
Impairment charge for goodwill arising in current year	12	(1,566)	—
Impairment charge for long-term investments	17	(11,503)	—
Provision for amounts due from investee companies	17	(12,818)	—
Share of loss of a jointly controlled entity		(639)	(127)
Share of loss of an associated company		(585)	—
(Loss)/profit before taxation		(67,092)	22,090
Taxation	6	(111)	(1,903)
(Loss)/profit after taxation		(67,203)	20,187
Minority interests		479	(173)
(Loss)/profit attributable to shareholders	7	(66,724)	20,014
Dividends	8	12,000	18,000
(Loss)/earnings per share	9	(11.12) cents	3.57 cents

Consolidated Balance Sheet

As at 31 March, 2002

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Intangible assets	12	2,341	8,248
Fixed assets	13	5,799	6,607
Investment in a jointly controlled entity	15	520	1,122
Investment in an associated company	16	—	—
Long-term investments	17	4,525	9,218
Other investments	18	1,403	—
Current assets			
Inventories	19	702	695
Trade and other receivables	20	20,856	35,772
Bank balances and cash		50,814	83,164
		<u>72,372</u>	<u>119,631</u>
Current liabilities			
Trade and other payables	21	12,951	14,962
Obligations under finance leases		—	118
Taxation payable		6,861	6,917
		<u>19,812</u>	<u>21,997</u>
Net current assets		<u>52,560</u>	<u>97,634</u>
Total assets less current liabilities		<u>67,148</u>	<u>122,829</u>
Financed by:			
Share capital	22	60,000	60,000
Reserves	23	5,951	62,382
Shareholders' funds		65,951	122,382
Minority interests		1,197	447
		<u>67,148</u>	<u>122,829</u>

Lok Wai Man

Director

Leung Wai Cheung

Director

Balance Sheet

As at 31 March, 2002

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Investments in subsidiaries	14	143,402	136,963
Other investments	18	1,403	—
Current assets			
Other receivables		—	1,957
Bank balances and cash		10,500	32,650
		<u>10,500</u>	<u>34,607</u>
Current liabilities			
Other payables	21	850	808
		<u>850</u>	<u>808</u>
Net current assets		<u>9,650</u>	<u>33,799</u>
Total assets less current liabilities		<u>154,455</u>	<u>170,762</u>
Financed by:			
Share capital	22	60,000	60,000
Reserves	23	94,455	110,762
Shareholders' funds		<u>154,455</u>	<u>170,762</u>

Lok Wai Man
Director

Leung Wai Cheung
Director

Consolidated Cash Flow Statement

For the year ended 31 March, 2002

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	24(a)	5,416	(4,809)
Returns on investments and servicing of finance			
Interest received		1,974	4,626
Dividend received		299	—
Interest paid		(17)	(10)
Dividends paid		(15,000)	(9,000)
Net cash outflow from returns on investments and servicing of finance		(12,744)	(4,384)
Taxation			
Hong Kong profits tax paid		(10)	(1,770)
Overseas taxation paid		(157)	(73)
Total taxation paid		(167)	(1,843)
Investing activities			
Purchase of fixed assets		(1,291)	(5,691)
Sale of fixed assets		278	500
Payment for deferred development costs		(1,228)	(8,501)
Purchase of subsidiaries	24(e)	247	(20,580)
Purchase of a jointly controlled entity		—	(1,249)
Purchase of investment securities		(1,957)	—
Investment in an associated company		(1,158)	—
Purchase of investments		(19,628)	(600)
Loan to an investee company		—	(2,000)
Net cash outflow from investing activities		(24,737)	(38,121)
Net cash outflow before financing		(32,232)	(49,157)
Financing	24(b)		
Issue of ordinary shares, net of issuing expenses		—	131,322
Capital element of finance lease payments		(118)	(21)
Net cash (outflow)/ inflow from financing		(118)	131,301
(Decrease)/increase in cash and cash equivalents		(32,350)	82,144
Cash and cash equivalents at 1 April		83,164	1,020
Cash and cash equivalents at 31 March		50,814	83,164
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		50,814	83,164

Consolidated Statement of Recognised Gains And Losses

For the year ended 31 March, 2002

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Revaluation surplus on the leasehold property in the People's Republic of China		—	44
Exchange differences arising on translation of overseas subsidiaries	23	<u>(30)</u>	<u>(25)</u>
Net (losses)/gains not recognised in the consolidated profit and loss account		(30)	19
(Loss)/profit for the year	23	(66,724)	20,014
Less: Realisation of revaluation reserve upon disposal of properties to the profit and loss account		<u>(44)</u>	<u>—</u>
Total recognised (losses)/gains		(66,798)	20,033
Goodwill eliminated directly against reserves		<u>—</u>	<u>(27,284)</u>
		<u>(66,798)</u>	<u>(7,251)</u>

1 GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) The Company was incorporated in the Cayman Islands on 8 May, 2000 as an exempted company with limited liability under the Companies Law (2000 Revised) of the Cayman Islands.
- (b) Pursuant to a group reorganisation (“Reorganisation”), which was completed on 10 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 24 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 31 March, 2002, 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 in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain property and investments in securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1 January, 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1 July, 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

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 31 March. Subsidiaries are those entities in which the Group controls the composition of the board of Directors, controls more than half the voting power or holds more than half of the issued share capital.

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 for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(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 and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(c) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) **Associated company** *(continued)*

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(d) **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 and accumulated impairment losses. Depreciation is calculated to write off their cost on a straight-line basis over the unexpired period of the lease.

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation 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.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) **Assets under leases**

(i) *Finance lease*

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 lease 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 balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term 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.

(f) **Intangible assets**

(i) *Goodwill*

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries/jointly controlled entity/associated company at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 April, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1 April, 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 April, 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) **Intangible assets** *(continued)*

(ii) *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. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(g) **Investment securities**

(i) *Long-term investments*

Long-term investments are stated at cost less any provision for impairment losses.

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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) **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)*

(i) **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.

(j) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(k) **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) **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.

(m) **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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)***(n) Revenue recognition**

Revenue from the sale of enterprise software and hardware products 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.

Dividend income is recognised when the right to receive payment is established.

(o) Retirement benefit costs

The Group's contributions to the Hong Kong Mandatory Provident Fund ("MPF") scheme are expensed as incurred and reduced by the Group's voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

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

(p) Dividends

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 23, this change has resulted in an increase in opening reserves at 1 April, 2001 by HK\$9,000,000 which is the reversal of the provision for 2001 proposed final dividend previously recorded as a liability as at 31 March, 2001 although not declared until after the balance sheet date.

Notes to the Accounts

3 TURNOVER, REVENUES AND SEGMENT INFORMATION

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

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Software	35,758	45,735
Services	18,024	14,790
Other operations	2,416	1,373
	56,198	61,898
Other revenues		
Interest income	1,974	4,626
Dividend income	299	—
Total revenues	58,471	66,524

Primary reporting format – business segments

The Group is organised into two main business segments:

- Software – sale of enterprise software
- Services – rendering of maintenance services

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

There are no sales or other transactions between the business segments.

Secondary reporting format – geographical segments

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

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments

	Software 2002 HK\$'000	Services 2002 HK\$'000	Other operations 2002 HK\$'000	Group 2002 HK\$'000
Turnover	<u>35,758</u>	<u>18,024</u>	<u>2,416</u>	<u>56,198</u>
Segment results	<u>(9,862)</u>	<u>2,643</u>	<u>(895)</u>	(8,114)
Unallocated				<u>(6,483)</u>
Operating loss				(14,597)
Finance costs				(17)
Impairment charge for goodwill previously written off to reserves				(25,367)
Impairment charge for goodwill arising in current year				(1,566)
Impairment charge for long-term investments				(11,503)
Provision for amounts due from investee companies				(12,818)
Share of loss of				
a jointly controlled entity	(639)	—	—	(639)
an associated company	(585)	—	—	(585)
Loss before taxation				(67,092)
Taxation				(111)
Loss after taxation				(67,203)
Minority interests				479
Loss attributable to shareholders				<u>(66,724)</u>

Notes to the Accounts

3 TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments *(continued)*

	Software	Services	Other	Group
	2002	2002	operations	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2002</i>	<i>2002</i>
			<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	2,341	—	702	3,043
Investment in a jointly controlled entity	520	—	—	520
Unallocated assets				83,397
Total assets				86,960
Segment liabilities	3,672	5,222	—	8,894
Unallocated liabilities				10,918
Total liabilities				19,812
Capital expenditure	1,228	—	—	1,228
Amortisation charge	1,972	—	—	1,972

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

	Software	Services	Other operations	Group
	2001	2001	2001	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	45,735	14,790	1,373	61,898
Segment results	14,193	6,980	68	21,241
Unallocated				986
Operating profit				22,227
Finance costs				(10)
Share of loss of a jointly controlled entity	(127)	—	—	(127)
Profit before taxation				22,090
Taxation				(1,903)
Profit after taxation				20,187
Minority interests				(173)
Profit attributable to shareholders				20,014
Segment assets	8,248	—	695	8,943
Investment in a jointly controlled entity	1,122	—	—	1,122
Unallocated assets				134,761
Total assets				144,826
Segment liabilities	2,707	5,291	—	7,998
Unallocated liabilities				22,999
Total liabilities				30,997
Capital expenditure	8,501	—	—	8,501
Amortisation charge	1,972	—	—	1,972

Notes to the Accounts

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

	Hong Kong 2002 <i>HK\$'000</i>	PRC 2002 <i>HK\$'000</i>	Others 2002 <i>HK\$'000</i>	Group 2002 <i>HK\$'000</i>
Turnover	47,092	7,183	1,923	56,198
Segment results	(1,748)	(3,053)	(3,313)	(8,114)
Unallocated				(6,483)
Operating loss				(14,597)
Segment assets	2,388	56	599	3,043
Investment in a jointly controlled entity	—	—	520	520
Segment liabilities	8,345	549	—	8,894
Capital expenditure	1,228	—	—	1,228
	Hong Kong 2001 <i>HK\$'000</i>	PRC 2001 <i>HK\$'000</i>	Others 2001 <i>HK\$'000</i>	Group 2001 <i>HK\$'000</i>
Turnover	54,209	5,296	2,393	61,898
Segment results	22,336	325	(1,420)	21,241
Unallocated				986
Operating profit				22,227
Segment assets	8,042	51	850	8,943
Investment in a jointly controlled entity	—	—	1,122	1,122
Segment liabilities	7,476	522	—	7,998
Capital expenditure	8,501	—	—	8,501

4 OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging the following:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charging		
Depreciation:		
Owned fixed assets	1,590	879
Leased fixed assets	—	33
Total staff costs (including directors' emoluments)	35,700	26,380
Less: amounts capitalised as intangible assets (<i>note 12</i>)	<u>(1,228)</u>	<u>(8,501)</u>
	<u>34,472</u>	<u>17,879</u>
Cost of inventories	2,047	86
Operating leases in respect of land and buildings	3,462	2,546
Retirement benefit costs (<i>note 10</i>)	1,644	796
Auditors' remuneration	666	688
Research and development costs	6,107	4,348
Write-off of deferred development costs (<i>note 12</i>)	5,163	—
Amortisation of deferred development costs (<i>note 12</i>)	1,972	1,972
Loss on disposal of fixed assets	258	163
Provision for doubtful debts	4,231	799
Bad debts written off	1,983	—
Net unrealised loss on other investments	<u>554</u>	<u>—</u>

5 FINANCE COSTS

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank overdrafts	—	9
Interest element of finance leases	<u>17</u>	<u>1</u>
	<u>17</u>	<u>10</u>

Notes to the Accounts

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16% (2001: 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 enterprises in the PRC.

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

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	—	1,734
PRC income tax	111	73
Under-provision in prior years	—	96
	<u>111</u>	<u>1,903</u>

There was no material unprovided deferred taxation for the year.

7 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$1,307,000 (2001: profit of HK\$890,000).

8 DIVIDENDS

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim, paid, of HK\$0.010 (2001: HK\$0.015) per ordinary share	6,000	9,000
Final, proposed, of HK\$0.010 (2001: HK\$0.015) per ordinary share	6,000	9,000
	<u>12,000</u>	<u>18,000</u>

Notes:

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the year ended 31 March, 2001 were HK\$9,000,000. Under the Group's new accounting policy as described in note 2(p), these have been written back against opening reserves as at 1 April, 2001 in note 23 and are now charged in the period in which they were proposed.
- (b) At a meeting held on 25 June, 2002 the directors declared a final dividend of HK\$0.010 per ordinary share. This proposed final dividend is not reflected as a dividend payable in the accounts for the year ended 31 March, 2002, but will be reflected as an appropriation of the share premium account for the year ending 31 March, 2003.

9 (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK\$66,724,000 (2001: profit of HK\$20,014,000) and the weighted average of 600,000,000 (2001: 561,287,671) ordinary shares in issue during the year.

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

10 RETIREMENT SCHEME

The Group operated a defined contribution scheme (the "Old Scheme") for all qualified employees in Hong Kong prior to 1 December, 2000. With the implementation of the MPF Scheme effective from 1 December, 2000, the Old Scheme was terminated and the accumulated contributions of the Old Scheme were transferred to the MPF Scheme as the Group's voluntary contributions.

Under the MPF Scheme, contributions are made at 5% of an employee's gross salary or HK\$1,000, whichever is lower.

The Group's voluntary contributions forfeited by qualified employees in Hong Kong who left the MPF Scheme prior to vesting fully in such contributions can be used to reduce the Group's contributions to the MPF Scheme. During the years ended 31 March, 2001 and 2002, there were no material contributions forfeited.

The PRC subsidiary of the Group has participated in an employees' retirement scheme implemented by the Shanghai Municipal Government. Contributions are made to the scheme based on 28% (2001: 28.5 %) of the applicable basic payroll costs.

The Singapore subsidiary of the Group has participated in the Central Provident Fund. Contributions are made at 32% (2001: 32%) of an employee's ordinary wages.

11 DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees	180	120
Other emoluments:		
Basic salaries, allowances, and benefits in kind	4,182	3,482
Retirement benefit scheme contributions	84	39
	<u>4,446</u>	<u>3,641</u>

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

(a) Directors' remuneration (continued)

The Executive Directors received individual emoluments for the year ended 31 March, 2002 of approximately HK\$2,029,000 (2001: HK\$1,560,000), HK\$585,000 (2001: HK\$540,000), HK\$540,000 (2001: HK\$539,500), HK\$520,000 (2001: HK\$520,000), and HK\$508,000 (2001: HK\$322,000) respectively.

One Non-Executive Director received a director's fee of HK\$60,000 (2001: HK\$50,000) for the year ended 31 March, 2002. Two independent Non-Executive Directors who are also members of the Audit Committee of the Company each received director's fee of HK\$60,000 (2001: HK\$50,000 and HK\$20,000 respectively) for the year ended 31 March, 2002. 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 waive any emoluments for the year ended 31 March, 2002 (2001: nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2001: one) Director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2001: four) individuals during the year are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries, allowances, and benefits in kind	3,054	2,617
Retirement benefit scheme contributions	89	78
	<u>3,143</u>	<u>2,695</u>

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

Emolument bands	Number of individuals	
	2002	2001
Nil – HK\$1,000,000	3	4
HK\$1,000,001 – HK\$1,500,000	1	—
	<u>4</u>	<u>4</u>

12 INTANGIBLE ASSETS

	Goodwill	Deferred development costs	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April, 2001	—	8,248	8,248
Additions	1,566	1,228	2,794
Write-off	—	(5,163)	(5,163)
Impairment	(1,566)	—	(1,566)
Amortisation charge	—	(1,972)	(1,972)
	<hr/>	<hr/>	<hr/>
At 31 March, 2002	—	2,341	2,341
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March, 2002			
Cost	1,566	12,308	13,874
Write-off	—	(5,163)	(5,163)
Impairment	(1,566)	—	(1,566)
Accumulated amortisation	—	(4,804)	(4,804)
	<hr/>	<hr/>	<hr/>
Net book amount	—	2,341	2,341
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March, 2001			
Cost	—	11,080	11,080
Accumulated amortisation	—	(2,832)	(2,832)
	<hr/>	<hr/>	<hr/>
Net book amount	—	8,248	8,248
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

13 FIXED ASSETS

	Group					
	Leasehold property in the PRC	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation:						
At 1 April, 2001	393	2,481	2,755	3,395	583	9,607
Additions	—	134	876	314	10	1,334
Acquisition of a subsidiary	—	—	65	56	—	121
Disposals	(393)	(142)	(127)	(248)	—	(910)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March, 2002	—	2,473	3,569	3,517	593	10,152
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Accumulated depreciation:						
At 1 April, 2001	58	87	1,039	1,560	256	3,000
Charge for the year	—	443	564	495	88	1,590
Acquisition of a subsidiary	—	—	26	22	—	48
Disposals	(58)	(22)	(84)	(121)	—	(285)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March, 2002	—	508	1,545	1,956	344	4,353
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book value:						
At 31 March, 2002	—	1,965	2,024	1,561	249	5,799
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March, 2001	335	2,394	1,716	1,835	327	6,607
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The analysis of the cost or valuation of the above assets are as follows:

At 31 March, 2002						
At cost	—	2,473	3,569	3,517	593	10,152
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March, 2001						
At cost	—	2,481	2,755	3,395	583	9,214
At valuation	393	—	—	—	—	393
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	393	2,481	2,755	3,395	583	9,607
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

At 31 March, 2002, there was no fixed assets held by the Group under finance lease (2001 net book value of: HK\$140,000).

14 INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	47,550	47,550
Amounts due from subsidiaries	95,852	89,413
	143,402	136,963

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

The following is a list of the principal subsidiaries at 31 March, 2002:

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 share 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. Limited	PRC	Development and distribution of FlexAccount products in the PRC	Registered capital of US\$400,000	100%
FlexSystem Software Limited	Macau	Research and development in Macau	Registered capital of MOP30,000	100%
Norray Professional Computer Limited	Hong Kong	Sale 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	Investment holding in Hong Kong	1,050,000 ordinary shares of HK\$1 each	100%

Notes to the Accounts

14 INVESTMENTS IN SUBSIDIARIES (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>				
FlexEducation Technology Limited	Hong Kong	Development of educational software and investment holding 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%
Mega Wise Consultants Limited	Hong Kong	Sale 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%
FlexSystem Limited, Taiwan Branch	Taiwan	Sale of computer equipment, computer programming, and provision of computer maintenance and consultation services in Taiwan	Registered capital of NT\$2,500,000	100%
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%
FlexSystem (Australia) Pty Limited	Australia	Distribution of FlexAccount products in Australia	Registered capital of AU\$2	100%
FineStar Pacific Limited	Hong Kong	Investment holding in Hong Kong	10,000 ordinary shares of HK\$1 each	51%
Master Regal Limited	Hong Kong	Investment holding in Hong Kong	100 ordinary shares of HK\$1 each	60%

14 INVESTMENTS IN SUBSIDIARIES (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>				
SomaFlex (Singapore) Pte. Limited	Singapore	Distribution of FlexAccount products in Singapore	3 ordinary shares of S\$1 each	100%
Norray Professional Computer (Australia) Pty	Australia	Distribution of FlexAccount products in Australia	100 ordinary shares of AU\$1 each	70%
Flexsunland Century Software Limited	PRC	Development of educational software and distribution of FlexAccount products in the PRC	Registered capital of RMB2,500,000	51%
Beijing Flexdigisuper Software Co Limited	PRC	Development of educational software and distribution of FlexAccount products in the PRC	Registered capital of US\$200,000	60%

Notes to the Accounts

15 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	483	1,122
Amount due from a jointly controlled entity	37	—
	520	1,122

The amount due from the jointly controlled entity is unsecured, interest free and has no fixed term of repayment.

The following are the details of the jointly controlled entity at 31 March, 2002:

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

16 INVESTMENT IN AN ASSOCIATED COMPANY

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	(585)	—
Amount due from an associated company	1,158	—
	573	—
Provision for amount due from the associated company	(573)	—
	—	—

The amount due from the associated company is unsecured, interest free and has no fixed term of repayment.

The following are the details of the associated company at 31 March, 2002:

<u>Name</u>	<u>Place of incorporation</u>	<u>Principal activities and place of operation</u>	<u>Particulars of issued share capital and registered capital</u>	<u>Indirect interest held</u>
Flex-Logic Limited	Hong Kong	Software development in Hong Kong	2 ordinary shares of HK\$1 each	50%

17 LONG-TERM INVESTMENTS

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Equity securities – at cost		
Listed in Hong Kong	3,865	—
Unlisted	12,163	1,650
	<u>16,028</u>	<u>1,650</u>
Impairment	(11,503)	—
Amounts due from investee companies	12,818	7,568
	<u>17,343</u>	<u>9,218</u>
Provision for amounts due from investee companies	(12,818)	—
	<u>4,525</u>	<u>9,218</u>
Market value of listed investments	<u>19,600</u>	<u>—</u>

Amounts due from investee companies are unsecured, interest free and have no fixed terms of repayment.

18 OTHER INVESTMENTS

	Group and company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Equity securities, at market value		
Listed in Hong Kong	<u>1,403</u>	<u>—</u>

19 INVENTORIES

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Merchandise, at cost	<u>702</u>	<u>695</u>

Notes to the Accounts

20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Due from:				
A related company (<i>note (a)</i>)	559	559	—	—
Directors (<i>note (b)</i>)	254	70	—	—
Trade receivables (<i>note (d)</i>)	13,692	23,387	—	—
Prepayments and deposits	1,702	7,179	—	—
Advances to staff (<i>note (c)</i>)	2,991	2,001	—	—
Other receivables	1,658	2,576	—	1,957
	<u>20,856</u>	<u>35,772</u>	<u>—</u>	<u>1,957</u>

Note:

- (a) The amount due from a related company is unsecured, interest free and has no fixed repayment term. This related company is beneficially owned by a substantial shareholder of the Company.
- (b) Included in the balance are loans to directors and the details are as follows:

Name	Terms	Maximum amount outstanding during the year <i>HK\$'000</i>	Amount outstanding at 31 March, 2002 <i>HK\$'000</i>	Amount outstanding at 31 March, 2001 <i>HK\$'000</i>
Mr. Lok Wai Man	Unsecured, interest free, no fixed repayment terms	273	233	—
Mr. Chow Chi Ming, Daniel	Unsecured, interest bearing at prime rate minus 0.5%, repayable within next 12 months	37	19	—

The remaining balance due from directors is unsecured, interest free and has no fixed repayment term.

- (c) Included in the balance is a loan to an officer and details are as follows:

Name	Terms	Maximum amount outstanding during the year <i>HK\$'000</i>	Amount outstanding at 31 March, 2002 <i>HK\$'000</i>	Amount outstanding at 31 March, 2001 <i>HK\$'000</i>
Mr. Goh Kim Chuan	Unsecured, interest free, no fixed repayment terms	830	681	—

The remaining balance of advances to staff are unsecured, interest bearing at prime rate minus 1% and have no fixed repayment terms.

20 TRADE AND OTHER RECEIVABLES (continued)

(d) Ageing analysis of trade receivables is as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 - 30 days	4,084	5,856
31 - 60 days	1,228	3,539
61 - 90 days	896	4,636
91 - 180 days	1,350	4,027
181 - 365 days	2,922	1,982
Over 365 days	3,212	3,347
	13,692	23,387
	13,692	23,387

Trade receivables are due within 30 days on goods/services delivered.

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Due to:				
Investee companies (<i>note(a)</i>)	366	191	—	—
Directors	—	426	—	120
Trade payables (<i>note (b)</i>)	231	300	—	—
Other payables	1,611	4,007	—	—
Accruals	1,849	2,040	850	688
Deferred income	5,222	5,291	—	—
Sales deposits received	3,672	2,707	—	—
	12,951	14,962	850	808
	12,951	14,962	850	808

Note:

- (a) The amounts due to investee companies are unsecured, interest free and have no fixed terms of repayment.
- (b) Ageing analysis of trade payables is as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 - 30 days	180	255
31 - 60 days	—	—
61 - 90 days	6	1
91 - 180 days	17	29
181 - 365 days	27	15
Over 365 days	1	—
	231	300
	231	300

Notes to the Accounts

22 SHARE CAPITAL

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Authorised:		
2,000,000,000 (2001: 2,000,000,000) ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
600,000,000 (2001: 600,000,000) ordinary shares of HK\$0.10 each	<u>60,000</u>	<u>60,000</u>

23 RESERVES

	Group					
	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April, 2000	—	(47,430)	—	—	7,191	(40,239)
Premium on issue of shares	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)
2001 interim dividend paid (<i>Note 8</i>)	(9,000)	—	—	—	—	(9,000)
Profit for the year	—	—	—	—	20,014	20,014
At 31 March, 2001	<u>82,588</u>	<u>(47,430)</u>	<u>44</u>	<u>(25)</u>	<u>27,205</u>	<u>62,382</u>
Representing:						
31 March, 2001 after proposed final dividend	73,588					
2001 final dividend proposed	9,000					
	<u>82,588</u>					
Company and subsidiaries	82,588	(47,430)	44	(25)	27,332	62,509
Jointly controlled entity	—	—	—	—	(127)	(127)
At 31 March, 2001	<u>82,588</u>	<u>(47,430)</u>	<u>44</u>	<u>(25)</u>	<u>27,205</u>	<u>62,382</u>

23 RESERVES (continued)

	Group					
	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April, 2001, as previously reported	73,588	(47,430)	44	(25)	27,205	53,382
Effect of adopting SSAP 9 (revised) (note 8(a))	9,000	—	—	—	—	9,000
At 1 April, 2001, as restated	82,588	(47,430)	44	(25)	27,205	62,382
Impairment of goodwill previously written off to reserves	25,367	—	—	—	—	25,367
Disposal of fixed assets	—	—	(44)	—	—	(44)
Exchange differences	—	—	—	(30)	—	(30)
2001 final dividend paid (note 8 (a))	(9,000)	—	—	—	—	(9,000)
2002 interim dividend paid (note 8)	(6,000)	—	—	—	—	(6,000)
Loss for the year	—	—	—	—	(66,724)	(66,724)
At 31 March, 2002	<u>92,955</u>	<u>(47,430)</u>	<u>—</u>	<u>(55)</u>	<u>(39,519)</u>	<u>5,951</u>
Representing:						
At 31 March, 2002 after proposed final dividend	86,955					
2002 final dividend proposed	6,000					
At 31 March, 2002	<u>92,955</u>					
Company and subsidiaries	92,955	(47,430)	—	(55)	(38,168)	7,302
Jointly controlled entity	—	—	—	—	(766)	(766)
Associated company	—	—	—	—	(585)	(585)
At 31 March, 2002	<u>92,955</u>	<u>(47,430)</u>	<u>—</u>	<u>(55)</u>	<u>(39,519)</u>	<u>5,951</u>

Notes to the Accounts

23 RESERVES (continued)

The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the share capital of the Company issued in exchange thereof.

	Company		
	Share premium	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)
2001 interim dividend paid (<i>note 8</i>)	(9,000)	—	(9,000)
Profit for the year	—	890	890
	<u>109,872</u>	<u>890</u>	<u>110,762</u>
At 31 March, 2001	<u>109,872</u>	<u>890</u>	<u>110,762</u>
Representing :			
At 31 March, 2001 after proposed final dividend	100,872		
2001 final dividend proposed	9,000		
	<u>109,872</u>		
At 31 March, 2001	<u>109,872</u>		
At 1 April, 2001, as previously reported	100,872	890	101,762
Effect of adopting SSAP 9 (revised) (<i>note 8(a)</i>)	9,000	—	9,000
	<u>109,872</u>	<u>890</u>	<u>110,762</u>
At 1 April, 2001, as restated	109,872	890	110,762
2001 final dividend paid (<i>note 8(a)</i>)	(9,000)	—	(9,000)
2002 interim dividend paid (<i>note 8</i>)	(6,000)	—	(6,000)
Loss for the year	—	(1,307)	(1,307)
	<u>94,872</u>	<u>(417)</u>	<u>94,455</u>
At 31 March, 2002	<u>94,872</u>	<u>(417)</u>	<u>94,455</u>
Representing :			
At 31 March, 2002 after proposed final dividend	88,872		
2002 final dividend proposed	6,000		
	<u>94,872</u>		
At 31 March, 2002	<u>94,872</u>		

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating (loss)/profit	(14,597)	22,227
Depreciation	1,590	912
Amortisation of deferred development costs	1,972	1,972
Net unrealised loss on equity securities carried at market value	554	—
Write-off of deferred development costs	5,163	—
Provision for amount due from an associated company	573	—
Loss on disposal of fixed assets	258	163
Interest income	(1,974)	(4,626)
Dividend income	(299)	—
Increase in inventories	(7)	(66)
Decrease/(increase) in trade and other receivables	14,194	(22,112)
Decrease in trade and other payables	(2,011)	(3,279)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	<u>5,416</u>	<u>(4,809)</u>

Notes to the Accounts

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium		Minority interests		Loans and obligations under finance leases	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	142,588	47,550	447	—	118	—
Issue of ordinary shares	—	148,050	—	—	—	—
Share issue expenses	—	(16,728)	—	—	—	—
Goodwill written off	—	(27,284)	—	—	—	—
Dividends	(15,000)	(18,000)	—	—	—	—
Effect of adopting SSAP 9 (revised)	—	9,000	—	—	—	—
Impairment of goodwill previously written off to reserves	25,367	—	—	—	—	—
Minority interest in share of (loss)/ profits and exchange reserves	—	—	(478)	173	—	—
Minority share of net assets of subsidiaries	—	—	1,228	274	—	—
Loans and obligations under finance leases of subsidiaries acquired	—	—	—	—	—	51
Inception of finance leases	—	—	—	—	—	88
Payment of capital element of finance leases	—	—	—	—	(118)	(21)
At 31 March	152,955	142,588	1,197	447	0	118

(c) Major non-cash transactions

During the year, the Group has capitalised a loan to an investee company of HK\$2 million (2001: nil) as additional investment cost.

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Purchase of subsidiaries

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets acquired		
Fixed assets	72	738
Inventories	—	629
Trade and other receivables	108	2,137
Bank balances and cash	247	4,288
Amounts due to directors	—	(5,628)
Trade and other payables	(1,993)	(1,038)
Obligations under finance leases	—	(51)
Taxation payable	—	(162)
Minority interests	—	(274)
	<u>(1,566)</u>	<u>639</u>
Goodwill arising on acquisition	1,566	27,284
	<u>—</u>	<u>27,923</u>
Satisfied by:		
Investment cost	—	555
Consideration payable	—	2,500
Cash	—	24,868
	<u>—</u>	<u>27,923</u>

On 5 February, 2002, the Group acquired 100% interest in SomaFlex (Singapore) Pte. Limited for HK\$14, satisfied by cash. From the date of acquisition to 31 March, 2002, this subsidiary contributed a loss attributable to shareholders of HK\$130,000 to the Group and the Group's net assets are reduced by the same amount. In addition, it contributed HK\$27,000 to the Group's net operating cash outflow, paid HK\$1,000 in respect of taxation and received HK\$18,000 for investing activities.

Notes to the Accounts

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	—	(24,868)
Bank balances and cash in hand acquired	247	4,288
	<hr/>	<hr/>
Net cash inflow/(outflow) in respect of the purchase of subsidiaries	247	(20,580)
	<hr/> <hr/>	<hr/> <hr/>

25 COMMITMENTS AND CONTINGENT LIABILITIES

(a) **Commitments under operating leases**

(i) At 31 March, 2002, the Group had future aggregate minimum lease payments under non - cancellable operating leases as follows:

	Group	
	2002	2001
		<i>Restated</i>
	Land and	Land and
	buildings	buildings
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	2,398	3,315
Later than one year and not later than five years	1,352	2,917
	<hr/>	<hr/>
	3,750	6,232
	<hr/> <hr/>	<hr/> <hr/>

(b) At 31 March, 2002, the Company had no significant capital commitment and commitment under operating lease.

(c) At 31 March, 2002, the Group and the Company had no significant contingent liabilities.

26 RELATED PARTY TRANSACTIONS

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

		Group	
		2002	2001
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Software royalty expenses paid to Manpower Resource Company Limited ("MRC")	(i)	499	528
Commission paid to Globe ASP Limited	(i)	54	171
Research and development fee paid to Flex-Top Limited	(i)	180	—
Purchase of a subsidiary from a director and a substantial shareholder of the Company		—	5,000
		<u> </u>	<u> </u>

- (i) MRC, Global ASP Limited and Flex-Top Limited are the investee companies of the Group. The transactions are conducted in the normal course of business at prices and terms comparable with those charged to and contracted with independent third party customers of the Group.

27 ULTIMATE HOLDING COMPANY

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

28 APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 25 June, 2002.

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, 24 July, 2002 at 10:30 a.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 31 March, 2002;
- 2 To declare a final dividend;
- 3 To re-elect retiring Directors and authorise the board of Directors to fix their remuneration;
- 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:

Notice of Annual General Meeting

- (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 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, 25 June, 2002

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
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 Monday, 22 July, 2002 to Wednesday, 24 July, 2002 (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 Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 19 July, 2002.
- (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 deposited 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 2002 Annual Report.